Operator:

Good morning, everyone and thank you for standing by. Welcome to Smiles audioconference to discuss the 2Q17 results. After the Company's remarks, we will start the question-and-answer session. To join the line for asking questions please, press *1. Should you need any assistance during the audioconference, please request the help of an operator by pressing *0.

We would like to inform you that forward looking statements made in this conference might contain assumptions made based on future expectations, such information is based on known and unknown risks and uncertainties which may lead such expectations to different results from those expressed in these financial explanations.

Here with us we have Mr. Leonel Andrade, CEO, and Mr. Marcos Pinheiro, CFO. We now give the floor over to Mr. Andrade who will start the conference. Please, Mr. Andrade, you may carry on.

Leonel Andrade:

Good morning, everyone. Thank you for being with us this morning. It is a pleasure to be with you again. We will cover the results concerning the 2Q17 and I would like to start by highlighting some very positive points in our work, which reflect in our strong numbers.

First, it is very good to know that we had a significant gain in market share this quarter, commonly the quarter where we most grew when compared to the market. And most importantly, we maintain margins above 40%. Our retention margin reaches our target, in other words, we are managing to consistently grow and keep healthy margins.

It is also what we mentioned, that both accrued and retention grew strongly when compared to BUC and also compared to 1Q17. That is why we had such significant huge gain in market share. And all that result came from the operating result which leads us to believe that even though we had a slightly lower financial results when compared to last year, the growth in profit came from our operating results, which was a strong point.

Our breakage grows 32% of operating income, which shows that we managed to consistently make money with the operations.

Another important highlight is our alignment with the banks and this quarter, specifically, all of our partner banks grew with us. Without the exception that most of the 1Q where we had the highest alignment and the highest volume along with the banks, since the Company started operating.

We also had the most innovative quarter. We launched several products, I will show those as we move on.

So, looking at the numbers on the first slide on the presentation, slide number three, actually, we can see that our net income reached R$146 million, a growth of 18.3% when compared to last year, with a margin of 32.2%. In another words, a very strong consistent result and our EBITDA makes us even more happier because we reached something close to R$172 million and a very significant growth of 32.6% in relation to last year, with an EBITDA margin of 39.1%, quite healthy net.

Income reached R$442 , a growth of 26.3% when compared to last year. When we look at our retention performance, a very strong number, 31.4% ex-GOL, Smiles&Money, in another words, we are comparing data on the same basis of last year.

We grew 31.4% when compared to last year and 9% when compared to the 1Q17. In another words, a very robust growth, reaching 5.1 billion miles within the quarter, when we exclude the Smiles&Money effect.

As for miles accrued, even stronger, 35.4% when compared to last year and something close to 14% when compared to 1Q, which shows a very consistent growth across our accrued channels, with a highlight for bonus, totaling 50.7 billion, excluding Smiles&Money.

Gross billings grew 14% ex-GOL, that is the billings that really matters, because they show, when we compared that to the market, market where we fight for market, 14% when compared to last year and 8% when compared to the 1Q17. Once again, a very consistent growth and the good news is that we double digit growth when compared to last year and thus performance is expected continuing in the coming quarters. That is a trend as a financial result, they drop 23% when compared to last year and 25% when compared to 1Q, by 2 p.p.

This result drop is basically due to seasonality in our dividend payout. Last year we payout dividends in June, this year we anticipated to April, which is good for the shareholders, so that is why our cash dropped somewhat. This is not relative to a drop in interest, but most importantly, with the drop in financial results, we still have growth in income due to our operating growth, which is the Company's main focus.

Looking into the next slide, we are going to talk about innovations which we launched in the 2Q. First of all is the total review of our Smiles Club. Smiles now turns four years in September, it was a pioneer in the market. It is the largest and fast evaluated by clients and we decided to make it even stronger, putting all miles accrued will only mature in ten years, which is the longest valeted term in the market and now we have five different modalities, five different plans.

The Club has brought the Company significant added value and added growth, bringing us the best clients we could possibly have. So we are working close to those clients and very much in line with them.

In the next page, maybe the biggest recent innovation that we had for Club members, that is something only Smiles has and we launched a product called Family Account. The Family Account has had a very impressive reception. We are now past thousand members and with that, even those who are not engaged in the program because they were not frequent flyers or frequent clients, maybe young people who do not have a high income to do that, now they are able to be part of a Family Account.

This is a modern family, not necessarily you need to have family relations, it could be friends, a group of friends, a group of relative extended family, and this was really warmly welcomed by clients. It is quite innovative; there is no other product that comes even close to this one out in the market. It is a distinguishing factor for the Company.

On the next page, page six, along with GOL we are proud to say that clearly today we have the best top tier among all programs in Brazil. That means that for our diamond clients we are quite distinguished. Our diamond clients have miles accrued for ten years. Either comes from banks, some services, from retail, from clubs, all miles will be good for ten year.

That is by far the largest in the market. All the main loyalty programs from the competitors have two years programs, three years programs, ours is a ten year program, which goes to show you we really value our clients.

And of course, when a client redeems miles to fly, this also counts for upgrade in the air company. Miles which were not used for upgrade will be transferred to the coming year, so it is easier to remain in the same category; it is even easier to join a program through larger programs of air companies.

On the next slide, another distinguishing factor, this one has not shown the results this quarter, but it is sure to bring good results as we move forward. And it is probably one of the main competitive advantages we will have in the future. We have inverted the industry's rational.

Usually clients need to accrue points in that redeem, now in Smiles the clients will redeem, make the redemption to the flight, have better prices and they will make the redemption and then they will have up to nine months to accrue those miles. With that, clients will have all the benefits of the best promotions, clients will be able to schedule their trips, schedule their vacation.

We have already conducted this experience with international flights and the performance is quite strong. It has added value to the Company's clients and now, as of last week, actually, since the 31st, we have that going for all GOL flights.

For the point of view of amount of tickets, GOL accounts for 90% of our tickets. From the point of view of amount of miles, it is something like 60% or slightly lower, but that is where the most added value is for clients, all GOL flights can buy and pay later. And that is only from Smiles.

Complain that clients usually have is that they see a ticket and they transfer the points, and then when the points are turned into miles, that ticket is gone. We have two different distinguishing points. You can make redemption before you accrued miles and you still have the possibility to reserve GOL flights, which is a good complement for the program. I am quite confident that this will allow Smiles to make an important leap in market share.

On the next slide, slide eight, another good innovation, a unique issue, a unique loyalty program, the chat box. This is based on artificial intelligence, Facebook's messenger. We have thousands of clients that are using the chat box, besides being extremely modern, this allows us to reduce cost significantly and also to have a very agile communication with the clients.

Clients no longer need a service hub or a service center. All information is there. And the big news is that very soon clients will be able to issue their tickets and will be able to make their transactions via Facebook without having to access our websites. This is, of course, something for the future, but there is a trend for people to use their cellphone, increasingly. We need to serve clients as best as we can.

On page nine we have our social program. After four years of working strongly towards better end, we have now managed to be more participant in the community, so we are launching what we called Good Miles, which is a solidarity network for programs gear towards education and social through education.

So we are talking about institutions which are well-known, well respected in Brazil and we have engaged our clients, and we have a commitment to every donation the client makes, Smiles will donate twice as much. And that is how we try to make a difference and that is how we try to make a difference, and is how we try to add value to the country, not only to the Company, and also it is also worth mentioning that there is an engagement of around 50% from our employees in the social programs through volunteer actions. Employees really bought the idea.

On page number ten, you might remember, last year I said that for the first time Smiles appeared on the PNCC survey as the most used program from the bracket income in Brazil. Into our great choice, Smiles is now also the preferred company for other income brackets, bracket A, bracket B, B1 and B2. And even for the lower brackets, we have a very strong participation.

This survey was conducted by Medida Certa, GOL company, this is the ninth edition of this survey. It is the most respected pool in survey by credit card issue in banks, in Brazil. And the question is: what loyalty program that use the most or used the most last year?

So, this consistent market share gain has to do with the fact that we are now becoming increasable the preferred company for the clients or for clients who use credit cards. So across all economic brackets, we are gaining market share also in the top brackets. And that is, again, the most respected survey in the market.

On the next slide, another survey, another pool, how Smiles has been dethatching from the rest of the market? According to Millward Brown, we ranked number one in the last survey Top of Mind survey in April this year. Smiles achieved number 20 in familiarity, which is twice as much as number two. That makes us very proud of that. So, we are the company which is preferred by credit card users, and of course, that makes us a different company and that makes us confident that we will continue to have above average performance.

Now I will give the floor over to Marcos Pinheiro, the Company CFO, who will be talking about the financials and other Company's numbers. Thank you and I will be back for question and answers at the end.

Marcos Pinheiro:

Thank you, Leonel. Good morning, everyone. On slide number 12 I show the evolution of accrued miles since the 1Q13. We can see by looking at the chart a consistent curve in terms of performance. As for the 2Q17, we can see here on the right that year on year we see a positive growth of over 55%, a total of volume of 24 billion accrued miles in this 2Q.

This was the largest historical level of accrual for the Company, and it is worth mention as Leonel said before that this built through significant alignment with our partners, specially our financial partners.

Moving on to the next slide, I have the evolution of the total gross billings of the Company, of course, excluding GOL, the controlling company. Once again, a very consistent performance, totaling R$451 billion in the quarter, a growth of 14% year on year. Once again, a result which was built on top of significant alignment and innovation.

Moving on to slide 14, this is the slide that I like to present the most, it shows how we evolved in terms of miles redeem. I like this the most because this reflects the engagement of our clients, so we have, again, a very strong performance in terms of the volume of redeem miles. In the 2Q17 we grew 60% in terms of mile redeem when compared to 2Q16.

Of course, this is where we our pipeline of innovation and our rational which is gear towards new products, easier, more friendly client experience, all of that helps us build good results, strong performance.

Slide 15 reflects all of that and it shows how our net revenues have performed recently. Once again, performance year on year showing a growth of 26%, totaling R$442 million in net revenues in this 2Q.

On the next slide we see the evolution of the Company's EBITDA. We totaled R$172 million in the quarter maintaining a margin of around 39% and once again with a strong growth year on year of around 33%.

On the next slide, slide 17, we see the evolution of our net income. In the 2Q the Company closed the year at R$146 million in net income, up 18% from last year and maintaining a margin of 33%, of net income.

With this slide I close our presentation and I remain available along with Leonel for questions, answers and comments. Thank you, very much.

Alexandre Spada, Itaú BBA:

Good morning, everyone. Thank you for your call and congratulations on your results. First question has to do with gross billings. It caught my attention in the quarter, the volume of miles grew significantly year and year and also quarter on quarter, and was especially offset by declining unit price, especially when we compare with the previous quarter and excluding Smiles&Money.

You mentioned that there was a growth in the miles sold to banks, but I would like to know if that drop in unit price could be related also to the bonus policy, which is more aggressive for Smiles in this quarter.

Leonel Andrade:

Spada, thank you for the question. Yes and No, the drop in price, the first cause for that is a change of background in the banks. All banks grew and grew significantly as I said, without exceptions. Practically all of them are now paying less because of a change in step, if I will. You know that pricing is based on volume and because the banks will, they benefited.

I think that is quite positive for us, personally, if banks continue that volume. I have no problems with the lower price because the billings have been growing consistently and it is also worth mentioning that our margin has been kept as we maintain within that price range. That drop in price was already strong in the results of the quarter, of the Company's results for the quarter.

Another important point, to your point, if you were more aggressive in terms of bonus, I would say we were as aggressive as we were in the 1Q. We have a higher volume, absolute number of bonus is higher, but there was actually no change. We are talking about the same prices as per contract.

So I believe that price will be kept within this range for the coming quarters, because the next steps are longer, steps will probably have prices within the current range for some time.

Thank you, Spada, for your question.

Alexandre Spada:

Thank you, Leonel. If I may, one follow-up question: the cut off gate for the price adjustment for standard tickets bought at GOL for January 2018 is coming. If I am not wrong, it is by the end of September. Is there any indication yet about the magnitude of this adjustment, given that companies already have enough data to a factory in by now.

Marcos Pinheiro:

Thank you for your question, Spada. Yes, we are closely monitoring those indicators that cut off data. To be exact, it is October. Having said that, we have treaded a good part of the way, all simulations we have conducted do not indicate a negative result in terms of the transfer prices. In other words, I do not expect that the new transfer price will present significant variations, both up or down.

That is a reflection of our policy, which is aligned with Smiles and GOL.

Leonel Andrade:

If I may complement the answer, of course, what Marcos means is that this price will be around the current standards, reasonably flat, with small variations. But I would like emphasize the great deal of work we have been conducting in terms of pricing, the ability to serve clients and flights which best serve their interests, and for the best price, both the domestically and internationally.

Of course, that question has to do with our contract with GOL, which, of course, has the highest impact on our cost for tickets, but, in fact, our pricing has been consistent in terms of maintaining margins and in terms of directing clients to the best flight in order to meet their interests. This was just to emphasize this last point.

Around zero to answer, it would be a good number.

Alexandre Spada:

Well, thank you all for the answers.

Samuel Alves, BTG Pactual:

Good morning, everyone. Thank you for taking my questions. I have two questions. The first one is about the possibility of extraordinary dividend payout because of special credits – I am sure you have already made some kind of decision in terms of dates and amounts of those dividends. That is the first question.

And the second question, if I may, this quarter, a competitor broke down its portion of miles with other partners. Could you, perhaps, share that with us as well? To what extent those new accrual experiences are contributing to the Company? Thank you.

Marcos Pinheiro:

Hello, Samuel. Thank you for the question. I am going to answer the first question about the dividend. At this point, I cannot give you too many details about our plans, but what I can tell you is that there was a new change in our assessment in terms of our payout policy. Based on what we are planning, based on our capital needs, our cash flow generation, there should be no major change as compared to our historical level of dividend payout, which is around 100%.

Having said that, it is also likely that our shareholders will receive additional resources because of the Webjet deal, of course. As for the date, it is something we have been working on. We assess that on a quarterly basis. We have to wait.

Now I will turn the floor over to Leonel to answer your second question.

Leonel Andrade:

Thank you, Samuel. Actually I am not going to answer your question, I apologize for that. I do not think it is time for us to break that number down. I think numbers are important; we have been working with the club for four years now. So, of course, it is a significant number, but I would rather not break that number down now. I do not think it is the right moment to do that just yet.

But I would like to emphasize that we are and we consider to be very much in line with banks. That is where our revenues come from. And that is where our best clients are – with the banks. Banks' clients are the ones showing the highest level of engagement. So we continue to focus on banks without a doubt.

That does not exclude the fact that we use other accrual options, especially directly to final clients. But thank you, and I am not sorry for not answering directly.

Lucas Barbosa, UBS:

Good morning, everyone. Thank you for taking my questions. The first one is about gross billings. I would like to understand your performance year on year for gross billings if we exclude GOL, Smiles and Money. If you could break that number down, give us another magnitude; I wish you would, please. And, then, will ask my second question.

Marcos Pinheiro:

Hi, Lucas. Good morning. Thank you for your question. Our answer – and not answer the same time – we had a positive dynamics as Leonel mentioned. We had a very satisfactory and positive performance with all our financial partners, which represent a major portion of our revenue, as I said. But we cannot go into those numbers in many details, OK?

Lucas Barbosa:

OK. And, then, my second question about the family account. How do you see different individuals joining those programs? How many new users do we have? And how many new users do you expect together under the family account?

Leonel Andrade:

Lucas, thank you for your question. When we launched the family account, because there was no market history for that, I said we would be working to have 25 thousand families in the first year. And this number has already been surpassed in the first month. I cannot give you more details, but it is a very robust number. People just loved it and are increasingly engaging in the program.

And it is something that is quite passive, when you join a family (30:19) it is hard to leave, so we are quite confident in this program going forward, but I would rather not going into details right now. It is just one month old. It has been a spectacular month, but it is just a month.

Lucas Barbosa:

OK. Thank you, and congratulations on your results.

Carlos Daltoso, Banco do Brasil:

Good morning. Thank you for taking my questions. Congratulations on the results.
I have two questions. The first one is about the cost of redeemed miles, especially the non-air products; you had an increase of 40% in the 2Q when compared to the previous quarter. I would like to know what led to this increase in non-air redemption. And how do you see the non-air services front?

Leonel Andrade:

Hi. Thank you. We have seen some growth, but –once again– this is not retail. I would like to emphasize that. We are not focusing on the clients that exchange miles per goods; we want them to exchange that for experiences. So when I say we had an increase in accrual and redemption, we are talking about Localiza rental, car rental partners, and our Rocketmiles partner, the hotel partner; they are both advancing significantly and exponentially, both in accrual and redemption because the experience goes for both.

The number that you mentioned has to do with redemptions, and we said back there that those new programs in three years could regain another 10-15% in accrual – and I do believe that is going to happen because numbers are consistent.

So all the growth is coming from there – the experience of travel, a complement to travel, a complement to air travel.

Carlos Daltoso:

Thank you. And the second question has to do with the Webjet deal. What kind of potential benefits do you see going forward? Marcos mentioned dividends, but what other kinds of benefits do you see going forward for the next quarters regarding Webjet?

Marcos Pinheiro:

Good morning, Carlos. Thank you for your questions. The Webjet deal, I am going to call the company “Smiles Loyalty S.A.”; it brings several benefits, such as the deferred income tax possibility, which will lead us to an increase in net income for the next quarter (3Q17). We have a one-off benefit of R$190 billion. And this number will, of course, help when the dividend pay out as well.

And in terms of long-lasting benefits of this deal, we see a readjustment of our complements of net equity, which allows us to distribute more interest on equity and we will be able to observe benefits of around 1-2% in the Company’s total value just because of tax and physical benefits coming from the distribution of the interest on equity.

Today, the participation of JCP in our payout accounts for something close to zero, our capital base was R$43 million. Now after the deal, our capital base would be around R$250 million, which is a sharp change in the base and a change in the interest on equity when we pay out our shareholders, OK?

Carlos Daltoso:

OK. And these R$190 million in the 3Q is non-recurring, right? Or is it one off?

Marcos Pinheiro:

Right. Exactly. You are right: one off. When we finish the deal, we will account the deferred income tax in the amount of R$190 million and our income statement will show a similar amount, which will appear with a diverted signal, which will contribute to the quarter’s net income, which will be increased in a one-off basis by R$190 million.

Carlos Daltoso:

OK. Thank you, Marcos. Once again, congratulation on your results.

Alexandre Spada, Itaú BBA:

Hi. Thank you for taking one more question from me. Yesterday, you announced the purchase of a travel agency. I would like to understand what kind of value that will add to Smiles. Thank you.

Leonel Andrade:

Thank for your question. We had made clear that we want to be a complete company for travelers. And that will become a complete thorough market place for the clients. So clients through Smiles can complete 100% of that travel means, so the purchase of that travel agency – first I would like to say – people have been asking how much we paid for it; that is immaterial, it is a non-operational company, we made this acquisition just a shortcut.

We could have opened our own agency, but that would take longer for bureaucratic reasons, so we decided to incorporate an existing agency. But it is not operational, so investments in this case are immaterial.

Now we have a wholly-owned subsidiary, Smiles Travel and Tourism, and that company will allows us to establish new alliances, provide new services to clients, enter new markets, working with services and travel packages. And it will also allow us to be more competitive to buy commercial tickets from our partners.

Just as in GOL we have access to the whole portfolio, now we have a larger portfolio in international air companies on top of the tickets we already use in our loyalty programs. So the agency is a complement to increase our competitiveness. In practice, clients, at least for now, we are not seeing, as it were, the agency. It will look as the kitchen of a hotel, a five star hotel – I can assure you – but it is the kitchen, you cannot see it.

It only improve our ability to distribute products and to adjust inventories. So we will increase the bottom line, the bottom line will increase the amount of offers to the client at the end of the day.

Alexandre Spada:

Thank you.

Ivan Bonfanti:

Good morning, everyone. We have received a few questions, one of them is from Catherine O'Brien, Deutsche Bank, and she asks what items are included in other revenues which led to an impressive growth of launch of 1 million year on year. And if deadlines will continue to be the focus of the Company in the coming quarters.

Marcos Pinheiro:

Hello, Catherine. Good morning. Thank you for your questions. The “other revenues” is basically composed of services and facilities that we offer to our clients, always associating the travel with the trip, specifically air travel by GOL. So, seats reservation, preferred seats, boarding fee, boarding tax, cancellation fee, a series of facilities that we offer clients and which have been quite successful.

Our expectations are that this will continue to be so – our commitment is to our always have an offering of a complete and easy experience to our clients. So my expectation is that we will follow along those same lines going forward.

Leonel Andrade:

Catherine, just as a complement, you know that, here, in Brazil, air companies are going to renew a different price in model, now they are free to charge per luggage, per example, something that we did not have in the past and Smiles will also be offering that service very soon, and that will fall under the other revenues line. So we will be able to pay for our luggage by using miles. So those other revenues tend to continue to grow as Marcos mentioned. Thank you.

Catherine O'Brien, Deutsche Bank (via internet):

Does the Company expect a growth in international redemption because of foreign exchange variation?

Leonel Andrade:

Catherine, thank you for your question. This 2Q, we saw a historical record in terms of international tickets with our partner companies. We grew 50% year on year, a very strong growth. International companies are becoming increasingly stronger; in Brazil, this should continue to be so and the same increase in Smiles has to do with that. More importantly, our companies are integrated in our app, so clients are resorting to Smiles increasingly. Another important piece of data is that there is no difference in margin.

We operate across all products and services with a margin of 40%. There is a difference. It is immaterial. With international tickets, we maintain the same level. So if the client migrates to international companies, or go back to GOL, or migrates to Localiza, or either retail services, margins will change very slightly – if they ever change.

Catherine O'Brien:
And lastly, if the Company might comment on any recent conversation with financial institutions.

Leonel Andrade:

I have conversations with them every day. Just to give you an idea – last month alone Smiles sent over 900 emails to clients, out of which 200 had to do with incentives or promotions with the banks. This is a monthly volume. All banks work with us in terms of promotions.

All banks, today, direct their clients preferably to Smiles, with no exceptions. And that consistent growth is coming from the banks. That huge increase in market share is coming from the banks and this should continue to be so because banks are our partners; they are not miles buyers. They are working with us. And without a doubt, I see this trend continuing.

So no big news in the banking front in terms of contract reviews or – I do not know – the way they see the business. Banks are more optimistic in terms of credit cards issuing and next year we should see a growth in credit card transactions.

We should expect 2-digit growth to come back in the coming years. So the outlook for the next five years, the credit card industry will see a growth of 70%, if they grow four years in a row, they should get there at a 70% level of growth. And this will clearly savor Smiles and will favor the industry as a whole, but certainly Smiles because of the way we work along with the banks. Thank you.

This concludes our question-and-answer session. And now I turn the conference back over to Mr. Andrade for his final remarks.

Leonel Andrade:

I would like to thank you all and emphasize a few points, which makes us all very proud. At this moment, Smiles had offers five or six huge competitive advantages when compared to the market. We have been working to launch products and services, ahead of the pack we want to launch something new every three months. And to our surprise, this last quarter we were able to launch several new things.

We are the only company which has air reservation. The only company where we can buy now and pay later. The only company where we can redeem before accumulating miles. You can pay your boarding fee, work miles, the only company which has the family account.

The only company which offers 10-year validity for the miles because we have a very low breakage rate when compared to the market, so that is why we can offer a 10-year maturity period for miles to many clients. We are the only company offering the checkbox, the only one to be using artificial intelligence to communicate with clients. And we are the only company with a map that can issue tickets. So it is 9 million tickets available for flights now.

And I am saying all this because each of those points adds a competitive advantage. And it helps us increase our market share. We know there is no silver bullet, but being ahead, of course, helps us deliver a different type of performance.

The month of July was the best historical month in terms of operating results, redemption and accrual in the history of the company. July’s results are very enthusiastic and exciting. And this will add a lot to our 3Q numbers, which should be even better.

Once again, thank you. We know have 119 employees who make difference in the market. And thanks to our alignment and our partners, specifically, GOL, and the banks and the air companies, that performance should be kept, and we will continue to gain market share. But our priority again is to maintain our margins. If we have to choose between margin and volume, we will choose margins. If we can grow volume with these margins so much the better.

So thank you again, and I remain available. See you next time.

Operator:

Smiles 2Q17 conference call is now over. Thank you all for participating. Have a nice day.