



Operator:

Good afternoon ladies and gentleman. At this time we would like to welcome everyone to Smiles 1Q13 results conference call. Today with us Mr. Leonel Andrade Chief Executive Officer and Mr. Flávio Vargas, Chief Financial Officer and Investor Relations Officer.

We would like to inform you that you will be on listen-only mode during the Company's presentation. After Smiles's remarks are completed there will be a question answer session. At that time further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator.

We have simultaneous webcast that may be accessed to the company's website at www.smiles.com.br/ir. The slide presentation may be downloaded from this website. Please feel free to flip through the slides during the conference call.

Before proceeding, let me mention that forward-looking statements are been made under the safe harbor of Securities Litigation Reform Act of 1996. Forward-looking statements are based on beliefs and assumptions of the Smiles management and on information currently available to the Company. They involve risks and uncertainties and assumptions, because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Smiles and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the floor over to Mr. Leonel Andrade, Smiles' Chief Executive Officer. Mr. Leonel you may begin your conference.

Leonel Andrade:

Thank you very much. Good afternoon, everyone. Thank you for join us for this presentation. We are very pleased to present our achievements during our 1Q as an independent Company.

The beginning of this year was very intense for us; the Company was extremely focused on concluding the IPO that took place at the end of April, a month ago. The offering was very successful and Smiles is currently a Company listed in the new market "Novo Mercado", in Portuguese, of São Paulo Stock Exchange, BM&FBovespa, which reflects its commitment to good governance.

With the offering, we raised over R\$1 billion, which will be fully allocated to the anticipated purchase of GOL Linhas Aéreas tickets, our partner. Our results in these first new months were also important. During this quarter, our gross billings was around R\$239 million, our net revenue amounted to R\$116 million and our net income stood at almost R\$30 million.

Let me highlight that our net margin was close to 26%, is a very good result. Our financial performance reflects the efficiency of our business model and our ability to deliver results to our shareholders. We are proud to have acquired more than one million awards to our nine million customers.

We are also working to expand our business partnerships and currently we already



have over 200 business partners in several industries, such as financial institutions, gas stations, cable TV operators, pharmacies etc. The quality of our program has been acknowledged, not only by the loyalty of our costumers but also by the world's most respected institution.

According to Wall Street Journal, Smiles remains among the top five best airline-related loyalty programs in the world. We are proud of having established new partnerships, such as the one we have with Petrobras Distribuidora, the leading gas station chain in Brazil, and others.

Today we have announced 3 news partners, the first one was Agaxtur, Agaxtur is a travel agency in Brazil, very strong travel agency; the second one was Ri Happy, which is a very strong toy store network; and the third one is Centauro, a very strong sport store network. Today we have over 200 partners, including the financial institutions and airline companies.

Now, I would like to open the floor to Flávio Vargas who will explain in more details our operating and financial performance and I am available to answer your questions after Flávio's speech. Thank you

Flávio Vargas:

Thank you, Leonel. Ladies and gentleman, good afternoon. For me it is also a pleasure to be here with you today to share these results and the great performance Smiles has presented

So, jumping now to slide seven, in this period Smiles totaled the gross billings of R\$239 million. That was a very solid result, which represents an almost 6% increase on a year over year basis. If we look more specifically in the financial partners, which also includes retail and other segments, our results were also very important.

Our gross billings in the segment amounted to R\$158 million, which represents 10.5% growth over the 4Q12. These expansions reflect our strong commitment to work very close with our financial partners as we develop the relationship, which, at the end of the day, reflects in our gross billings numbers.

When you we look into the number of miles that were issued to our customers, to our partners, these numbers were also very highly expected in the 1Q13. Over this quarter, we issued 10.8 billion miles, which represents a 14.9% growth rate over the last quarter of 2012.

When you compare on a year over year basis, the result was a likely drop, but, in fact, we have been able to manage and to maintain the same level of miles issued, even taking into consideration that the year of 2012 was extremely outlined.

In the 1Q12, GOL, using Smiles as a Frequent Flyer Program announced a change in their qualifying rules to become an elite member in FF Program. If we lower the bar for people to become either diamond or silver members, which reflected into a substantial number of customers who gained elite status, and we see this in a bonus miles, because they became either diamond or silver members.

So, when you compare on a year over year basis, the results were slightly distorted, but even taking that into consideration, we have been very successful to keep the



number of miles issued at a very reasonable level.

Jumping to slide eight, we are very proud that our customers redeemed more than 1.1 million awards in this quarter. These figures translate into a very strong growth of 30.5% when you compare to the last quarter of 2012.

However, when you do the comparison on a year by year basis, the same reason helps to explain why the growth rate was not substantial. The year of 2012 was very intense in terms of promotions, which led a very strong numbers of awards, which had been redeemed by our customers.

Our breakage rate in 2013 reached 17.5%, which is slightly lower than the figures we have demonstrated over the 4Q12. Our breakage rate reflects the high level of member engagement, boosted by our wide selections of products, such as Smiles & Money, which allows customers to make an online redemption using a mix of miles and cash; the sales of miles, which allows clients to complement the number of miles when they do redeem; the new product that we launched last month, which is the reactivation of expired miles which allows the client the possibility to renew, and to reactivate the expired miles.

And all those products represent a very strong portfolio that makes our products very appealing, but, naturally, they have a negative impact on the reduction of our breakage rate.

Jumping to slide nine, at the end of the day, we are very proud that we are presenting an extremely healthy financial result, with a net income totaling almost R\$30 million, with a net margin of 26%.

This result is comprised by R\$ 117 million in net revenues, and in this case Smiles & Money represents a substantial amount of our revenues, and have represented 47% of the total net revenue for the period.

The Smiles & Money products represent a strong driver of the Company to increase the customer engagement into a product which is also very solid from the financial perspective.

Our overall costs continue under control. The redemption costs totaled R\$ 56.2 million, and they are almost fully represented by airline tickets issued, which we bought from GOL and from our financial partners. Our operating expenses also remained under control, and amounted to almost R\$17 million.

Here it is important to point out that includes R\$3 million of expenses that occurred in connection with the IPO of the Company, which we do not expect to continue in the future. In short, we have been able to deliver a very healthy operating profit of R\$43.5 million with a gross margin of 37.3%.

So, this demonstrates the strong ability of the Company and the efficiency of the business model in terms of producing very healthy margins to our overall Company. In short, we are very happy to present R\$30 million net profit with a 26%. This result reflects the quality of our business model and a strong alignment of interest between Smiles e GOL, our main business partners.

Once again, I would like to thank you all for the attention. Now, I will leave the floor open to the questions. Thank you very much.



Bruno Tavares, Credit Suisse:

Hi, good afternoon everyone. Thank you for the call. I have basically one question. Looking at your 1Q results, it seems like, even though breakage rates were quite low at 17.5%, still will you were able to post quite a strong net margin relatively to your years. So, I sense that not only Smiles & Money was able to foster demand for your programs, but also it has a quite significant margin.

Could you explain a little bit more about the Smiles & Money product, so that we can understand what is the visibility we have for the 2013 in terms of fostering demands from that? Thank you.

Flávio Vargas:

Bruno, thank you very much. I think you have a very good question, because, at the end of the day, the overall results that we demonstrated this quarter really represent the power and the strength of this business model that we have developed for this conference. This business model has one key asset, which is the complete alignment between Smiles and GOL, which is our main financial partner.

So when you look at the overall results that we present this quarter, it is pretty much explained by the high and intense promotional activities that we have demonstrated this quarter, which, for the overall margins of the program, is very good for us, because not only it allows us to stimulate the demand, to increase the number of redemptions, to increase the number of miles issued, and to focus new plans for the financial partners, it will also provides us the ability to redeem miles and to generate margins at higher levels because the promotional tickets are less expensive to us than the traditional tickets we buy.

Smiles & Money is also very important for us to not only increase the assets of the products to the overall customer base, it is a great incentive, it is great to increase the engagement of the members into the program, but it is also very profitable for us, in terms of the overall margins that we are able to capture.

So, when you look at the Smiles & Money, you just view this one product that over the remaining of the year we are going to pay a very close attention to, because they are able to really stimulate the demands, to make the products more appealing.

But it is also important to manage our margin, especially because when you consider the Smiles & Money, which is a cyclical product that allows us to have a very good margin, to have very good revenues, when the promotional tickets are less intense, and when the yield for the airline is a little bit higher.

So, when you look at the mid and long term, they will probably be able to provide us a tool to make our margins more stable in the future.

Bruno Tavares:

Thank you.

Marcelo Cintra, Deutsche Bank:

Good afternoon. During the Portuguese conference call, you mentioned that the Company should maintain high focus on expenses and also on costs. I would like to



better understand the abilities of Smiles to sustain the ratio of costs per points under control in the following quarters.

If this is also related to Smiles & Money, if you can better manage the costs as well as using the product, or if we should expect a pickup in customer points in the following quarters. That is my first question. Thank you.

Flávio Vargas:

Marcelo, I think we have the full ability and autonomy to manage our margins and to manage our products. I think that this is a very strong asset that we have, with the empowerment of the economy to able to look at our overall portfolio of products, and price them very effectively.

So, that said, we have all the tools in our hands to manage what is going to be the average cost for points, for each particular redemption. So, we do not have any expectations in the future that the costs are going to increase, because we can manage that on a day-to-day basis, using not only using Smiles & Money as a tool, but also all the products offerings that we have.

We have Smiles, the Any Day product, the Smiles products, we have the new Smiles products. We are going to really invest in the optimization of the product offering, which, in our view, is going to allow us to provide a better experience to the overall clients and to have also, when you look into the Company's perspective, the ability to maintain the margins at very healthy levels.

Leonel Andrade:

Let me add just one thing. I think is important to take care of expenses, this is one of our priorities. If you look at our 1Q expenses, we have something like R\$3 million as consulting expenses related to the IPO, which we will not have in the future. On the other hand, we are investing in our commercial area.

We are going to hire some, around eight or nine new managers to the commercial area. But, at the end of the day, I think that we can maintain flat our expenses in our actual level, and it is important to mention that we do not need to invest to acquire new customers;

So, we are going to increase our number of customers, but at the end, just because we have good partnerships. We do not need to acquire new customers; we need to increase our penetration and to bring wallet share at the end.

I think the most important in terms of investment, in terms of marketing, in communications, is direct marketing, and our brand is going to increase according to the experience of the customer. So, I think we have conditions to maintain our level of expenses at the end.

Marcelo Cintra:

Thank you. Just a quick follow up, you mentioned that one of the focuses is to increase the share of wallets and also to continue to increase to expand the business. I would just like to better understand your view on gross billings growth, and also on the growth points issued, for the airline and also for the bank.



Flávio Vargas:

More important is the banks, because if you look at the Brazilian market, the credit card market remains growing by 3x or 4x the GDP, and the airlines, the air traffic is increasing around 2x the GDP. So, we have better perspectives in terms of banks to increase our gross billings.

Now we are closer to the banks, much more than in the past, and we are going to work with the banks to launch new products, and to increase the relationship with the customers. So, for the first time, we are in the banks every day. So, this is our priority.

On the other hand, the retailers represent a big opportunity for us. So, probably on the same rate we announced today three new retailers, we are going to have very good new partners in the next months. We have conditions to increase a lot in this segment, I have no doubt about that.

Marcelo Cintra:

That is very clear. Thank you.

Augusto, Morgan Stanley:

Good afternoon gentlemen. Discussing on your commercial partnerships, you said you established a lot of new partnerships. If you could comment on these partnerships, are these one year contracts or are they kind of month-to-month? Is there any exclusivity with these partners? If there is any more detail you can add to that. Thank you.

Flávio Vargas:

The new partners that we announced, we have these agreements in the exclusivity basis. I do not know if it is sustainable in the future, because I do believe that the customer experience will be the most important driver. But today we have these partners in the exclusivity basis, as well Multiplus as.

At the end, this is a very good opportunity for us, because, considering that Multiplus started three years ago, Multiplus closed the agreements, on the exclusivity basis and, at the end, in each segment there are lots of good opportunities.

If you think about gas stations, for example, when Multiplus closed the deal with Ipiranga, Shell and Petrobras Distribuidora, Petrobras BR, they remained out of the market. When we decided to close a deal with the gas station network, so we had the opportunity to decide between Shell and Petrobras, and we closed with Petrobras, because Petrobras is the largest, at the end, they have a very good loyalty program.

But, at the end, we have a good opportunity just because Multiplus closed the deal in exclusivity basis. I do not know if it is sustainable in the future, but probably the next agreement that we are going to close will remain the same.

Augusto:

Would you say there is any segment that you are not present in yet?

Flávio Vargas:

Yes. I think that we need to close a very good deal with electronics retailer, in



electronics and supermarkets. This is something we need to invest, but it is not easy, because the margin of the supermarkets is very tight, and cell phones, especially the cell phone companies. I think these are the priorities.

Augusto:

Thank you very much.

Operator:

This concludes the question and answer session. At this time, I would like to turn the floor back to Mr. Leonel Andrade for the close remarks.

Flávio Vargas:

Thank you very much for taking the time to be here with us for the 1Q results. In a nutshell, we are very enthusiastic about the results that we have demonstrated, almost R\$30 million net profit, that really demonstrates our commitment to deliver the best results that we can for the Company, for the shareholders, and demonstrating strength of the business model and the relationship that we have with our financial partners. So thank you all, and now I will pass to Leonel for his closing remarks.

Leonel Andrade:

Thank you very much. I think Flavio summarized it very well. I just would like to add that in terms of retailers, we are going to invest more and looking for new opportunities in terms of travel agencies. We announced Agaxtur, I think we have new opportunities in Brazil and we are going to invest in this segment more.

But I would like to reinforce that the control of our expenses is priority for us, taking care of your margin is our priority too, and we are becoming much closer to the banks, bringing new retailers and developing new products as well.

So, I think we remain optimistic, and, now, after the Company's IPO, we have structured the Company in terms of cost control, infrastructure, and now is the time to be in the market. We are going to invest and you have my personal commitment that we will be on the streets. We are going to be closer to the banks and investing in order to grow consistently and to preserve our margins in the future.

Thank you very much, and just one point, one additional point, we are available to have the one-on-one meetings with our most important customers. If you would like to invite the customers or your investors to have a one-on-one meeting with our CFO, with our team, our Investor Relations team, and myself, feel free to contact us anytime. Thank you very much.

Operator:

Thank you. This concludes today's Smiles 1Q13 results conference call. You may just disconnect your line at this time.