

Operator:

Good morning, ladies and gentlemen. Thank you for holding. Welcome to Smiles' conference call, where we will present the Company's results for the 4Q17. Right after the Company's presentation we will begin our question-and-answer session. To ask a question, please dial *1. Should you need assistance during the conference, please dial *0.

We would like to inform that some of the information presented during this conference call may contain prospects or statements referring to future expectations. Such information involves risk and uncertainties, since they relate to future events and therefore may or may not occur or may materially differ from those expressed in the financial considerations.

Today we have with us Mr. Leonel Andrade, CEO; and Mr. Marcos Pinheiro, CFO. I would like to give the floor now to Mr. Leonel Andrade. Mr. Andrade, please proceed.

Leonel Andrade:

Good morning everyone. Thank you for being here. It is a pleasure to be speaking to you about our last quarter of 2017 and, of course, our future perspectives. I would like to start on slide three, looking at the entire year. We had a net profit of R\$760.6, *pro forma*, obviously adding up Smiles to Smiles S/A in July. Our gross billing was R\$ 1.9 billion – significant growth considering the market conditions; a growth of 11.3% and we will be speaking about that soon.

Miles accrued grew by 59.1%, making Smiles the biggest company in this industry, in this measurement. Miles redeemed went up 56.2%. Our net revenue also went up by 16.5% year-on-year, reaching now R\$ 1.8 billion. It is a great highlight. Our financial results have decreased 8.4% over the year due to macro-economic changes in Brazil, especially a reduction of the SELIC interest rate, which had a high impact on our business.

Moving on to the next slide, specifically on the 4Q17 our net income was R\$123 million – a reduction of 24% in comparison to the same period in the previous year. Gross billings grew by nearly 13% – record R\$512 million – and this is the fourth quarter of growth we have had in a row.

Miles accrued this quarter, nearly 24 million miles accrued – a growth of 63% vis-à-vis the same quarter last year. Miles redeemed also grew significantly. A total of 18.4 billion miles redeemed in the quarter. Income was also a record of nearly R\$500 million – a growth of 6.4% and net revenues, as we said before, dropped by 15.3%, which was significant. This reduction could have been more significant if we hadn't strengthened our cash position through billing.

The next slide shows some new actions we announced in the 4Q. They will now be put into action. The most important one is our partnership with Uber. From March, this will be available to our clients. A significant idea here is that Uber has an inclusive partnership with Smiles for the accrual of miles. This will add more revenue to this channel if our clients are using Uber.

The next slide shows a different partnership that we have already started and is very strong, with Claro. Claro is a giant telecomm operator in Latin America and in Brazil they have an exclusive agreement with Smiles through Claro Clube. This goes for accrual and miles redemption. Claro products are also available at the Claro Store, so this is a significant partnership.

Another partnership that we are very proud of, to be implemented soon, is with Ingresso Rápido. Ingresso Rápido leads the entertainment segment in Brazil. They have an over 60% market share in concerts and shows in Brazil, so both for accrual and redemption they have an exclusive agreement with us for the next years. And this is closely aligned to our purpose of being a leading company in tourism and entertainment in Brazil.

We also have to highlight that Ingresso Rápido conducted a study of the market with all loyalty companies and they selected Smiles to be their exclusive partner, especially because of our position for tourism and travel.

The next slide shows another new action leading the market that is extremely innovative, especially with our target audience, which is very engaged. We are the only company that can issue tickets through a chatbot. We had expanded chatbotting before for information, promotions and contact and now it is also transactional. Chatbot already issues and books tickets through Gol. During the next months we will have also other products and services.

The next slide shows another major piece of business. We have a co-branded credit card now with three banks. It is the first time in Brazil and probably in the World that a co-branded product will have so many issuance by financial institutions and so much market share.

Obviously, these three banks together represent more than 50% of the market share and all three of them have exclusive agreements with us. This product has been relaunched and we are having very strong sales in all three banks. This is a very different product for people who like travelling.

The next slide, slide number ten, shows a brief report of all new things we have started in 2017; everything that was launched. This slide shows that Smiles is still leading the way, far ahead of competition in terms of innovation. We always have exclusive launchings and we have always being very successful in doing so, especially operating with three or four exclusive products on the market.

I would like to highlight Viaje Fácil. This is unique and it is an enormous competitive edge that is gaining more and more market share in flights booked. With this product we already have something guaranteed for the next month.

All of this makes me comfortable in saying that 2018 will be a very strong year, because all these partnerships are maturing now and they will definitely add to our year. We have never been so prepared in terms of innovation. I am 100% open for questions later about the Company's results and the perspectives that we have for the next quarters.

I will now give the floor to my colleague here who will tell us about other highlights.

Marcos Pinheiro:

Thank you, Leonel. Good morning. I begin our part of the presentation on slide eleven. Here we have a snapshot of the evolution of accrued miles in the Company. This slide shows a portrait of what we have had during last year. As you can see, consistent growth. I would like to thank our partners for their support and, of course, the entire company for allowing us to capture so much innovation for our clients.

Specifically on miles, when we look at the 4Q17, again, we have a record quarter, just like in the previous quarters, nearly 24 million miles in a single quarter. If we think about the whole quarter, this is over 59% in comparison to the previous year. This reinforces our commitment of doing things consistently in our Company.

The next slide – to continue – is a similar snapshot, but it shows the evolution of our total gross billing. This is financial. As you can see, the 4Q was very successful, in which we had about R\$512 million, which is an evolution of 13% year-on-year. It is the fourth consecutive quarter in which we had high growth.

Slide number 13 shows what is effectively influenced by our clients and their satisfaction. Their engagement is shown through miles redeemed. Although we had a difficult year in 2017 with a number of challenges, we managed to engage with our clients and we drove a great growth of 57% year-on-year in the number of miles redeemed from the Company.

Obviously, everything is reflected in the Company's net revenues. Slide 14 shows that the Company's net revenues in the 4Q17 totaled R\$481 million – a growth of 13% year-on-year.

Moving on, the Company's EBITDA, as you can see, in the 4Q was R\$149 million – a margin of 31.2%. This result was negative in comparison to last year and we will be discussing this during this call, but I can tell you that it was influenced by some non-recurring events.

Slide number 16 shows the evolution of the Company's net income. Our net income was R\$123 million in the 4Q – a margin of 26%. This slide concludes my part of the presentation. I am now open along with Mr. Leonel Andrade, CEO, to answer your questions. Thank you.

Alexandre Spada, Itaú BBA:

Hi. Good morning. I have two questions. Rather, I have two things to talk to you about. First: prices have been reduced again, reaching the lowest value ever recorded from Smiles, which is offsetting the number of miles sold by the Company. Can you tell us about the expectations you have for prices in 2018? Do you think that reduction will be reversed? Moreover, can you tell us about how gross billing has evolved in the first months of this year? I will come back for the second question.

Leonel Andrade:

Thank you for your question. Just to answer quickly and simply, we expect about 20% gross billing growth with prices going up in comparison to the previous quarter. This is already shown to be possible in January and February. Prices and volume are very

strong this year, so I think this will continue throughout the year, with high gross billing performance, given the deals we have with banks and given all the products we have maturing.

Overall I would say that for the 1Q, on the short term, we can expect around 20% of growth. It might be even better, depending on March, but I think we will see new record revenues in the Company with prices going up. Prices in January and February are above the prices we had in this period last year. The growth we had was due to the growth in volume, not because of prices. This is being reversed and we hope to have better prices this year.

Alexandre Spada:

You mean 20% year-on-year in BRL?

Leonel Andrade:

Yes, that's right. This is the expectation we have for the 1Q.

Alexandre Spada:

The second question, if you allow me: can you tell us about the Company's internationalization strategy?

Leonel Andrade:

I think it is still early. We have studies. We have not made any concrete decisions. There are always other markets and other opportunities. This is being discussed. I am personally involved in this. We also need to be aligned with Gol in that sense, so I think at the right time we will be discussing this – when we have an effective decision. But, yes, there is a perspective of looking at other markets outside Brazil. I think over the next months we will see clear decisions on that.

Alexandre Spada:

Thank you, Leonel.

Leonel Andrade:

Thank you.

Felipe Vinagre, Credit Suisse:

Hi. I also have two questions. The first one is a follow-up on the previous question, on the comment made on better prices this quarter. I would like to understand what the drivers are and if this will come from the negotiation with banks and also how miles are redeemed.

Last year was below its historical mark. I do not know if that was due to bottlenecks or the number of products that were available to clients. Are we expecting miles redemption to go up depending on the products that are available? Thank you.

Leonel Andrade:

I thank you for your questions. To answer the first question on prices, I am not going to go into detail, but I can ensure that we are trying to raise prices. In January and February this has already been done. Of course, given our pricing capacity and our management of miles redeemed, we are not going to put a lot of pressure on price. We are just focusing on recovering our margins.

Our margins are still high, but obviously we need to improve our prices, there is no doubt. I think they will go up, but they will not go up that much all of a sudden. Prices have gone up in March compared to the previous quarter.

Second question, on how miles are redeemed, we have to think about a couple of things. Since miles accrued have grown significantly, miles redeemed usually take some time, so this will go down at first, but our perspectives are positive, considering first our billing. Our income today means our revenue tomorrow.

Secondly, we have very strong commercial agreements. We are completely aligned with Gol. Actually this year we are following Gol. Gol is continuing its growth. It is very strong. It is attracting a lot of clients, consolidating its leadership in the domestic market and we are growing very strongly within Gol and we are very closely aligned.

With international companies, we also have a couple of benefits on commercial products. We have a travel agency we have bought and have been able to increase the number of products we have with international companies.

The main point is: our agreements with Localiza, with hotels, with Ingresso Rápido, will give our clients more and more opportunities. And we are going full steam ahead. I do not think this growth was only a one-off.

Felipe Vinagre:

Thank you. That was my question. I wanted to hear about growth perspectives. Just one more question if you allow me, miles used by Gol – we have seen a reduction this quarter. What can we expect for 2018? Will we see this being renewed or not?

Marcos Pinheiro:

Thank you very much for your question. We have a position that we would like to reiterate. We work with a support tool for the airline generating value for Smiles and for Gol. Our commitment to supporting any need or any improvement efforts will continue to be absolute.

And we are closely aligned with the Company's directors. Gol still has around R\$200 million accrued and not used from the last time we did this. As Smiles grows, we will also consume that cash. This will allow us to do more advance purchases if opportunities appear in the future. So far, we do not have any requests or anything of the sort. Again, our interests and our alignments are still very high. Thank you very much.

Lucas Barbosa, UBS:

Good morning, Leonel and Marcos. Thank you for taking my question. This quarter, as you said, you had non-recurring expenses and I imagine that this is related to the travel agency that you have bought recently. I would just like to confirm that. What are the main businesses that you are developing besides the travel agency and how relevant are them? If you could shed some light on that, it would be great. Thank you.

Leonel Andrade:

Hi, Lucas. Thank you for your question. I have a couple of points. First, all of the non-recurring expenses that were made now to develop the business are investments. They are either marketing investments or infrastructure investments, structuring new businesses or planning, which is what we are concluding now. We have a strategic plan for the next five years.

I think we can say that all the initiatives are starting to generate returns, especially our traveler initiatives – everything that is outside the airplane. Before we were focusing on airplanes, but now we are focusing on hotels, car rentals and so on and this is generating a lot of revenue. We are coming close to 5% a year of the Company's gross billings.

Of course, we want to raise that to 10% after two or three years and we are still following that path. These investments are related to that. This is what I can tell you so far. Thank you for your question.

Lucas Barbosa:

Thank you, Leonel. Have a good day.

Alexandre Spada, Itaú BBA:

Thank you for taking my question. This is a follow-up. Can Gol pay the advances made to Smiles?

Marcos Pinheiro:

Thank you for your question. No. Today, obviously, because of the way we are structured we can invite an independent committee for any of the airlines requested, but the way contracts are established today, this cannot be done.

Alexandre Spada:

Thank you. This is very clear. I have a couple of other points. First: you mentioned that you wanted to keep miles redeemed at about 40% in 2018. Should we assume that this expectation will be kept for the next quarters?

Marcos Pinheiro:

Yes, it is the same expectation. If you look at the long term, I think we will have around 40%. There might be some differences in either directions, but obviously there are challenges in the short term because of lower prices at the end of the year, as you said. But this is our policy. It will be maintained and we are focusing on keeping our margins at 40% and I think we will be able to do it.

Alexandre Spada:

Finally, can you tell us about IFRS 15? What kind of changes will that bring to Smiles?

Marcos Pinheiro:

I can tell you a bit about that. The Company is still assessing what the impacts are if IFRS 15 is adopted and how revenues are recognized – as an agency or as a main entity, but so far we have not had an official decision. Our financial committee is working on that topic and we have external auditors to help us decide what the best practice is here.

To summarize, we will probably be impacted on how results will be reported and how the Company's net revenue might be reported, depending on the model we find. We will not have the total miles redeemed, but we would have the gross result reported.

We would have lower revenue, but the Company's absolute results should not be affected, except for fiscal issues that might arise from the new model.

What I can tell you is that if there are any positive changes in terms of fiscal benefits, these would be PIS and COFINS credits that would come into our cost lines, which might result in R\$22 million in taxes saved in 2017. But this is an ongoing discussion. These are international regulation agencies and we do not have any formal decisions on how we will adopt this new way of reporting results.

Alexandre Spada:

If I understood you correctly, it might not change and it may change with possible fiscal benefits through PIS and COFINS, which can save the Company R\$22 to R\$25 million a year.

Marcos Pinheiro:

Yes, this is what we are considering.

Alexandre Spada:

Thank you very much.

Carlos Daltozo, Banco do Brasil:

Good morning, Leonel and Marcos. I have a couple of quick questions about the non-recurring expenses that you had in the 4Q. First, will we see new non-recurring expenses, especially with the new business lines? Secondly, I would like to ask about Net Points – if you have a position on a control or what you will do with the shares you have there.

Company:

Daltozo, thank you for your question. About new expenses, I can tell you that there are not any new expenses on our radar. We might have new initiatives – new investments

approved by the committee, but this year the Company is mature so we will continue to invest on marketing at the same level as we did last year. We will continue to develop products and initiatives in technologies at the same level as we had last year.

We will continue with the same number of employees we had last year – 124. Our perspective is to keep the same number, but we might have a few initiatives. Of course, they will be disclosed previously. For example, someone asked about internationalization. That has not been defined, but that may require additional investment. Of course, we will make this clear beforehand. I do not think expenses will grow and this will not be an issue for this year.

About your second question, on Net Point, with our agreement with them we have until the beginning of next year to decide on control. I cannot say anything for certain, but we are focusing on the travel business. This is where we can be the best, this is where we have the lead in all sectors and all senses. In retail, I do not think we have a competitive edge in comparison to others. And I do not think this is what our clients want.

We do not have a definitive answer, but as for the perspective that we will take control of Net Point, well, odds are low. We have decided to buy the business and I think that was a good decision on the short term, but its performance so far is not guaranteeing a promising future.

It might be good for the business, but we do not want to focus on retail over the next quarters. We do not want to focus on that the way the market is competing now. I am saying this because, in the future, we might look at retail again. But there are always other alternatives. I hope I answered your question.

Carlos Daltozo:

Just one more thing if you allow me. Why are you now giving away this asset at this asset – Net Point?

Marcos Pinheiro:

Hi, Carlos. Well, this decision was part of our yearly process of analyzing the Company's investments. We have a few ideas in our internal committees about valuing future profitability of what we have at hand. We have not been able to see any satisfactory performance coming from this asset.

We do not see this asset giving us many returns on our investment. Of course, that can change in the future but, since that is our perspective we are being very diligent in giving away this asset that we do not have any perspective of recovery.

Carlos Daltozo:

Thank you. Last quarter I asked about Net Point and I think that was clear. Thank you very much.

Marcos Pinheiro:

We always have conservative perspectives on investments in terms of cash and decisions, so this is the same line we follow on that specific topic.

Operator:

I would now like to give the floor to Mr. Ivan Bonfanti, Investor Relations Manager, who will ask questions received via e-mail.

Ivan Bonfanti:

Good morning, everyone. We have received a question from Catherine O'Brien. She would like to know more about the highest bracket of Income Tax – what the growth was and what we expect for the next year.

Marcos Pinheiro:

Hi, Catherine. Thank you for your question. This is Marcos. This variation is more expressive when you look at the 3Q, when the Company reported gains from the first income taxes resulting from Smiles and Webjet. That was an outlier and we are going back to the regular situation now, which you can see in the Company's results. It will be around 33% or 34%, approximately.

The effective benefit of Webjet's transactions will have more impact on the Company's cash flow than by the results. In the cash flow you will be able to see what the tax savings that the Company had were.

Ivan Bonfanti:

The next question is also from Catherine. She is asking if the Company has seen any increase in the demand for international tickets.

Marcos Pinheiro:

Hi, Catherine. I will answer again. This is something that we are very happy to consistently discuss. There is a demand for international tickets from our clients, and this is a major opportunity to develop our business further. This is why we are allocating resources for that part of our business to grow.

To be very straightforward, when we look at our business, it continues to grow consistently. Year-on-year, demands have been growing. This is due to market reasons. You might know this even better than I do. There are restricted capacities on companies operating in Brazil. This creates a scenario in which the demand for international flights and tickets was a bit higher.

As margins are maintained, we will charge more miles from our clients when they are redeeming premium tickets. So, yes, the prices did go up, but whenever we have price changes we also try to do it in a way that does not affect our demand curve. We try to do this not across the board, but as one-off.

Our main measurement, as we said before, is that our miles-redeemed margin will be kept around 40%.

Ivan Bonfanti:

Our last question, also from Catherine, is: she would like to know what is the purpose or what were the goals of hiring strategic controls.

Leonel Andrade:

Hi, Catherine. I can't go into detail. The Company turned five. When we started it in 2013 we had taken some specific strategic points – for example, international alliances, partnerships with banks – trying to have a robust international offering, many innovations with products, having a good relationship with the end client and our focus was never to go into retail.

During the first five years, we executed what we had intended to do and now we are just revisiting our strategic plan for the next five years. This five-year plan includes many different aspects, but what I can tell you is that we are reiterating that we are a company for travelers.

We will continue to focus on being a tourism and entertainment company in Brazil and even maybe abroad. This is our focus and this is what we are reiterating in our plan and there is a number of actions that I, obviously, cannot discuss right now. And I apologize, but it is a strategic plan. This is our focus.

Operator:

This concludes our Q&A session. We would now like to give the floor to Mr. Leonel Andrade for his closing remarks.

Leonel Andrade:

Thank you all. I would just like to give a message of optimism. The first major message is that we will continue to invest in growth. We do not want the Company to stop growing. We do not want the Company to mature. This is our main position. And I mean that we will continue focusing on growing our billings, recovering prices – and this has already taken places. We want to continue having the best margins on the market. We want to keep miles-redeemed margins around 40%.

We want to be closely-aligned with banks and I think this was the year in which we have been most aligned with banks. We have never been as aligned with banks as we are this year. We are going to continue launching products at the same pace – new initiatives. Everything that happened in 2017 will continue to happen this year – always ahead of competitors and always valuing our customer experience.

Our app is already representing about ¼ of flights booked. This is a record in this market. We will continue to give the Company priority in terms of channels. Finally, 124 employees in the entire Company. All our services are here, except for the call center. No services are being done outside the Company today. All our intelligence is in here, except for audits and call centers. Everything is in these 124 employees.

We have very high productivity and returns. In 2018 we are as prepared as we have ever been and this is an extremely promising year. I would like to thank you and make myself available to you if you need something. Thank you.



Operator:

This concludes Smiles' conference call. Thank you for your participation and have a good day.

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