Operator:

Good afternoon ladies and gentleman. At this time we would like to welcome everyone to Smiles 2Q13 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:

Good afternoon, everyone, and welcome to Smiles 2Q earnings conference call.

I would like to start by making some comments with regard to our 1H performance. In the 2Q Smiles posted earnings of R$48 million for a net margin of roughly 43%. This is one of the highest net income margins among "asset light-type companies" in Brazil. We are very proud of that. The strong earnings also reflect a positive boost from net financial results which reached R$32 million in the quarter thanks to the decision to advance the sale of roughly R$1.5 billion worth of miles and invest the funds at very attractive rates.

Our strong financial performance with net income for the 1H of about R$80 million allowed us to anticipate a dividend payment to this year, rather than next year. We announced the payment of interest on shareholders equity and dividends in the amount of R$0.30 per share. This translates into a dividend yield of roughly 1.4% based on our IPO launch price and a payout of 47.3% of 1H net income.

Finally, the increase in the miles redeemed grew 20% year on year in the 2Q to 7 billion miles.

As you know, Smiles is a fairly new Company. It was spun off from GOL airlines and set up as a separate company in January of this year. In April 2013 the Company went public.

Smiles is a new concept in Brazil and we are investing a lot of time to develop the business and set up the foundation to run a successful and highly profitable Company.

We recently hired a new director to improve our relationship with financial partners. Financial partners are a key for our success, and due to that we have invested more, and now we have a head of financial institutions inside the company.

We are also developing a better customer experience platform, adding enhancements and CRM functionalities to our existing platform. Among the many initiatives that we are developing is a new customer segmentation strategy which will allow us to develop different marketing promotions to our customers.

We are also finalizing the selection of a new ad agency which will be responsible for our marketing and media initiatives. We plan to have a new ad campaign in the air by the middle of September. For the first time, since a long time ago, we are going to invest again in media.

Although Brazil is facing a somewhat challenging economic scenario in 2013, which included protests in the main cities of Brazil during the month of June, we think our business model is fairly resilient and it can continue to grow even if the economy decelerates further or does not grow at all next year.

In fact, accrual data from July and preliminary data from August show important reversal, with positive growth rates. Such performance can be explained by new commercial agreements developed with two of our key financial partners and which are generating very positive results. We have new programs in place with Bradesco and Banco do Brasil, and I can explain in details later, and we are working with all the banks, and in the next few weeks we are going to launch at least two new programs with two different banks.

Looking ahead, I would like to highlight that we continue to work very closely with our key partners and to increase the attractiveness of the program. In fact, we are working on new initiatives with Banco do Brasil and Bradesco, two of Brazil’s largest banks and important partners for Smiles. We are also working on three new initiatives with other three financial institutions.

Our relationship with our parent company – GOL airlines – remains consistent and our customers continue to benefit from new partnerships and alliances done by GOL to redeem international tickets.

Recently, GOL announced a new code sharing agreement with Alitalia, and we expect additional code sharing agreements ahead. Among the commercial partnerships closed during the quarter, I would like to highlight the one with Paypal, one of the largest payment systems companies in the world. New payment options including payment via Paypal will be available to our customers in the 2H13. In fact, our goal is to put in place Paypal’s availability in October.

With this agreement, for the first time in Brazil a local loyalty program will allow international redeem for their customers.

In summary, we continue to work and develop a very attractive value proposition to our customers. We offer more flexibility than our main competitor as evidenced by our Smiles and Money product, and our customers can redeem for flights almost a year out, so there has not been any changes in our redemption schedule for both domestic and international flights since the program was introduced.

We will continue to grow our business with healthy margins and remain committed with our business plan, so that we can deliver on what we promised the market at the time of the IPO.

I will now pass on to our CFO, Flavio, for additional comments on our financial performance and will be available to answer your questions during the Q&A session. Thank you very much. Flavio, please.

Flávio Vargas:

Thank you, Leonel, and thank you all for coming here today and have a very good afternoon. I am also very enthusiastic about the results that we have delivered over the 2Q13. Not only have we been able to deliver a very substantial net profit of almost R$49 million, but also we have been able to anticipate the process of paying out interests on own capital and dividends, which is also very important for our shareholders.

One of the most important highlights for the 2Q includes the increase in the margin of the Smiles products. That was leveraged on the bottom line by a financial income of R$30 million which was a result of the R$1.5 billion ticket that we acquired from GOL. So, starting from this quarter, we are accruing all the financial interest from the advance we made to GOL.

It is also important to explain in this quarter Smiles did not really fully benefit from the recent appreciation of the USD against the Real due to the transactions that we have implemented in the end of April concerning the advance sale of Smiles in the amount of R$400 million that we have done to three very important financial partner. But in short, the decision to anticipate points and invest the funds at extremely favorable rates more than compensates the fact that we are locked in the average price sold to banks at least until year end.

So, jumping to slide four we highlight the very high level of engagement that Smiles experienced over the 2Q. we are very proud to deliver almost 7 billion miles redeemed over the 2Q13, which represents a 19.3% year-on-year increase.

We are also very proud that we have been able to deliver almost 2 million redemptions over the 1H13.

On slide five, we highlight the evolution of our gross billing and miles accrual performance. We ended the 2Q with nearly 9 billion miles accrued. At the end of the 1H there was an 8% reduction year on year to 18 billion miles accrued. Our gross billings decreased by 9.4% year on year in the 2Q, at representing R$250 million. When we look at the coming quarters we see a more positive landscape than what we have experienced over the 1H13.

Jumping to slide six, we are also very proud in terms of the products we have developed and the innovation that we continuously put in place in the program. Just a couple of examples we would like to highlight are the reactivation of Smiles, which is an innovation in the Brazilian market, which allows our clients to reactive the miles that have been expired by paying a price around R$0.04 for each mile. So, it is very important for the engagement and for the perception of our overall clients (13:41).

And the second product that we would like to highlight is the sale of miles at a discount for the clients from our important partners. So, we have developed this strategy together with Banco do Brasil and Bradesco, creating value for the banks, creating value for our clients, and really developing a win-win situation for GOL, Smiles and for the financial partners.

We also have developed certain important partnerships with retailers that we closed during the quarter. During the quarter we had developed new partnerships, among which are some popular chains, such as Centauro, the largest sporting goods chain in Brazil, and Ri-Happy, one of the biggest toy chains in Brazil.

Jumping to slide seven, we would like to highlight the margin expansion of the different mileage products. Smiles & Money achieved greater margins in this quarter, compared to the previous quarter, where we reached 53% and 62% in this quarter. This evolution can be explained by the increase in the average price of the segment and the unit cost of the product. Our margin on what we call the traditional product, which are tickets issued with 100% miles, also grew to 35%, from 26% in the previous quarter as a result of greater volume of miles issued on a per ticket basis.

Jumping to slide eight, we would like to highlight our breakage evolution. It is important to point out that the way that we see breakage in the Company is not on an isolated basis, but we like to see the integration with the overall profitability, with the overall operational margin that we can achieve on the programs, which continue to be very interesting.

Our breakage rate dropped by 1.2% to 16.3% on a sequential basis. The breakage revenue has been performing in line with what we consider a reasonable level to maintain the attractiveness of the program. In this quarter, the breakage rate reduced 9 p.p. when compared on a year-over-year basis.

However, we think that the current level is within our long-term estimate for this line and within what we consider a healthy and adequate balance to guarantee the attractiveness of the program and the overall profitability. We see that this level could reach between 15% and 17%. In addition you can figure out in the slide how we are currently calculating the breakage revenue, which is based on the history of the program as demonstrated in the slide.

Moving to slide nine, we present a very good reconciliation of the net income. We start from our overall revenue lines, and deducting all the sales, by reaching a R$48.3 million net profit, which represents a very healthy margin of 43.7%.

Slide ten shows our operating cash flow on a pro forma basis, adjusting for the IPO proceeds and the advanced sale of miles to the banks. When we adjusted for R$1.4 billion of IPO plus the R$400 million from the sale of Smiles, we reached a positive cash flow of R$139 million for the quarter, which we consider to be very healthy and very interesting.

So, in short, thank you very much for everyone's participation, and I would now like to move to the question and answer session. Thank you.

Bruno Savaris, of Credit Suisse:

Thank you very much for the conference call. I have just a follow up on the conference call in Portuguese. When you mention that you are strategically getting closer to the financial partners, which type of strategy are you aiming to implement in order to really improve our growth, our levels in terms of accrual of miles etc? That is basically it, thank you.

Leonel Andrade:

Thank you for your question. Of course that we need to preserve some banking initiatives and there are some products coming that I cannot talk about, right? I am sorry. But in general, considering that we have very good flexibility in terms of programs based on our contact with the airline company, we are offering to the banks the possibility to customize our products for them.

For example in the case of Banco do Brasil, we launched a product that Banco do Brazil offers one voucher to their customers. When Banco do Brasil customers send out their miles, immediately they receive a voucher with a very special price to the consumers. The customers of Banco do Brasil can buy miles with a very special price, of course that it is higher than the price we sell to Banco do Brasil, but considering as a consumer, a very special price.

In that case we have a profit share with Banco do Brasil, which means that we increase our margin and Banco do Brasil has an additional revenue in that transaction. Banco do Brasil reduced to the minimum to Smiles, to transfer Smiles for us, and they put the Smiles program as the priority, the official, the best program they have in the bank.

This is just an example. In the case of Bradesco, for example, we launched a different product. Bradesco has been focused Smiles for the high, upscale segment, and they put a bonus or one incentive for the customer that sends out more the 5,000 miles. These are just some examples.

We are working with different banks in order to launch different programs and customized products. I hope that I have explained to you well and that the same time I need to preserve the new initiatives. I have talked about the case of Banco do Brasil and Bradesco because now it is public.

Bruno Savaris:

Very clear. Thank you very much.

Leonel Andrade:

Thank you. It is important to mention that now we have one special, one director just for the financial institutions and we are very close to them. Every week we a special committee with the top five banks in Brazil. Thank you.

Bruno Savaris:

Thank you.

Eduardo Couto, Morgan Stanley:

Good morning. Congratulations on the results. I have two questions, if I may. The first one is regarding the margins. You had strong margins in the 2Q, I think pretty much you did a good job on the cost per mile, if I am not wrong, raising the miles per redemption, the amount of miles per redemption. I am just wondering, I just want to know if you are going to keep this focus on margin going forward, if that is the idea. That is the first question.

Leonel Andrade:

Thank you very much for posing a question and participating on the English conference call. And I think, you know we have explored certain issues in the Brazilian conference and you know, in our view, this is the problem: we have a very resilient business, and we have all the leverage to operate and to keep our margins at very healthy levels.

On the other side what we recognize is that we have surpassed these margins in the 1Q and in the 2Q13. They can be explained partially by, you know, by our ability, you know, to manage the problem, to manage the pricing, partially for the seasonality of the airline business which we go hand in hand.

But what we see, the trend for the future is that the margin and the operating margin could stabilize at slightly lower levels probably more around the operating margins around mid-30s, which in our view continues to be very consistent and very attractive margins that we can potentially keep as we look into the future. So in short, I think the margins look great but we see definitely see some room for the margin to stabile at slightly lower levels and that we are committing to do.

Eduardo Couto:

Ok, so it is clear, Flávio. And just a second question on the gross billing. I think it was down around 2% year on year the 1H. Can we expect a stronger gross billing in the 2H, and maybe to think about gross billing for the full year to be flat or even slightly up versus last year. How do you see the trend for the back end of the year?

Flávio Vargas:

What we are seeing in terms of the gross billing, from what we have been experiencing in July and how August is behaving, we definitely see a much better a year-over-year growth than what we have demonstrated in the 2Q.

So, in short we are more optimistic. When we compare the year numbers for the 3Q and the 3Q comparing to the same period of 2012 we are going to see a much more healthy growth than what we have experienced in the 1H.

Leonel Andrade:

Leonel, just to add one thing, we recognize that in the 2Q our performance was not good in terma of accrual, but remember that we put our focus on the IPO, which happened at the end of April, and created the foundations of the Company, so now I think we are much more prepared to compete, and the initial numbers from July and August reflect our competition. I think that for the rest of the year we are going to have good news.

Of course remember that our goal is to reach the fair market share in four years, but no doubt about our priority in terms of accrual. And on top of the creation of the financial institution director or area, we have now a different area in the Company which is responsible for the customer experience – quality service and customer experience – and this is working since two weeks ago in the Company.

I think that we have three priorities in order to increase our accruals: the final customer, is the first one; the second is the bank; the third is the airline companies. We have a special focus on the international partners. So, putting it together, I think we have conditions to grow better than the competitors in the rest of the year.

Eduardo Couto:

It is clearer now, because in your view and the view of the Company, the better gross billing in the second half would come from this better relationship that you are establishing with the banks, that is more or less the idea, because you know we have seen some news, and you mention Banco do Brasil and Bradesco with the banks clearly pushing more migration to Smiles than your competitor, so, I would say, that is the main reason for the better performance on the gross billing going forward. Is it correct?

Leonel Andrade:

For sure, for sure. This is the priority. As I mentioned in the IPO, we were preparing the Company for that, and the program with Banco do Brasil and Bradesco reflects this action. So, thank you for your comment, but for sure it is our priority and I think that we are going to deliver a better performance from the bank.

Eduardo Couto:

OK, congratulations again.

Alex Spada, Itaú;

Congratulations on the results, I hope you can hear me well. I am having some problems with the quality of the call.

My question is related to breakage. You mentioned in the Portuguese conference call that 15% is a number to have in mind as a longer term trend for breakage. My question is: is this 15% the bottom of the range, which you think is a good number to have in mind, or is that the mid of this range? Thank you.

Flávio Vargas:

Alex, we expect that our breakage can reach 15%. For the following years, potentially we can see breakage…

I will try to answer to the group and then if you do not follow, our team will follow up to discuss further. But our view is that potentially breakage can reach 15% by the end of the year, and I reinforce what I have mentioned, that our view in terms of when we look at the overall product and the overall vision of the program, we are not looking on breakage on a stand-alone basis, because we know that due to the characteristics of our program and the kind of product that we have, you know, such as Smiles and Money, if we say Smiles, the breakage rate for Smiles should be lower than what the competitors have because we do not have the same level of engagement.

So, our commitment is that, you know, breakage, not only breakage, but the operating margin should be kept at very high levels. By the year breakage could reach 15%, and the longer term view potentially can be at a slightly lower level, but we do not see a lot of room for breakage to go much lower than 15%.

Mario Pierre, Deutsche Bank:

Good afternoon and congratulations on the results. I also have two questions. The first one is I would like you to give us some color on how do you view the competitive environment, because in the same way that you are creating a stronger relationship with the banks, how difficult would it be for your main competitor to also reach out to the banks of a similar program?

Also related to the banks, if you could discuss a little bit the impact of a stronger USD. If we continue to see the USD strengthening, could this have a negative impact on your overall forecast for the year?

And then my other question is related to Smiles and Money. We saw a sharp drop in the redemptions with Smiles and Money. Was this a part of your strategy or how should we look at this line going forward? Thank you.

Leonel Andrade:

Thank you for your question. The first question was about the competitiveness ,and I think that the environment will get more and more challenging, and because of that we need to be very close to the financial institutions. I do not see the banks as a competitor, I see the banks as a partner. They need to increase their customer lineup and we can help them a lot. At the same time, we need to be more and more flexible, and we need to work with them in order to increase the progress. They are not trying to destroy us, they are trying to increase their margins and we can help them in that case.

Of course, I do not like to talk about the competitors. I respect a lot specially Multiplus. Multiplus is the largest company in Brazil, and of course they are very good and I respect them a lot. I do not know if they have conditions to be closer or not, to increase their progress or not. To be honest, I respect them, but we are focusing on our problems, and our relationship. I hope that we can increase and perform better in the future objectives.

Flávio, will you help me and will answer your second and third question. Thank you.

Flávio Vargas:

Thank you very much for the participation and for the very steady questions. In terms of the second question, when you ask about what is the impact of the new USD foreign exchange levels and what it represents to the company, we are hearing two different talks.

In the first part which is on what is the unitary price of the Smiles which is sold to the financial partners, we expect to see only a partial increase in the number of quality.

As you probably can recall, the transactions we had done with the financial partners in April, the 400 million in advance have pretty much fixed the foreign exchange at a level around R$2 per USD. So, as the USD goes up or goes down, we do not see any change on the unitary price on the miles sold to banks, and they know we continue supporting, so we can see an increase in the unitary price of the miles sold, and also a positive effect on the margins at the prices, the cost for the tickets for 2013 are safe.

On the following question, what is going to be the impact in terms of the gross billing from the banks, as the foreign exchange goes from R$2 to R$2.20, R$2.30. And the answer here is that as far as the gross billing is concerned, there should not be on in terms of Reais. There should be an impact, but the way you see what is going to be a fact in the number of miles that can be transferred from the bank to the loyalty programs.

And we can probably expect to see a slight decrease. As the foreign exchange go up the number of points generally in the banks environment are lower, and that can potentially have an effect on the potential number of miles that are transferred to the loyalty companies.

For 2013 we do not expect anything very special, probably keep up between 3% and 5%. That could be a very reasonable estimate on what could be the net impact for the loyalty companies.

Formatado: Sem sublinhado

And then the third question, you asked about Smiles and Money, and the number of redemptions we have been demonstrating in the 2Q. And here it is important to see that the Smiles and Money pretty much share the seasonal impact that selling tickets have in the airline world. So, historically the 2Q is the weakest period for the airlines in Brazil, and we see that in terms of the numbers of redemptions and we definitely see in the number of Smiles and Money redemptions that we have observed in this quarter.

But it is also important to point out that Smiles and Money is also very atypical, because we have had fewer redemptions, but on the flip side we have been able to have a higher resource of tickets where we bought the tickets at economic cost, which allowed us to have a more sizable margin. So, that all shows how the product is, and the effect they can have in our overall operating margin.

Mario Pierre:

Ok, very clear. Thank you.

Operator:

As for the questions, this concludes the question and answer session. At this time I would like to turn the floor back to the Mr. Leonel Andrade for his closing remarks.

Leonel Andrade:

Thank you much. I am very proud of my team, especially about our results, but it is important to mention that we are not satisfied. I think that there are a lot of things to do, and we need to work a lot in order to deliver our strategic plan.

And on the other hand, of course I can reinforce that we are going to remain a very flexible company, launching new products, innovating and in the same way that we launched the redemption of expired miles and vouchers in the banks, in the next weeks and months we will have conditions to create new products and programs with the banks.

At the same time the costs control is our big priority for us. We have a very small company in terms of employees and we are going to remain in the same size. In the next quarter we are going to invest in marketing. We are controlling the costs but investing in marketing, which is good. For the first time in many years, Smiles will be in the media again.

And we have three priorities. The first one is aimed at the customers: the customer experience, the quality, the quality service. The second is to be more and more close with the banks, working for them. And the third is to build an expression that works in the airlines company, special offerings, especially in the international partners.

So, if we deliver the three priorities until the end of the year, I have no doubt that we will be able to start 2014 in a better position, and we are going to do that. So, we are not satisfied and we will remain working a lot. Thank you for your support, for the support from the shareholders and customers, and thank you for everything. Bye-bye.

Operator:

Thank you. This concludes today's Smiles 2Q13 Results conference call. You may disconnect your lines at this time.