

Josh Milberg, Morgan Stanley:

Good morning, everyone, and thank you very much for the opportunity to ask a question. My first question, I was just hoping you could give us more perspective on your gross billings performance in the period. What is going on with points pricing in the banking segment? As you highlighted, there was a significant improvement in the pricing per point issued, but one concern for us has been that that better pricing could be hurting your competitiveness with the banks. Could you address that? And also, touch on how do you see the gross billings performance in the 2H? That is my first question.

Roberto Medeiros:

Thanks for your questions, Josh. I will start with the price strategy. What we are not actively promoting transfers from the credit card holders to us giving extra bonus points, like most of our competitors are doing in the market.

Our strong belief is that our substantially larger airline network is good enough, and it has a premium, therefore the cardholder will not need an extra incentive in terms of extra bonus points to transfer their points to us.

With that, just by reducing the amount of promotions, we raise the average price for the banks. This is one thing.

We also raised for the same reason the prices for other partners, non-airline, non-financial institution, and also reducing eventually the amount of extra bonus points for them as well.

Did that address your question on the price?

Josh Milberg:

As much as you have this differential of this larger network vis-à-vis your competitors, in the quarter itself we saw a meaningful pressure in your points issued. Maybe you could just explain a little bit what drove some of the weaknesses there.

Roberto Medeiros:

I was going to address that. I just wanted to make sure that I had clearly covered the price portion of the question.

When it comes to the amount of points issued, the same effect happened here. When we deliberately decided to reduce the amount of extra bonus points, the amount of points issued has to be lower, and everything else, equal.

The second effect here is, with the substantial change in the FX, points coming from the banks, even though on a local currency expenditure basis, if we were not reducing the expenditures, the way the bank calculates the amount of points is to divide it by the FX in the date of your bill. With that, when you compare to 2Q17, when you had a total different effect, so you now have a lower pool of points.

That is the reason why you see the two points combined as the reduction, as I mentioned to you. So, less extra bonus points, and the FX.

Josh Milberg:

We were very much aware of those factors. Given those factors, do you think that the performance, the gross billing rate of decline that we saw in the 2Q is perhaps a fairly good indicator of what we could see in the 2H18?

Robert Medeiros:

Quite frankly, Josh, I will keep my fingers crossed, we think the FX effect is a little bit more under control. However, as you probably appreciated, the political factor in this country right now generates a lot of turbulence.

Again, our call is, number one, you will see more control of the FX effect, especially if the center-right candidate is more likely to win the elections; and the second effect is in terms of less extra bonus points to continue to happen. So, in terms of fewer number of points issued, I think you will probably be in between of where we were in 2Q and where we were in 1Q.

Josh Milberg:

OK. Thank you very much.

Alexandre Spada, Itaú BBA:

Hi, gentlemen. Good morning. Thank you for taking my questions. I have two, actually. The first one is, Multiplus did a good job in reducing the unit costs in the 1Q, but in the 2Q we saw a reversion in this trend, which puts some pressure in your margin. Can you, first, comment on the reasons for the hike in the unit costs? And what the Company expects to be the behavior of this line in the following quarters? Thank you.

Roberto Medeiros:

Thank you, Spada. First of all, as you appreciate, neither myself, nor my colleagues in the senior management of the Company are happy with this result, number one. So, as you will appreciate, we have our bonus and the forecast results substantially better than this.

With that, and with our compromise to continue to deliver better results, the number one reason why our cost jacked-up is the FX effect. With almost 54% of the airline tickets redeemed being international, and with that cost attached to the USD, that is the number one effect in terms of our costs going up.

This is one thing. And again, two reasons here: one is the mix of the redeemed points; as I said, 54% of the airline tickets were redeemed in international flights, and 46% in domestic flights. And, of course, the FX effect.

I do not know, Ronald, if you want to add any comment on this.

Ronald Domingues:

Yes, just a comment. And thank you, Spada, for raising this point, for having us to clarify that. In the 1Q, if you exclude the FX situation and the mix change between international and domestic flights, so just the unit cost of domestic and the unit cost

of international flights in USD, the unit cost reduction in the 1Q was 6%, and in the 2Q it was additional 4.5% versus the previous quarter. So, accumulated, 2Q versus 1Q, we have more than 10% reduction in unit cost for domestic and unit cost in international in USD.

But, as I mentioned in the beginning of the presentation, the mix change and the Forex exchange depreciation were bigger, and then more than compensated these joint efforts with LATAM.

In the future, we plan to stimulate members to pick a plane ahead of schedule, so we will work together with LATAM to keep lowering our unit cost, and then we have a favorable perspective.

Alexandre Spada:

OK. Very clear. Thank you. If you allow me a follow-up, this hike in the participation of the international tickets in a quarter of stronger USD was quite surprising. Can you comment on what you think are the reasons for this hike?

And the second point, it was also surprising to see the proportion of non-airline redemption falling from 18% to 14% this quarter. Can you also comment on what were the reasons behind this move? Thank you.

Roberto Medeiros:

I am sorry, I am not sure I understood the second part of the question. Are you talking about points accrued or points redeemed?

Alexandre Spada:

Redeemed, Roberto. I am sorry. The points redeemed in other products and services came down from 18% to 14%.

Roberto Medeiros:

In terms of points accrued, we actually jacked-up the percentage, and we are having more people accruing points on non-airline and non-financial sources. When it comes to redemption, it has been fluctuating around 15% to 18%, plus or minus 3 p.p. At this point, I do not remember what the exact number was, but 14% is not something unexpected to us.

However, I need to complete with one thing: in the 2Q we had a huge amount of international flights being redeemed. For the first time, we had Santiago ahead of Miami for the winter vacation in Brazil. That is the only reason why you are seeing roughly 14% in non-airline redemption.

Alexandre Spada:

And for the international, what explains the hike, even in a quarter of stronger USD?

Roberto Medeiros:

Again, consumption behavior in this country is for PHD. We were somewhat surprise in terms of the mix of 53.3% in international flights redemption. This is absolutely surprise for us, with the level of USD that we saw.

On the other hand, we are seeing a move, so people that would fly to Miami flew to Santiago instead, and maybe this is the reason. Maybe hotels and other things in Chile are less expensive than in Miami.

But it is still to be checked. We have not gone through our thorough analysis on that yet.

Alexandre Spada:

OK. That is very clear. Thank you.

Samuel Alves, BTG Pactual:

Good morning. The question is regarding free cash flow. If you could, please, elaborate more on the reasons for the cash burn that we saw this quarter, especially the negative effects on working capital. And finally, if you expect that those effects will normalize going forward. That is it. Thank you.

Ronald Domingues:

Thanks for the question, Samuel. In the cash flow, we have two items here. One is that at the end of the quarter we have some coincidence, it was a weekend, so we some account receivables that ended in the next quarter. Another important point is that we had anticipation from important banks in the 1Q, and now we are consuming this balance of points already purchased by some key banks in the 1Q.

Samuel Alves:

OK. Thank you.

Ricardo Ortega (question via webcast):

For the upcoming quarter going forward, does the Company has plans to adjust the FX rate to the point to prevent a potential impact going forward?

Roberto Medeiros:

Thanks for your question, Ricardo. Even though we do not disclose guidance for the future, our strategy has always been to be focused on our members, to deliver the best value for the points in the market. I think we have been very successful with that respect. We have always delivered the best and highest proceeds value on a per point basis, we believe that this is the right thing to do.

However, in order to protect the Company from the FX effect, we will need to reduce the amounts of promotion; actually, to continue to reduce the amount of promotions, so that, overall, our average price per point sold to our partners will end up being higher than it was before.

This is, in our perspective, the best way of delivering to our members the best value for their points, and the best way of still protect our partners from the FX effect.

Hopefully I answered your question.

Operator:

This concludes today's Q&A session. I would like to turn the conference back to the Company's management for the final remarks.

Roberto Medeiros:

I would like again to highlight the increase in our members base, as a consequence of our continuous strategy to invest in the growth of our loyalty program in the country and outside of Brazil, in countries where we are providing services right now, even in a very challenging macroeconomic environment as we are facing these days.

I would also want to highlight that we will continue to have dividend paid out on a quarterly basis. We are the only ones that are doing this at this point, with our appreciation to our shareholders.

This presentation shows also the continuous work to offer a better experience to our members, through various ways of accrual, in addition to continuously provide the best value for our members' points, with options of redemption to desired destinations, and also giving them the opportunity to redeem their points outside of the airlines industry.

I want to thank everyone again for attending this conference, and I wish you all a great day. Thank you.

Operator:

Thank you. This concludes today's presentation. You may disconnect your lines at this time. Have a nice day.

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