

Barueri, August 03, 2017 – Smiles S.A. (BM&FBOVESPA: BM&FBOVESPA: **SMLE3**) one of the largest loyalty programs in Brazil with over 12 million members, announces today its 2Q17 results. The financial and operational information in this report refers to the consolidated results of Smiles S.A. and is presented in accordance with IFRS and in Brazilian reais (R\$), except when indicated otherwise. Percentage variations may use more decimal places for the calculations than shown in the document.

Smiles S.A.

B3: SMLE3
 Novo Mercado
 Price: R\$64.51
 No. of shares: 123,856,952
 Market value: R\$8.0 bn
 (close: 08/02/2017)

www.smiles.com.br/ri

2Q17 Conference Call

August 04, 2017

In Portuguese and English:

(Simultaneous Translation)

10:00 a.m. (Brasília)

09:00 a.m. (US EST)

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Net Income of R\$146.2 mn in 2Q17 up 18.3% over 2Q16

HIGHLIGHTS

- ✓ 2Q17 Miles Accrual (ex-Gol) was up 61.8% when compared to 2Q16, or 35.4% excluding the effect from Smiles & Money miles and 13.6% in comparison to 1Q17.
- ✓ 2Q17 Miles Redemption increased 59.7% versus 2Q16, reaching 16.4 billion miles, or 31.4% excluding the effect from Smiles & Money miles and 2.1% in comparison to 1Q17.
- ✓ 2Q17 Net Revenue increased 26.3% compared to 2Q16, reaching R\$441.7 mn. In comparison to 1Q17 decreased by -0.4%.
- ✓ 2Q17 Gross Billings (ex-Gol) was up 14.3% when compared to 2Q16 and 7.8% in comparison to 1Q17.
- ✓ 2Q17 Net Income reached R\$146.2 mn, 18.3% higher than 1Q17, with a net margin of 33.1%. In comparison to 1Q17 decreased by 6.5%.

Main Highlights	Unit	2Q17	1Q17	2Q16	2Q17 vs. 1Q17 (%)	2Q17 vs. 2Q16 (%)
Miles accrual	bln	20.4	18.0	13.2	13.2%	54.9%
Gol	bln	1.7	1.5	1.6	8.8%	4.8%
Banks, retail and others	bln	15.7	13.1	11.6	20.2%	35.4%
Smiles & Money	bln	3.1	3.5	-	(11.4%)	-
Smiles ¹ program redemptions ²	bln	16.4	16.0	10.2	2.1%	59.7%
Total gross billings ³	R\$ mn	464.8	430.9	420.5	7.9%	10.5%
Total gross billings (ex-Gol) ³	R\$ mn	451.3	418.5	394.8	7.8%	14.3%
Net revenues	R\$ mn	441.7	443.3	349.8	(0.4%)	26.3%
EBITDA ¹	R\$ mn	172.0	182.7	129.7	(5.9%)	32.6%
<i>EBITIDA margin¹</i>	%	38.9%	41.2%	37.1%	(2.4 p.p.)	1.8 p.p.
Net income	R\$ mn	146.2	156.3	123.6	(6.5%)	18.3%
<i>net margin</i>	%	33.1%	35.3%	35.3%	(2.2 p.p.)	(2.2 p.p.)

1. EBITDA is not an accounting measurement elaborated by the Company, reconciled with its financial statements. The EBITDA is composed by net income attributable to the Company's shareholders, added by net financial result, income tax and social contribution, and expenses related to depreciation and amortization.

2. Corresponds to miles redeemed in the program (new miles and legacy miles).

3. Gross Billings is not an accounting measurement and corresponds to total sales revenues for miles and the cash portion of Smiles & Money, gross of taxes. These billings may have affected the current period or will be recognized as revenue in future periods, depending on the date of redemption by the program members.

Message from Management

In the second quarter of 2017, Smiles' operating and financial indicators continued to improve. The main operating improvements were the year-on-year increases by 54.9% in the volume of accrued miles and 59.7% in the volume of redeemed miles.

It is worth noting that, as of this year, the financial portion of Smiles & Money will be booked as a mile sale, i.e., each time a client made a redemption with Smiles & Money, the financial portion of said redemption is converted into a new mile accrued which is simultaneously redeemed without jeopardizing the Company's profitability. This new dynamic increase the transparency and alignment of this product for our clients and partners.

The main financial improvements include the continued increase in total gross billing ex-Gol (up by 10.5% on 2Q16), as well as net revenue, up by 26.3% on the same period in 2016.

In 2Q17, Smiles' net income increased by 18.3% over 2Q16, mainly driven by a 31.6% growth in operational income. At the end of 2Q17, Smiles had 119 employees.

Smiles is Top of Mind. Smiles was elected "Top of Mind" brand among all loyalty programs of the country, according to the research realized by Kantar Millward Brown.

National Credit Card Survey (PNCC). The ninth edition of the PNCC revealed that the company is the most used loyalty program of credit card users from A and B income brackets. The survey also showed that Smiles has the largest penetration in the customer base of major loyalty programs.

New benefits of Clube Smiles. On the sing in on the club, all miles pass to be validity of 10 years and count to change of category (Silver, Gold and Dimond). Furthermore, the Clube Smiles pass offer too tree new agenda so that the client can chose the best option for your travel profile. The Clube's new benefits are expanded for Dimond clients too.

Family Account. Aligned with company's innovative DNA, it is now possible to share in only one account miles of friends, lovers, relatives and family, to facilitate redemption of tickets and other products and services offer by Smiles. This is more one exclusive benefit for Clube Smiles and Diamond members.

We are optimistic about the opportunities in the loyalty industry and are committed to consolidating Smiles as an innovative business platform and a complete travel company.

Operating Performance

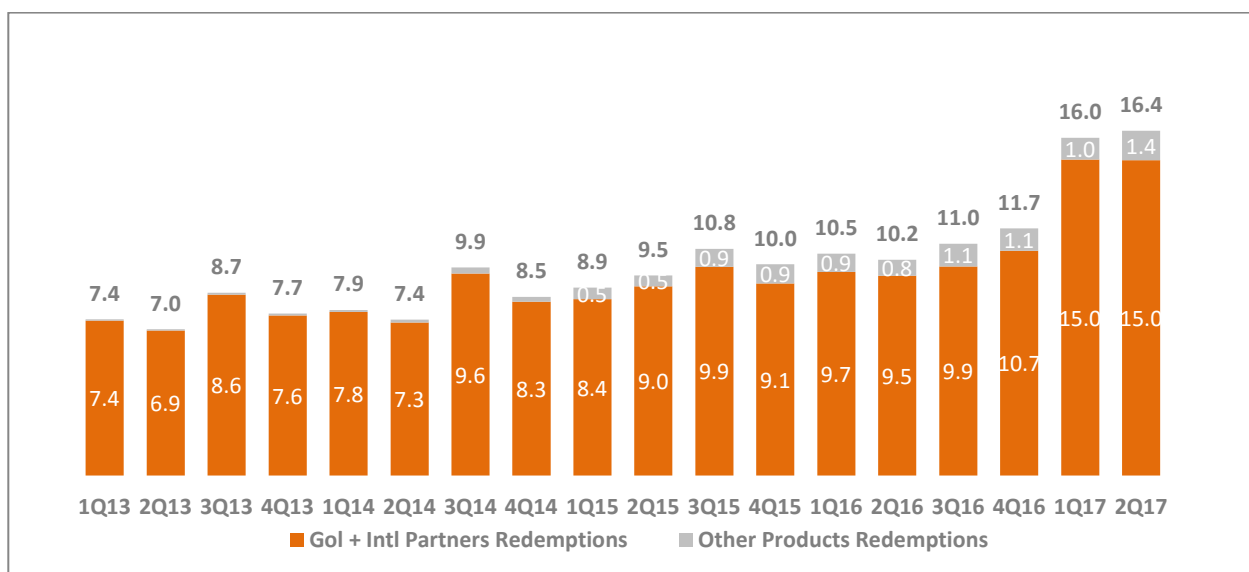
Operating data ¹	Unit	2Q17	1Q17	2Q16	2Q17 vs. 1Q17 (%)	2Q17 vs. 2Q16 (%)
Members	mn	12.5	12.3	11,5	1.3%	8.2%
Miles accrual	mn	20.4	18.0	13.2	13.2%	54.9%
Gol	mn	1.7	1.5	2	8.8%	4.8%
Banks, retail and services	mn	15.7	13.1	12	20.2%	35.4%
Smiles & Money	mn	3.1	3.5	-	(11.4%)	-
Smiles' redemption program	mn	16.4	16.0	10.2	2.1%	59.7%
Airline redemptions	mn	15.0	15.0	9.5	(0.2%)	57,9%
Non-airline redemptions	mn	1.4	1.0	0.8	35.7%	84.4%
Breakage rate	%	17.8%	17.4%	15.9%	0.4 p.p.	1.9 p.p.

¹ All relevant miles amounts are net of reimbursement. The data in this table do not reflect financial information.

Members: The program reached 12.5 million customers in 2Q17, 8.2% up on 2Q16.

Miles accrual: The program's miles accrual increased by 54.9% in 2Q17 over 2Q16, boosted by the 35.4% increase in banks, retail and services accrual and the new dynamic of Smiles & Money, whose financial portion is now recorded as accrued mile that is immediately redeemed.

Miles redemption: The redemption of miles from the program in 2Q17 was 59.7% higher than 2Q16, reaching 16.4 billion miles in the period. The burn/earn ratio of the program excluding the effect of the new dynamic of Smiles & Money was 76.5%, a slight decrease of 9.6 p.p. when compared to 1Q17. Comparing to 77.7% presented in 2Q16, there is a 1.2 p.p. reduction.



The Company continues to show sustainable growth in the volume of miles redeemed which were 59.7% this quarter, partially influenced by the new dynamic of Smiles & Money.

Operating data ¹	Unit	2Q17	1Q17	2Q16	2Q17 vs. 4Q16 (%)	2Q17 vs. 2Q16 (%)
Smiles' redemption program	mn	16,353	16,022	10,243	2,1%	59.7%
Gol + International Partners Tickets	mn	14,955	14,992	9,485	(0,2%)	57.7%
Non-airline	mn	1,398	1,030	758	35,7%	84.4%
% of miles redeemed						
Gol + International Partners Tickets	%	91.5%	93.6%	92.6%	(2.1 p.p.)	(1.1 p.p.)
Non-airline	%	8.5%	6.4%	7.4%	2.1 p.p.	1.1 p.p.

¹ All values corresponding to miles are net of reimbursement. Segregation among different redemption types were not reviewed by auditors.

Breakage: The breakage rate in the last twelve months increased by 0.4 p.p. over 1Q17, reaching 17.8%.

Financial Performance

Financial information summary	Unit	2Q17	1Q17	2Q16	2Q17 vs. 1Q17 (%)	2Q17 vs. 2Q16 (%)
Gross billings¹	R\$ mn	464.8	430.9	420.5	7.9%	10.5%
Gol	R\$ mn	13.5	12.3	25.7	9.6%	(47.3%)
ex-Gol	R\$ mn	451.3	418.5	394.8	7.8%	14.3%

1. Gross Billings is not an accounting measurement and corresponds to total billings from the sale of miles gross of taxes. These revenues may have affected the current period or will be recognized as revenue in future periods, depending on the date of redemption by the program members.

Gross billings: Total gross billings climbed by 10.5% over 2Q16, essentially due to the 14.3% increase in ex-Gol miles billings.

Revenues (R\$ thousands)	2Q17	1Q17	2Q16	2Q17 vs. 1Q17 (%)	2Q17 vs. 2Q16 (%)
Gross redemption revenues	487,064	488,845	385,663	(0.4%)	26.3%
Miles redemption revenue	411,215	404,372	330,275	1.7%	24.5%
Breakage revenue	61,984	77,279	53,364	(19.8%)	16.2%
Other revenues	13,865	7,194	2,024	92.7%	585.0%
Taxes and contributions	(45,347)	(45,541)	(35,821)	(0.4%)	26.6%
Net revenues	441,717	443,304	349,842	(0.4%)	26.3%

Redemption revenue: Gross revenues from miles redemption increased by 26.3% over 2Q16, driven by the increases of 24.5% in revenues from miles redeemed and 16.2% in breakage revenue.

Breakage revenue: breakage revenue reached R\$62.0 million, 16.2% up on 2Q16, mainly driven by the higher number of miles effectively expired.

Other revenues: Other revenues increased by R\$ 11.8 over 2Q16, reaching R\$13.8 million. This item is mainly composed of cancellation fee, incentives to sell co-branded credit card and Gol's loyalty program's management fees.

Direct redemption margin: For the calculation of the redemptions margin, only the revenues and costs directly related to redemptions are considered, as calculated in the chart below:

Redemption P&L	2Q17	1Q17	2Q16	2Q17 vs. 1Q17 (%)	2Q17 vs. 2Q16 (%)
Gross redemption revenue	421,103	410,886	330,275	2.5%	27.5%
(-) Direct Taxes	(38,952)	(38,007)	(30,550)	2.5%	27.5%
(=) Net redemption revenue (a)	382,151	372,879	299,725	2.5%	27.5%
(-) Cost of products purchase	(224,143)	(213,415)	(176,160)	5.0%	27.2%
(=) Redemption result (b)	158,008	159,464	123,565	(0.9%)	27.9%
% Direct redemption margin	41.3%	42.8%	41.2%	(1.4 p.p.)	0.1 p.p.
Other revenues (c)	59,566	70,425	50,117	(15.4%)	18.9%
Breakage revenues	61,984	77,279	53,364	(19.8%)	16.2%
Other revenues	3,977	680	2,024	484.5%	96.5%
(-) Direct taxes	(6,395)	(7,534)	(5,271)	(15.1%)	21.3%
(-) Other costs	(11,448)	(9,228)	(6,919)	24.1%	65.5%
(=) Non redemption results (d)	48,118	61,197	43,198	(21.4%)	11.4%
Gross profit [e = b + d]	206,126	220,661	166,763	(6.6%)	23.6%
% Gross margin [e / (a + c)]	46.7%	49.8%	47.7%	(3.1 p.p.)	(1.0 p.p.)

1. Gross Redemption Revenue considers others revenues related to redemption which are accounted on "Others Revenues".

Operating expenses (R\$ thousand)	2Q17	1Q17	2Q16	2Q17 vs. 1Q17 (%)	2Q17 vs. 2Q16 (%)
Operating expenses	(37,501)	(41,301)	(39,099)	(9.2%)	(4.1%)
Commercial expenses	(22,055)	(21,433)	(26,233)	2.9%	(15.9%)
Administrative expenses	(15,446)	(19,868)	(12,866)	(22.3%)	20.1%
Other expenses/revenues	-	-	-	n/a	n/a

Operating expenses: Operating expenses decreased by 4.1% over 2Q16, essentially due to decreased of R\$3.6 million on advertising expenditure that are accounted on commercial expenses.

Operating profit: Smiles recorded operating profit of R\$168.6 million, 31.6% up on 2Q16, representing an operating margin of 38.2%. The year-on-year operating profit growth mainly driven by the 26.3% net revenue increase.

Other information (R\$ thousand)	2Q17	1Q17	2Q16	2Q17 vs. 1Q17 (%)	2Q17 vs. 2Q16 (%)
Equity method investment	-	-	435	-	(100.0%)
Net financial result	44,311	59,066	57,599	(25.0%)	(23.1%)
Financial expenses	(238)	(22)	(60)	981.8%	296.7%
Financial income	47,975	59,493	53,040	(19.4%)	(9.5%)
Net exchange variation	(3,426)	(405)	4,619	745.9%	(174.2%)
Income tax and social Contribution	(66,696)	(82,096)	(62,112)	(18.8%)	7.4%

Financial result: The financial result decreased by 23.1% over 2Q16, chiefly due to the negative exchange variation and the decrease of financial revenues due the reduction of interest rate.

Net exchange variation: The net exchange variation recorded in the period is chiefly explained by the variation in the foreign exchange rate of accounts payable outstanding in USD, related to the cost of international ticket redemptions.

Income tax and social contribution: The effective income tax and social contribution rate was 31.1% in 2Q17, 3.0 p.p. lower than the 34.0% tax rate, equivalent to R\$5.0 million, mainly due to a payment of interest on own capital and tax incentives of Rouanet Law.

Net income: Smiles' second-quarter net income totaled R\$146.2 million, accompanied with a net margin of 33.1%, 2.2 p.p. lower than in 2Q16.

Income Statement

Income statement (R\$ thousand)	2Q17	1Q17	2Q16	2Q17 vs. 1Q17 (%)	2Q17 vs. 2Q16 (%)
Gross redemption revenues	487,064	488,845	385,663	(0.4%)	26.3%
Miles redemption revenue	411,215	404,372	330,275	1.7%	24.5%
Breakage revenue	61,984	77,279	53,364	(19.8%)	16.2%
Other revenues	13,865	7,194	2,024	92.7%	585.0%
Taxes and contributions	(45,347)	(45,541)	(35,821)	(0.4%)	26.6%
Net revenues	441,717	443,304	349,842	(0.4%)	26.3%
Reward redemption cost	(235,591)	(222,643)	(183,079)	5.8%	28.7%
Costs with airline ticket purchase (a)	(199,550)	(195,932)	(160,120)	1.8%	24.6%
Costs with other product and services purchases	(24,593)	(17,483)	(16,040)	40.7%	53.3%
(-) Other cost	(11,448)	(9,228)	(6,919)	24.1%	65.5%
Gross profit	206,126	220,661	166,763	(6.6%)	23.6%
<i>gross margin</i>	46.7%	49.8%	47.7%	(3.1 p.p.)	(1.0 p.p.)
Operating expenses	(37,501)	(41,301)	(39,099)	(9.2%)	(4.1%)
Selling expenses	(22,055)	(21,433)	(26,233)	2.9%	(15.9%)
Administrative expenses	(15,446)	(19,868)	(12,866)	(22.3%)	20.1%
Equity method investment	-	-	435	-	(100.0%)
Operating profit	168,625	179,360	128,099	(6.0%)	31.6%
<i>operating margin</i>	38.2%	40.5%	36.6%	(2.3 p.p.)	1.6 p.p.
Financial income	44,311	59,066	57,599	(25.0%)	(23.1%)
Financial expenses	(238)	(22)	(60)	981.8%	296.7%
Financial income	47,975	59,493	53,040	(19.4%)	(9.5%)
Exchange variation, net	(3,426)	(405)	4,619	745.9%	(174.2%)
EBT	212,936	238,426	185,698	(10.7%)	14.7%
Income and social contribution taxes	(66,696)	(82,096)	(62,112)	(18.8%)	7.4%
Net income	146,240	156,330	123,586	(6.5%)	18.3%
<i>Net margin</i>	33.1%	35.3%	35.3%	(2.2 p.p.)	(2.2 p.p.)

Balance Sheet

Balance Sheet (R\$ thousand)	2Q17	1Q17	2Q16	2Q17 vs. 1Q17 (%)	2Q17 vs. 2Q16 (%)
Assets	1,774,926	1,664,530	1,805,394	6.6%	(1.7%)
Current	978,471	1,004,150	1,134,375	(2.6%)	(13.7%)
Cash and cash equivalents	71,706	40,463	227,893	77.2%	(68.5%)
Short-term investments	50,068	108,098	181,285	(53.7%)	(72.4%)
Trade receivable	287,374	267,260	161,052	7.5%	78.4%
Advances to suppliers	559,347	576,691	533,537	(3.0%)	4.8%
Credits with related parties	-	-	27,271	n/a	(100.0%)
Other credits and values	9,976	11,638	3,337	(14.3%)	199.0%
NonCurrent assets	796,455	660,380	671,019	20.6%	18.7%
Deposits	-	-	6,965	n/a	n/a
Deferred taxes	67,533	65,389	71,721	3.3%	(5.8%)
Advances to suppliers	672,385	535,699	547,559	25.5%	22.8%
Investments	15,184	15,184	12,102	0.0%	25.5%
Property, plant and equipment	1,947	1,634	1,817	19.2%	7.2%
Intangible assets	31,662	34,882	30,855	(9.2%)	2.6%
Other credits and values	7,744	7,592	-	2.0%	n/a
Liabilities	1,774,926	1,664,530	1,805,394	6.6%	(1.7%)
Current	1,071,186	1,083,008	1,105,279	(1.1%)	(3.1%)
Suppliers	143,566	127,713	107,245	12.4%	33.9%
Salaries, wages and benefits	10,635	7,151	7,747	48.7%	37.3%
Dividends and interest on equity payable	12,582	-	-	n/a	n/a
Tax obligations	34,590	39,089	26,206	(11.5%)	32.0%
Advances from customers	77,223	117,617	148,458	(34.3%)	(48.0%)
Deferred revenue	770,037	765,193	815,623	0.6%	(5.6%)
Obligations to related parties	17,399	15,588	-	11.6%	n/a
Other liabilities	5,154	10,657	-	(51.6%)	n/a
Noncurrent liabilities	179,009	188,419	233,003	(5.0%)	(23.2%)
Suppliers	1,876	2,692	6,295	(30.3%)	(70.2%)
Provision for legal proceedings	1,357	1,342	1,449	1.1%	(6.3%)
Deferred revenue	175,776	184,385	225,259	(4.7%)	(22.0%)
Shareholder's equity	524,731	393,103	467,112	33.5%	12.3%
Capital stock	185,606	185,606	178,554	0.0%	3.9%
Capital to be subscribed	-	-	2,950	n/a	n/a
Cost of issue shares	(36,402)	(36,402)	(36,402)	0.0%	0.0%
Capital reserve	43,765	43,765	43,765	0.0%	0.0%
Profit reserves	36,364	36,364	29,233	0.0%	24.4%
Additional dividend proposed	-	-	-	n/a	n/a
Share-based payments	7,526	7,440	7,074	1.2%	6.4%
Retained earnings	287,872	156,330	241,938	84.1%	19.0%

Statement of cash flows

Statement of cash flows (R\$ thousand)	2Q17	1Q17	2Q16	2Q17 vs. 1Q17 (%)	2Q17 vs. 2Q16 (%)
Net income for the period	146,240	156,330	123,586	(6.5%)	18.3%
Share-based payments	86	150	243	(42.7%)	(64.6%)
Deferred income and social contribution taxes	(2,143)	(2,725)	1,182	(21.4%)	(281.3%)
Provision for legal proceedings	487	398	474	22.4%	2.7%
Depreciation and amortization	3,355	3,333	1,620	0.7%	107.1%
Discounts in advance ticket purchases	(45,927)	(41,863)	(33,407)	9.7%	37.5%
Exchange variations, net	(1,147)	(1,281)	(1,903)	(10.5%)	(39.7%)
Allowance for doubtful accounts	2	42	271	(95.2%)	(99.3%)
Profit sharing	2,855	3,490	1,406	(18.2%)	103.1%
Equity results	-	-	(435)	n/a	(100.0%)
Trade receivables	(20,116)	(99,438)	25,538	(79.8%)	(178.8%)
Advances to suppliers	(73,654)	(79,940)	(80,352)	(7.9%)	(8.3%)
Other assets (liabilities)	(3,992)	6,498	116	(161.4%)	n/a
Suppliers	16,763	5,398	6,032	210.1%	177.9%
Salaries	628	(11,201)	363	(105.6%)	73.0%
Advances from customers	(40,394)	111,163	(69,589)	(136.3%)	(42.0%)
Deferred revenue	(3,765)	(51,681)	32,506	(92.7%)	(111.6%)
Tax obligations	67,064	76,111	47,649	(11.9%)	40.7%
Provision for legal proceeding	(472)	(318)	(552)	48.4%	(14.5%)
Related-party transactions	1,811	91,133	(3,843)	(98.0%)	(147.1%)
Income and social contribution taxes paid	(73,679)	(59,279)	(51,636)	24.3%	42.7%
Net cash flows from operating activities	(25,998)	106,320	(731)	(124.5%)	n/a
Acquisition of property, plant and equipment and intangible assets	(449)	(3,288)	(1,456)	(86.3%)	(69.2%)
Short-term investments	58,030	201,644	64,882	(71.2%)	(10.6%)
Net cash flows from investing activities	57,581	198,356	63,426	(71.0%)	(9.2%)
Capital increase for exercise of stock options	-	3,784	39	(100.0%)	(100.0%)
Advances for future capital increase	-	-	2,950	n/a	(100.0%)
Dividends paid/ Interest on equity paid, net of taxes	-	(521,751)	(335,343)	(100.0%)	(100.0%)
Net cash flows used in financing activities	-	(517,967)	(332,354)	(100.0%)	(100.0%)
Effect of exchange variation on cash and cash equivalents	(340)	95	-	(457.9%)	n/a
Net increase (decrease) in cash and cash equivalents	31,242	(213,196)	(269,659)	(114.7%)	(111.6%)
Cash and cash equivalents at the beginning of the period	40,463	253,659	497,552	(84.0%)	(91.9%)
Cash and cash equivalents at the end of the period	71,705	40,463	227,893	77.2%	(68.5%)

Business Model

Smiles started as a single loyalty program, but has evolved into its current coalition model, which features several unique characteristics that allow for the accrual and redemption of Miles from GOL flights and its international partner airlines, as well as Brazil's main commercial banks, including co-branded cards issued by Bradesco and Banco do Brasil, and a wide network of retail partners. The current model works through (i) the accrual of Miles by Members when they purchase airline tickets with GOL or other partner airlines, or products and services from Business and Financial Partners; Smiles Miles being acquired through the loyalty of these customers to those businesses, and (ii) Awards redemptions by Members when they exchange their Miles for flights on GOL and other partner airlines, or for products and services offered by Commercial and Financial Partners

The main sources of our revenues come from (i) redeemed miles revenues, represented by tickets and awards in its network of airline, commercial and financial partners, (ii) interest income between the date the miles were accrued and the date they were redeemed, and (iii) Breakage revenues if issued miles expire without being redeemed.

Glossary

Awards - Products or services provided to members by a commercial partner as the result of redeeming customer miles loyalty program.

Award Products - Product or service, excluding air tickets, provided to members by a commercial partner as the result of redeeming customer loyalty program points.

Breakage Estimate – Miles expired and not redeemed; it may be expressed as a number of miles, an amount in Brazilian reais or as a percentage of miles issued, depending on the context.

Burn/Earn Ratio - The ratio between the number of redeemed and accrued miles in a given period.

Free Float - Shares owned by non-controlling shareholders.

Miles - The redemption rights of Smiles Program members sold to commercial partners.

Smiles & Money - A means of issuing air tickets by combining money and miles.

Smiles Program - A multi-loyalty program for several companies, including GOL Linhas Aéreas Inteligentes S.A.

This release may contain forward-looking statements related to business prospects, estimates of operating and financial results, and growth prospects for Smiles. These are merely projections and, as such, are based exclusively on management's expectations for Smiles. Such forward-looking statements depend, substantially, on external factors and risks presented in the disclosure documents filed by Smiles, and are, therefore, subject to change without notice. Independent auditors did not review the Company's non-financial information. Some values from this report may differ from the financial statements due to rounding.