

**Operator:**

Good morning, ladies and gentlemen. Thank you for waiting.

Welcome to Smiles Teleconference to discuss the 1Q results. Right after the Company's presentation, we will start the question-and-answer session. To submit a question please, press \*1. If you need any assistance during the conference, please press star 0 to reach an operator.

The information in this teleconference may contain future expectations and projections. Such information is subjected to known and unknown risks and uncertainties that may interfere in the results of these estimates. We have Mr. Lionel Andrade, CEO, and Mr. Marcos Pinheiro, CFO, with us, today. We will now turn the floor over to Mr. Leonel Andrade. You have the floor, Mr. Andrade.

**Leonel Andrade:**

Good morning, everyone. Thank you for attending this call. This is our results for the 1Q17. This is the 5th year of the Company's operation – actually, this is the 5<sup>th</sup> 1Q.

Our net income reached R\$156.3 million, growth of 32%. It is very satisfying because the first 1Q that we had four years ago was R\$29 million, so this has been a very robust and consistent growth.

Our EBITDA is R\$182 million, a growth of 45%, we have managed to grow maintaining our net operating profit.

Net income increased 26.4%, reaching R\$443 million. This is a proof of the engagement of our customers.

The redemption of miles increased 36.6%, now totaled R \$ 16 million. Accumulation, excluding Smiles & Money, so that we have the same comparative basis, grew 25.4%; Excluding GOL and Smiles & Money. So it was a very strong quarter of miles accrued.

Gross billings grew by 8%, excluding GOL. We are now going through an uptake in our economy, despite the fact we grew during the economic turmoil. But now I believe that the industry will be favored and we will continue to work to lead the growth of it, as we have done so far.

Our financial result grew 3%, 2.9%, totaling R \$ 59.1 million. Here is a point of note: with the operation that we have signed with GOL, it turns out that in the next two years we will have a highlight in the financial result as well, due to the pre-fixed rates of the operation we made, despite the CDI decrease, but I emphasize that our focus is always on operating results, and the satisfaction is that we are able to grow consistently in operating results.

Going to the next page, I would like to highlight the *Viaje Fácil* on page four. As everyone knows, we've released this product recently; In 2Q16 we did the tests, we launched the product, and our satisfaction is that this product has gained more and more attention, more customer engagement. We are the only company on the market to offer something similar.

The customer books a trip, confirms it and pays for it 60 days prior to the flight date, which means we are consistently gaining market share, and this product has been of great help.

One of the highlights of this product is that it's easy to attract new customers, as they can try it and, if the trip is confirmed, then they bring their miles. We reversed the logic of the industry. Once again, Smiles is being very innovative. Until now, people always had to accrue miles so that one day they can book a trip; now they can book a trip, confirm it at the best price possible, in advance, and then bring the miles from other sources, especially banks, enjoying the best deals we can offer.

We are now going to start introducing *Viaje Fácil* in 100% of our operations. Gol tickets – that accounts for most of our business – will be involved in the program as of July, GOL customers will be able to issue their tickets and pay it 60 days later.

This product also allows us to guarantee the customer's consumption in the future. When customers earn miles in their credit cards, for example, these miles will be directed to us in the future, on account of this product.

Moving on to the next page, I want to point out we finished the tests and, during the month of May, we will announce a partnership with Shell and GetNet, which is the acquirer company that has the official partnership with Shell. As of May, in all Shell gas stations, customers will be able to pay with Smiles (electronically in the PoS), and miles will be redeemed automatically. People will be able to pay for the fuel electronically with miles from the Smiles program, in a safe manner.

What is very important about this? We believe the only way to efficiently operate in the retail industry is to use electronic means. It is the only way the Company will continue to be the most profitable and prominent in the market. Therefore, this is a highlight, an innovation. Currently there is nothing like it in the Brazilian customer loyalty market.

In the next page, number six, without details, because we are still finalizing some issues, but a fundamental point: we have just renewed our contract with Banco do Brasil and Bradesco for our co-branding.

Our co-branding was launched in 2009; now it is being restructured and these two banks will soon relaunch the product, including all the activity segments, with several flags and all income segments. We will also have a stronger product for high income.

But I also point out that, in this agreement, we will have no exclusivity with the two banks. This means we are free to add one more bank and we have been talking with several other banks. No deal has been closed yet, I am just saying that we will most probably have one more bank in the future; negotiations have just begun, so we will probably have three of the largest Brazilian banks doing co-branding exclusively with Smiles in the customer loyalty market.

On the next page, I would like to point out that we formed an alliance with Polishop. Polishop is important for a very simple reason: it is a company focused on class-A customers and on shopping malls, therefore it adds good value to our high income customers.

You know we have been increasingly getting class-A customers, and we have grown and gained market share mainly by bringing high income customers to Smiles, as they mostly travel abroad. Even in the worst moments of the Brazilian economic crisis, we have consistently increased our market share and our trips abroad.

Now, all market segments are starting to recover, as Brazilians are travelling abroad again; now, most companies will probably grow, but we keep growing more than the industry does, that's for sure, also because of our increasingly strong presence with high income costumers.

I am going to turn the floor back over to Marcos and, of course, I will be available to answer any question you may have. Thank you. Marcos, over to you.

**Marcos Pinheiro:**

Thank you, Leonel. Good morning, everyone. We are in slide 8, and I will talk about the evolution of the volume of accrued miles.

In this 1Q17, the volume of accrued miles grew 52%. If we disregard the effect of the new Smiles & Money dynamics to make a comparison with our historic measurement series, this growth was significant as well, of nearly 23%, and I highlight our alignment with our partners, especially the financial ones, and high engagement of our customers.

Moving on in the presentation, I will talk about the evolution of the Company's total sales. We will focus on sales excluding the miles we sold to GOL.

This series had a good performance year-on-year of 8%, and once again I point out Smiles consistent operating performance.

The next slide is about the evolution of redeemed miles. Again, the high engagement of our customers caused the volume of redeemed miles to grow 52% over the same period last year.

If we exclude the effect of the new Smiles & Money dynamics, this figure is not so high, but it is still very good, nearly 19% year-on-year.

In slide 11, we can see the evolution of the Company's net revenues. Once again, a good performance, 26% year-on-year, totaling R\$ 443 million in the quarter.

In slide 12 you can see the EBITDA evolution, which totaled R\$ 183 million, 46% up on 2016, and a 41% margin.

Net profit totaled R\$ 156 million in this quarter, with a 35% margin, a 32% growth year-on-year.

This is the end of our presentation. Our Q&A session is open. Thank you.

**Samuel Alves, BTG Pactual:**

Good morning everyone. My question is about the dynamics of volume growth. We saw it very strong this quarter, and I would like to understand, if they can give a little more color, if it is the financial partners in fact returning to a greater growth, or even the new

products that the Company has been launching, the partnership with Rocketmiles, the Easy Journey program, if they are already becoming very representative within the base, which would be sustaining this strong volume growth that we have seen from ex-Smiles & Money miles issuance. Thank you.

**Leonel Andrade:**

Thank you your questions.

We continue to believe, even because we enthusiastically see growth, but in fact what brought miles and strong growth this quarter was our alliance with banks. All banks, without exception, have consistently grown this quarter, and we are getting closer, gaining more and more preference from banks, more and more alliances, more innovative products, and we will continue to work for banks and banks, no doubt.

But it was the alliance with the banks that has brought the miles. All the banks grew consistently across the board. And we getting closer and closer, connected to banks, more alliances, more innovative products will be working for them and with them. So I would like to point out that the banks stand out behind that growth.

**Samuel Alves:**

Thank you.

**Lucas Barbosa, UBS:**

Good morning. Congratulations on your results. My question is about Smiles & Money. You made changes to it and I'd like to know if you can disclose the Smiles & Money revenue. Also, I'd like to understand whether there was any change in the pricing policy of Smiles & Money this quarter. Thank you very much.

**Marcos Pinheiro:**

Thank you, Lucas. As to the first part of your question, no, we cannot disclose Smiles & Money revenue. But one thing must be very clear: these new Smiles & Money dynamics was guided by transparency with our customers and partners.

It's very easy, anytime you want you can go to our website and find out at what price these miles are being sold. Just see how much miles we are charging for an air ticket in *100% milha*, exclude the miles portion we are offering in Smiles & Money, and use the difference as a denominator of a ratio of the price in cash to the volume in miles.

To make it easier for you, today we are selling these miles for R\$ 0.0265 per mile. This price may fluctuate a little, but this is obviously a business strategy.

From the margin standpoint, the product is still very consistent. And, in this new methodology, it is pretty clear that the Smiles & Money margin and the *100% milha* margin are absolutely the same.

**Leonel Andrade:**

Let me just make a comment on what Marcos has already said – it is easier to understand the relative size, the total growth of the Company when compared to the market by using this new methodology. All our competitors operate the same way.

I was attending an associations meeting, I was talking to our peers to better understand, we were the only ones that are not adopting the same methodology, now we are all on the same boat. So it is a lot easier to actually compare companies or the growth of several companies and to attest that we are leaders in that group, and we hope to remain that way.

**Lucas Barbosa, UBS:**

Thank you. Thank you for your answer.

**Ivan Bonfanti:**

Good morning everyone. We have received some questions over the Internet. The first of these is related to the Company's other revenues. Catherine O'Brien of Deutsche Bank asked us what has behind this impressive growth of 254% in the Company's other revenues.

**Marcos Pinheiro:**

Thanks for the question, Catherine. The other revenues are derived from the ancillary services associated with air withdrawals that Smiles started offering to its customers.

In a very consistent manner, we have started to offer our passengers, especially GOL passengers, the opportunity to make additional purchases. For example, priority seats, + *Conforto* seat, that is, all types of additional revenue from additional products airlines usually sell to their passengers we now offer to our passengers for miles, when they use miles to pay for their trips.

Along the same line, you have resources from our credit card operations, co-branding, but this expressive growth comes from the auxiliary revenues, and we believe that that standard is sustainably, because these are new sources of revenue, and they are already important to our results. And we're going to have similar penetration in Smiles. So, we're very optimistic about it and we hope to remain in the positive trend.

**Ivan Bonfanti:**

We have another question from Catherine about the negotiations with financial institutions that are our partners. And what are price expectations for the year?

**Leonel Andrade:**

Thank you for your question. What was already better just got even better. Negotiations with banks have been very positive to us. We're not talking about prices anymore. Prices may vary because of volumes.

When you have greater volumes prices can be scaled. If volumes go down, prices would increase, of course. But in the end, just like I mentioned in the previous call,

prices should remain at a level they are at right now. There may be very few price fluctuations, given the fact that negotiations have been finalized, but there shouldn't be any changes in the initial contract.

Some banks pre-paid that growth. I'm very optimistic about the business with banks throughout the year, because we're getting closer and closer, even developing new products.

We'll be expanding that to Gol, there will be innovations coming out throughout the year. We're introducing a very innovative product, just like we did with Club Smiles. All products, Smiles and Money, Viaje Fácil, there will be yet another product that will help us foster better relationships with banks. We have been in total alignment with the banks for the entire year of 2017.

**Ivan Bonfanti:**

On the subject of financial institutions and the relationship of Smiles with them, we also have a question on how banks feel about the credit card spending this year, and whether Smiles believes it is possible to grow beyond the basic growth of credits cards in the Country.

**Leonel Andrade:**

I am also a director of ABECS. I've been discussing that in the association of banks and credit cards. We're hopeful about small improvements, industry may grow above the inflation rate, favored or benefitting from this fall of the inflation rate, because the worst is behind us.

We won't be having 3%, 4% interest rate drops just like we had in 2016, 2015. We're not heading into another recession. So, banks are very optimistic.

The exchange rate is smaller than what we had last year – that also generates more miles, more points for credit card users. So, the market will help the industry overall. And I think we did the right thing when we paved the role, and Smiles will come out winners in the next quarter, because we're in more alignment with banks. So, I'm very optimistic about the future, mostly because of that alignment with the banks.

**Operator:**

Thank you. That concludes the Q&A session. We'll give the floor to Mr. Leonel Andrade for his final remarks.

**Leonel Andrade:**

Once again, thank you very much. We have shown consistent results and we'll keep on focusing on improving even further. I'm very pleased to manage the Company in its fifth year of existence. That improvement is the reason, the result is the cause of consistent and focused in our control and strategic management.

I just wanted to once again thank the banks for placing their trust on us, and we're very optimistic about the future, about this year in particular. And we have good reasons to estimate that our performance will remain on the positive side.



Thank you all the shareholders of the Company. Thank you, and we hope we can maintain those good results in the future. Thank you very much.

**Operator:**

That concludes Smiles' teleconference. Thank you for attending. Have a good day.

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