

**Operator:**

Good afternoon, ladies and gentlemen. At this time, we would like to welcome everyone to Smiles 3Q13 results conference call. Today with us we have Mr. Leonel Andrade, Chief Executive Officer and Mr. Flavio Vargas, Chief Financial and Investor Relations Officer.

We would like to inform you that you will be in a listen-only mode during the company's presentation. After Smiles' remarks are completed, there will be a question-and-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 through the company's website, [www.smiles.com.br/ir](http://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 being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Smiles' management and on information currently available to the company. They involve risks, 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 such forward-looking statements. Please note the conference is being recorded.

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

**Leonel Dias de Andrade Neto:**

Hi, everyone. Good morning, this is Leonel Andrade. Thanks for coming for our conference and we are very proud to present to all of you the results of this quarter and -- in this period we had solid results, we had record net profit of R\$63 million, one of the highest net margin in the market with 40.4% in the margins and we had a growth of 30% compared with the 2Q. Our net revenue was almost R\$160 million, growing by 37% comparing with the 2Q.

We have some very important points, the most important was the partnership with the key banks. Now we have special programs with Banco do Brasil, Bradesco, Caixa Economica, Santander, Itaú, Daycoval, HSBC – the most important retail banks in Brazil, which represents together something like 95% of the market share in our country.

It's important to mention that we had the contract renewal with Banco Itaú, now for three years, we've signed this new contract in this period.

And now Smiles is back on the media. We launched the marketing campaign which is very good, considering that, in the last three or four years, Smiles wasn't investing in marketing campaign.

One of the most important, I would like to highlight that we had a consistent accrual of

Smiles, and double digit growth, we considered our strategy with the financial partners and, at the same time, our attractiveness remains growing.

If you look to the number of our redemptions, we can affirm that we are well aligned with the airlines companies and we are growing by 30% year-over-year, considering just the redemption. I think that it reflects our gross billings and our accrued miles GOL was 28% just considering the partnership with partners, like bank and retailers.

And we launched a new product called Clube Smiles in Portuguese, a Smiles Club, which is the very special program. We are very enthusiastic that now we have a very good product to our end customers.

With this Club, the customers can pay R\$30 per month through their credit cards, and they receive one thousand miles every month, and in addition to that, they have access to the promotion, Smile promotions, in advance, and they receive a progressive bonus and points that they transfer from the bank after six and after twelve months as a member of the club.

I think that it is a very innovative product to the Brazilian market and we are confident that we are going to succeed on that product. At the same time, we have announced a new acquisition. For the first time, Smiles acquired a company. We announced that now we have 25% of Netpoints. Netpoints is a very special company, a loyalty program with the focus just on retailers.

They have had two years in the market, with a very consistent growth. Netpoints has 3.5 million customers and they just started the operation two years ago. So, we are confident that this is the best way in order to be very well-positioned in the retailer segment.

It was very good because we can avoid distraction in Smiles, we remaine with our focus in banks and airlines companies, and with Netpoints, we can compete against competitors in the retailer side.

I think we had a very, very good quarter, very special results, and we are confident that we can remain in the same path in the future. Of course we need to work a lot and we need to do our homework and remain with our focus on the most important segment and the financial company.

So, now Flavio Vargas, the CFO of the Company, Flavio will explain the financials and the numbers. Flavio, please?

**Flavio Jardim Vargas:**

Thank you, Leonel and good morning everyone. For me it is also a pleasure to be here today and to share with you our comments on the 3Q performance. The 3Q results were marked by substantial increase in terms of accrual and redemptions, which positively affected our net revenue growth.

The Company posted a record net profit of R\$63 million, a growth representing around 30.5% quarter over quarter. Net revenues was R\$156 million in this 3Q. We also demonstrated substantial increase in our net financial income, as a result of our decision to anticipate the airline tickets back in April. This increase partially

compensated the higher costs which were impacting this period.

Jumping to slide eight, which covers the marginal evolution for the different products that Smile is operating. Our margin on what we call traditional products, rewards issued with 100% miles was in line with the first two quarters of the year. Despite the Smiles & Money margin decrease, which came from 61.5% to 38.9% on the 3Q, the product remains highly profitable.

The increase in Smiles & Money costs was due to the growth in the number of tickets issued, and also growth in the unit cost. So, the increase reflects mainly the mix between standard and commercial tickets, which was partially compensated by the increase in the unit revenues for those tickets.

Moving now to slide number nine, I would like to comment on our breakage. We ended this quarter with a breakage of 15.2% for the last 12 months, which is consistent with the increase of attractiveness of the program, in terms of redemption growth.

It is also consistent with our goal to maintain a good balance between the profitability and the practices of the program. The breakage rate is calculated based on the program historical data and the calculation for the breakage income for this period is demonstrated on this slide.

Now moving to slide number 10, we present the composition of the company's net income. We achieved on this quarter a net revenue of R\$156 million, there is a strong growth on the mileage redemption and in Smiles & Money revenue, which represented R\$97 million and R\$60 million respectively.

The operational expenses remained in control this quarter and totaled R\$170 million, leading to an operational result of R\$38.8 million with a margin of 24.9%.

We also reported solid financial results of R\$47.5 million, mainly due to the advanced purchase of tickets from GOL. We also had the benefit for the tax, in this figure here, of the interest of capital paid last quarter, totaling R\$6.2 million. As a result, we reached a net income of R\$63 million with a margin of 40.4%.

On slide 11, we present our operational cash flow. We generated a cash flow of R\$133 million this quarter. If we do not consider the effect of the advanced purchase of tickets, and the advanced sale of margins, CAPEX and income taxes, our cash flow would have been R\$120 million. Note that our CAPEX is very low, very in line with our asset light business.

Well, this concludes our results presentation for this quarter. We thank you very much for the attention. We would now like to open the floor for the Q&A session. Thank you.

**Ricardo Alves, Morgan Stanley:**

Hello, everyone. Thanks for the call. Just had a quick question on Smiles & Money margins this quarter. It was obviously down from the 2Q and the reason seems to be the higher cost per ticket, as you highlighted before. I just wanted more color on this and how much did that this unitary cost increase even a quarter-over-quarter basis.

I guess you also previously mentioned that the commercial fairs increase versus

standard, so that maybe one of the reasons, but it is interesting to maybe see what drove this mix change and how do you see the mix going forward. Just so we have a better sense of on margins going forward. Thank you so much.

**Flavio Jardim Vargas:**

Ricardo, thank you very much for the question. Just before we jumped to this Smiles & Money, just stepping back and trying to look at the big picture, the margins for the 3Q definitely lower than what we had experienced in the 2Q13. If you remember the last call, we mentioned that the 2Q was very extraordinary with very good result that we did not expect to have those margins prevailing over the long term.

The same stage, when we look at the 3Q results, it is also our expectation that the long-term margins should be above what we have demonstrated on the 3Q.

There, going back to more specific to your question is Smiles & Money, the unitary cost of Smiles & Money was mainly affected due to the higher mix on the commercial fairs, and the commercial fairs tend to have a higher unitary price and that affected the results for the quarter.

If you look at the traditional products, the 100% miles products, the unitary cost was affected by the two variables: one, we also had an additional share on the commercial ticket, but here also we had an impact on selling more tickets on the long-haul flights, which we have a lower margin on the transaction.

Overall, the higher unitary cost was caused by a change in mix, either coming from standard ticket to commercial ticket or for even retaining the transitional ticket having a higher mix on the longer-haul flights where we have higher cost.

Our view, in turn, for the overall margin, for the program, is that they should move to an around 40% level, and we consistently believe Smiles & Money structurally should have a higher margin than the average.

**Ricardo Alves:**

That is very clear. Thanks so much.

**Augusto Ensiki, Morgan Stanley:**

Hi, just a follow-up to Smiles & Money. Is it affected by the legacy miles that are still existing? If there is a portion of the miles that were redeemed that are Gol miles, does that increase your unit cost for Smiles & Money?

**Flavio Jardim Vargas:**

The way that usually works, the answer is yes, as we have a higher number of shares. The legacy miles becomes less representative in terms of the redemption. We have a higher cost for the ticket, but, overall, the effect on the unitary price of the ticket is much more relevant on the traditional tickets than on Smiles & Money.

**Augusto Ensiki:**

Understood. The second question regarding the breakage. If we can consider breakage a measure of engagement in the program, is there a level where you can go back to your commercial partners and the bank partners and maybe negotiate a higher price per mile?

**Flavio Jardim Vargas:**

That is a very hard question to say, because, at the end of the day, the breakage rate coming from the financial partners are already at a lower level than the average. So, probably the answer is that it is still very hard, because the way that the program is structure and the way that the breakage that we realize from the miles coming from the financial partners, I do not see a lot of room to see that happening in the short term.

**Leonel Dias de Andrade Neto:**

Let me just add some comments. With the banks, we had the good news that, at this moment, we have a contract with Bradesco, Banco do Brasil and Itaú, you know, the three largest banks in Brazil, there is contract for now for the next three years, with the three banks. So, we are only talking about price or conditions again in 2016.

But it is good because we have established conditions based in USD for the three years over the next three years. At the same time, you know that the pressure from the banks are still high, and it is not easy to increase the price. I think that we do not have space to increase the price with the banks. But, at this moment, we do not have pressure to reduce, considering that we have a very stable relationship with them.

**Augusto Ensiki:**

Understood. Thank you.

**Alexandre Spada, Itaú BBA:**

Hi, gentlemen, good afternoon. My question relates to Clube Smiles, just wondering how many members you already have in the first weeks of ramp-up of this initiative. And also, could you provide us any numbers on how many members you expect to have in the short run, let us say, until the end of 2014? Thank you.

**Flavio Jardim Vargas:**

Thank you for the question. We all are here at the Company are very enthusiastic about the Smiles Club, because we definitely believe that the product has a very good appeal for the whole spectrum of the Smiles population. It has appeal for the high-end users because we benefit from the bonus and the transfers and it also has appeal to the less backward affluent people, which now can afford to buy miles at very attractive levels.

But, for us, to give some guidance in terms of what are our expectations, it is still, in our view, too early. We are definitely having, at least in our view, positive results, but we are still in testing mode. We are trying to see what is the real message that we have to send across to make the sales come true.

So, at this time, we are not providing any guidance on what the Smiles Club numbers can reach, but definitely we have a very optimistic view for the product.

**Alexandre Spada:**

OK. So, that means you have not yet started to massively advertise these initiatives?

**Flavio Jardim Vargas:**

We are currently working much more inside our own swimming pool, using more direct players. For example, we did marketing campaign, and the marketing campaign was much more for the Smiles brand than targeted for a specific product. So right now we are much more on the testing mode and trying to see what works inside our own pool.

**Alexandre Spada:**

OK, very clear. Thank you.

**Augusto Ensiki, Morgan Stanley:**

Hi, thank you for taking the follow-up. Just a question on Netpoints, today you mentioned that there is going to be an exchange of points between the two programs. Is it going to be one to one or does Netpoints have a different method of accumulating points that would then translate to a different ratio when converting to Smiles?

**Flavio Jardim Vargas:**

Augusto, thank you. Definitely, when we entered into the agreement to acquire minority stake at Netpoints, we shared the strategic view that we should work at some point in time on a conversion between the two programs.

However, the discussion with Netpoints, they are still pending the approval from the Brazilian authorities. So, we have not entered into any formal agreement on how this operation or agreement should be.

Definitely, we are trying to see what is the best agreement for the two parties, to have a one to one conversion is a possibility, but we have not closed what is going to be the final answer on these questions yet.

**Augusto Ensiki:**

Understood. Thank you.

**Operator:**

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

**Leonel Dias de Andrade Neto:**

I would like to say thank you very much for all of you, specially to our team and to our board members. We have all the support that we need in order to deliver our promises,

and in order to maintain our focus on our customers and on our growth. I am confident that we can deliver, in the future, we can continue growing and, at the same time, we can sustain a good margin to our shareholders.

So, I think that we are in the right way and we have, at this moment, on the strategic plan, a consistent strategic plan, and, at the same time, we are going to try to launch new products in the future, innovating the marketing, at the same time, working very closely with the Brazilian banks, increasing our customer experience. Thank you very much, and we are very proud to be part of Smiles at this moment. Thank you. Thanks a lot.

**Operator:**

Thank you. This concludes today's Smiles' 3Q 2013 results conference call. You may disconnect your lines at this time.

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