

# 2Q13 Earnings Release



**São Paulo, August 9, 2013** – **Smiles S.A.** (BM&FBOVESPA: **SMLE3**) announces today its results for 2Q13. The financial and operating information herein refer to the individual and consolidated results of Smiles S.A. and is presented in accordance with IFRS and in Brazilian Reais (R\$).

## Smiles S.A.

Bovespa: SMLE3 - Novo  
Mercado  
Quotation: R\$24.40  
Number of shares: 122,173,912  
Market value: R\$3.0 bn  
Closing price: Aug 7<sup>th</sup>, 2013

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[www.smiles.com.br/ri](http://www.smiles.com.br/ri)

## 2Q13 Conference Calls

August 12, 2013

### Portuguese:

11:00 AM (Brasília)  
10:00 AM (US EDT)  
Phone: +55 (11) 3728-5971  
Password: Smiles  
Replay: +55 (11) 3127-4999  
Password: 14464551

### English:

1:00 PM (Brasília)  
12:00 PM (US EDT)  
Phone: +1-412-317-6776  
Password: Smiles  
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Password: 10031983

## CONTACTS

### Flavio Vargas

Chief Financial and  
Investor Relations Officer

### Marcos Pinheiro

Treasury Director

### Renata Oliva

### Bruno Fregonezi

Investor Relations

## Net profit totals R\$48.3 million in 2Q13, 61.9% up on 1Q13

### Highlights of the Period

- ✓ **Net profit of R\$48.3 million (margin of 42.7%)**  
Solid growth of 61.9% over 1Q13
- ✓ **Dividend/Interest on equity of R\$37.1 mn (R\$0.30 per share)**  
Payout ratio of 47.5% in 1H13
- ✓ **Increase in the direct product margins**  
Margin of 61.5% for Smiles & Money and of 34.7% for products in miles
- ✓ **Net revenue of R\$113.2 million**  
Reduction of 2.9% over 1Q13
- ✓ **7.0 billion miles redeemed**  
Increase of 19.3% versus 2Q12 and reduction of 6.1% over 1Q13
- ✓ **Breakage rate of 16.3%**  
Reduction of 9.3 p.p. over 2Q12 and of 1.2 p.p. over 1Q13

The second quarter of 2013 was marked by an increase in the gross margin of the Smiles products and by the beginning of the recognition of the financial result from the advance ticket purchase of R\$1.5 bn, which resulted in a financial revenue of R\$29.8 mn in 2Q13. The recent appreciation of the U.S. dollar did not impact our unit price for most of the miles issued for financial institutions, thanks to the advance mileage sales of R\$400 mn recorded in April. The decision to anticipate sales and invest the proceeds at an adequate interest rate offset the unit price drag.

Highlights	Units	2Q13	1Q13	2Q12	2Q13 vs. 1Q13 (%)	2Q13 vs. 2Q12 (%)
Miles Accumulated	billions	8.7	9.2	9.2 <sup>1</sup>	(5.4%)	(6.0%)
Miles Redemption (Program)	billions	7.0	7.4	5.8	(6.1%)	19.3%
Gross Billings <sup>2</sup>	R\$ millions	215.7	239.2	238.2	(9.8%)	(9.4%)
Net Revenues	R\$ millions	113.2	116.6	-	(2.9%)	-
Net Revenues (ex breakage)	R\$ millions	98.7	93.8	-	5.2%	-
Operational profit	R\$ millions	41.6	43.5	-	(4.3%)	-
<i>Operacional margin</i>	%	36.8%	37.3%	-	(0.5) p.p.	-
<i>Oper. mar. (ex breakage)</i>	%	27.5%	22.0%	-	5.5 p.p.	-
Net Profit	R\$ millions	48.3	29.8	-	61.9%	-
<i>Net margin</i>	%	42.7%	25.6%	-	17.1 p.p.	-

1. The 2012 accumulated figures reflect the program's accumulated mileage before the spin-off. Redemption figures include accumulated mileage before the Program spin-off in 2013, including legacy miles.
2. Gross revenue is not an accounting measure. It corresponds to the total revenue from mileage sales and the cash portion of Smiles & Money, gross of taxes. These revenues may have affected the current period or will be recognized as revenue in future periods, depending on the date of redemption by the members of the program.



## Message from Management

The Smiles Program presented a significant growth in the number of redeemed miles compared with the second quarter of the previous year<sup>1</sup>, with high profitability for shareholders and strong attractiveness for clients. In May 2013, Smiles was recognized as one of the world's five best airline loyalty programs for the third consecutive year, being the only Latin American program in the ranking<sup>2</sup> and coming first this year.

With the aim of bringing the company closer to the clients and strengthening our commercial relationships with financial institutions, we developed new mileage purchase products, which grants discounts of more than 40% to clients in relation to the price available on the website when they choose to transfer credit card mileage to Smiles. In addition to generating value to clients, the new product enables savings for the banks and profitability for the company.

In May 2013, our partner Gol implemented a codeshare agreement on Delta flights from Brasília to Atlanta, further increasing the attractiveness of the Smiles program and coverage for our clients, as well as new opportunities to accumulate Gol and Delta miles. Gol also filed a request to operate codeshare flights with Alitalia, a closer step to sharing the mileage program, both in terms of accrual and redemption of miles.

We also announced a partnership with PayPal, worldwide leader in online payments, to offer new redemption alternatives to our clients. The project is in the phase of implementation and will be available to our clients in the second half of 2013.

With the aim of improving Smiles' corporate governance practices while preserving the interests of our minority shareholders, the company's Bylaws was amended by the Extraordinary Shareholders' Meeting of June 10, 2013, to include a mechanism to approve the transactions involving Gol through a committee composed of independent members.

In the quarter, Mr. Ricardo Constantino and Mr. Martín Escobari have been elected to the Board of Directors. Mr. Ricardo Constantino is a business administrator and the managing director of the Comporte Group since 1994. Mr. Martín Escobari is an economist and the managing director of General Atlantic Participações Ltda, Brazilian subsidiary of one of the largest private equity funds in the world. The Company would like to welcome the new Board members, who will share their experience and know-how as part of Smiles' Administration.

We would like to emphasize Management's commitment to maintaining the program's profitability. In financial terms, the quarter presented an important improvement with the investment of the proceeds from the IPO, generating a significantly higher net margin than in the first quarter.

<sup>1</sup> Redemption figures reflect the Smiles Program's figures, including legacy miles

<sup>2</sup> Ranking available on the [WSJ](#) website

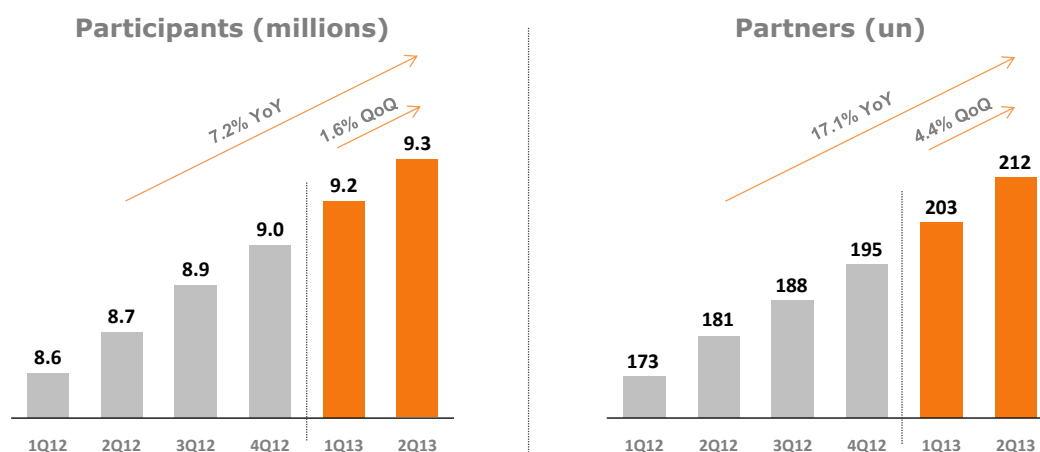
## Comments on Performance

### Operating Performance

Operational Data <sup>1</sup>	Units	2Q13	1Q13	2Q12	2Q13 vs. 1Q13 (%)	2Q13 vs. 2Q12 (%)
<b>Participants</b>	thousands	<b>9,333</b>	<b>9,185</b>	<b>8,710</b>	<b>1.6%</b>	<b>7.2%</b>
<b>Partnerships</b>	units	<b>212</b>	<b>203</b>	<b>181</b>	<b>4.4%</b>	<b>17.1%</b>
<b>Miles Accumulated<sup>2</sup></b>	mn	<b>8,681</b>	<b>9,181</b>	<b>9,237</b>	<b>(5.4%)</b>	<b>(6.0%)</b>
Gol	mn	2,232	1,864	2,545	19.8%	(12.3%)
Banks, Retail e Services	mn	6,448	7,317	6,692	(11.9%)	(3.6%)
<b>Miles Redemption (Program)</b>	mn	<b>6,955</b>	<b>7,407</b>	<b>5,830</b>	<b>(6.1%)</b>	<b>19.3%</b>
Legacy Miles (Gol)	mn	4,008	5,282	5,830	(24.1%)	(31.2%)
New Miles (Smiles S.A.)	mn	2,947	2,125	0	38.7%	-
<b>Breakage Rate</b>	%	<b>16.26%</b>	<b>17.48%</b>	<b>25.58%</b>	<b>(1.2 p.p.)</b>	<b>(9.3 p.p.)</b>
<b>% Legacy Miles</b>	%	<b>57.63%</b>	<b>71.31%</b>	<b>100.00%</b>	<b>(13.7 p.p.)</b>	<b>(42.4 p.p.)</b>
<b>% New Miles</b>	%	<b>42.37%</b>	<b>28.69%</b>	<b>0.00%</b>	<b>13.7 p.p.</b>	<b>42.4 p.p.</b>

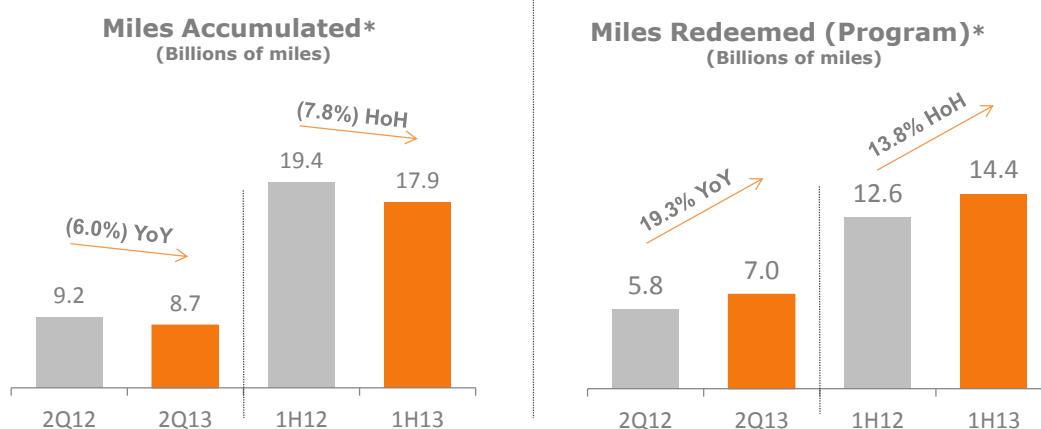
<sup>1</sup> All amounts corresponding to miles are net of refund effects

<sup>2</sup> Accumulation of miles for 2Q12 refers to the Smiles Program, while from 1Q13 on it refers to Smiles S.A.



**Members:** The number of members of the Smiles Program grew by 1.6% in 2Q13 over the prior quarter and by 7.2% over 2Q12, reflecting the increase in the penetration of the loyalty program in the market as well as the Company's commitment to making the program more attractive by establishing new partnerships and offering new products.

**Partnerships:** In 2Q13, we entered into 9 new partnerships, totaling 212. The new agreements and partnerships entered into in the period include Centauro, RiHappy and Cybelar.



\* Numbers in the graphic reflect the accumulation of miles/redemption of miles net of reimbursement effects

**Accumulated Miles:** A total of 6.4 billion miles were accumulated through our banking, retail, industry and services partners in 2Q13, 3.6% less than in the same period last year. For comparison purposes, the second half of 2013 is expected to be more favorable than the first half. A total of 2.2 billion miles have been accumulated through Gol Linhas Aéreas in 2Q13, 12.3% lower than in 2Q12.

We would like to highlight the change in the accumulation rules of Gol Linhas Aéreas as of January 2013, to award points to its clients based on the passenger's origin-destination distance, as opposed to the previous rule of distance travelled, considering connections. It is worth noting that this change is aligned with the rules adopted in the most attractive mileage programs from traditional airlines worldwide.

**Miles Redemption:** The number of redeemed miles presented a significant growth of 19.3%, from 5.8 billion in 2Q12 to 7.0 billion in 2Q13, while declining by 6.1% over 1Q13, due to seasonal effects.

The focus on the program's attractiveness in the first half through the high availability and dynamic pricing resulted in a substantial growth in mileage redemption compared with the same period last year.

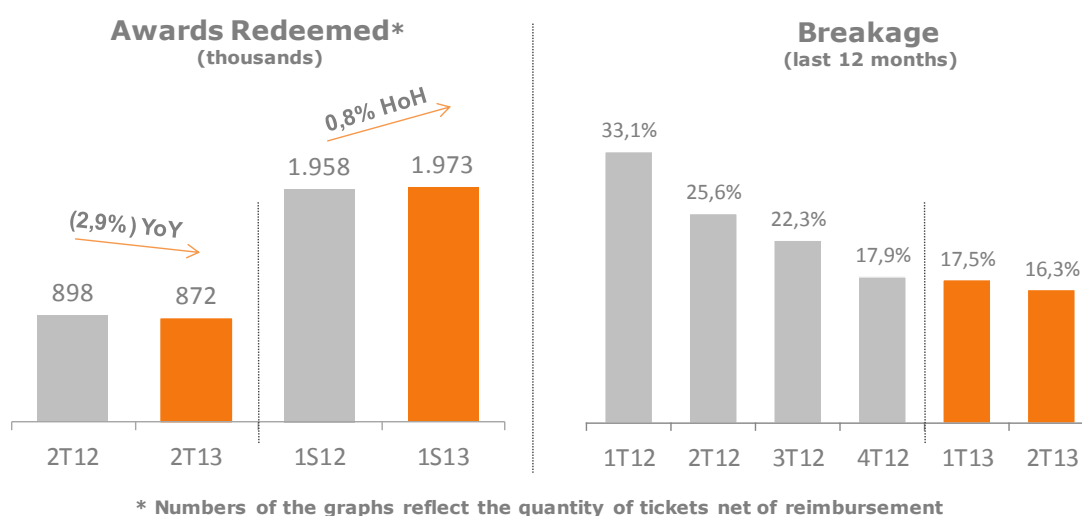
Additionally, the percentage of redemptions of accumulated mileage after the program's spin-off increased from 28.69% in 1Q13 to 42.37% in 2Q13.

Operational Data <sup>1</sup>	Units	2Q13	1Q13	2Q12
<b>Miles Redemption of the program <sup>2</sup></b>	mn	<b>6,955</b>	<b>7,407</b>	<b>(6.1%)</b>
Smiles & Money	mn	253	287	(12.0%)
Traditional (100% Miles)	mn	6,702	7,120	(5.9%)
<b>Amount of Products Awarded</b>	thousands	<b>872</b>	<b>1,101</b>	<b>(20.8%)</b>
Smiles & Money	thousands	150	202	(25.7%)
Traditional (100% Miles)	thousands	722	899	(19.7%)
<b>Average Miles per Product</b>	miles	<b>7,976</b>	<b>6,729</b>	<b>18.5%</b>
Smiles & Money	miles	1,681	1,420	18.4%
Traditional (100% Miles)	miles	9,287	7,923	17.2%

<sup>1</sup> All amounts corresponding to miles are net of refund effects

<sup>2</sup> The mileage redemption amounts represent the redemptions related to the new and legacy miles

**Number of awards and Average Miles per award:** The total number of redeemed awards fell by 20.8% in relation to 1Q13, reflecting the reduction of 25.7% in Smiles & Money redemption and of 19.7% in the redemption of traditional products.



The average number of traditional redemption miles (100% miles) grew by 17.2% over 1Q13. The average number of Smiles & Money redemption miles also increased by a significant 18.4% compared with 1Q13.

**Breakage:** The Breakage rate fell by 1.2 p.p. in relation to the prior quarter, in line with the Company's objective of maintaining the program attractive and healthy. The company aims to maintain the Breakage rate at levels similar to that recorded this quarter, at around 15% to 18. The estimated breakage rate is calculated based on the history of the program, applied on the balance of accumulated mileage not yet redeemed or expired.

## Financial Performance

Summary Financial Information	Units	2Q13	1Q13	2Q12	2Q13 vs. 1Q13 (%)	2Q13 vs. 2Q12 (%)
<b>Gross Billings</b> <sup>1,2</sup>	R\$ mi	<b>215.7</b>	<b>239.2</b>	<b>238.2</b>	<b>(9.8%)</b>	<b>(9.4%)</b>
Gol (miles + management fee)	R\$ mi	31.3	26.1	33.6	20.1%	(6.8%)
Partners ex-Gol	R\$ mi	140.6	157.9	150.3	(10.9%)	(6.4%)
Smiles & Money	R\$ mi	43.8	55.2	54.3	(20.7%)	(19.4%)
<b>Net Revenues</b>	R\$ mi	<b>113.2</b>	<b>116.6</b>	-	<b>(2.9%)</b>	-
<b>Net Revenues (ex Breakage)</b>	R\$ mi	<b>98.7</b>	<b>93.8</b>	-	<b>5.2%</b>	-
<b>Gross Profit</b>	R\$ mi	<b>59.1</b>	<b>60.4</b>	-	<b>(2.1%)</b>	-
<i>Gross Margin</i>	%	52.21%	51.78%	-	0.4 p.p.	-
<b>Operational Profit</b>	R\$ mi	<b>41.6</b>	<b>43.5</b>	-	<b>(4.3%)</b>	-
<i>Gross Margin</i>	%	36.77%	37.28%	-	(0.5) p.p.	-
<b>Net Income</b>	R\$ mi	<b>48.3</b>	<b>29.8</b>	-	<b>61.9%</b>	-
<i>Net Margin</i>	%	42.66%	25.57%	-	17.1 p.p.	-

**Gross Billings:** The reduction of 10.9% in billings from miles with ex-Gol partners compared with the prior quarter is due to the 11.9% decline in the number of miles issued in the period, which was marginally offset by a 1.1% increase in the average price. This slight variation in the average price despite the positive effect from foreign exchange variation of 6.2%<sup>3</sup> in the period reflects the discount granted to three financial institutions in advance mileage sales. Advance mileage sales represented 53.2% of total billings from mileage sales with ex-Gol partners in 2Q13.

It is important to note that advanced payment of miles were not directly recognized as billings, which only occurs as clients request the transfer of points to the Smiles Program.

As provided for in our policy to promote the program, approximately 111.4 mn of the miles accumulated in 2Q13 and 127.1 mn of the miles accumulated in 1Q13 were granted as bonus miles to the clients and were recognized as selling expenses in the period.

1. Gross billings are not an accounting measure. It corresponds to the total revenue from mileage sale and the cash portion from Smiles & Money, gross of taxes. These billings may have affected the current period or will be recognized as revenue in future periods, depending on the date of redemption by the members of the program.

2. For the 2012 periods, pro-forma billings reflect the estimated amounts that would have been billed to GOL, in compliance with the ticket and miles purchase agreement.

3. Variation in the Ptax sale for the closing of the months in the periods mentioned.

Billings from mileage sales to Gol climbed 19.8% over 1Q13, reflecting the higher volume. However, the unit price for Gol remained unchanged in the quarter.

Billings from Smiles & Money declined in 2Q13 compared with 1Q13, due to the 25.7% reduction in the number of issues, which was offset by the 6.7% increase in the cash portion. The growth in the unit part reflects the combination of the 10.6% growth in Gol's average prices in this category, which was offset by the increase in fare discounts through the mileage portion.

Revenue (R\$ millions)	2Q13	1Q13	Δ (%)
<b>Gross Revenues</b>	<b>124.9</b>	<b>128.6</b>	<b>(2.9%)</b>
Miles Redemption Revenue	63.3	46.8	35.3%
Money Revenue	43.8	55.2	(20.7%)
Breakage Revenue	16.0	25.2	(36.5%)
Other Revenues	1.8	1.5	25.8%
Revenue Tax	(11.6)	(12.0)	(2.7%)
<b>Net Revenues</b>	<b>113.2</b>	<b>116.6</b>	<b>(2.9%)</b>
<b>Net Revenues (ex Breakage)</b>	<b>98.7</b>	<b>93.8</b>	<b>5.2%</b>

The Smiles revenue is mainly composed by: 1. mileage miles redemption revenue, 2. from Smiles & Money revenue and 3. Breakage revenue. The first is recognized as the miles are redeemed, at the average price of the mileage balance in deferred revenue. The second corresponds to the cash portion of Smiles & Money and is also recognized upon redemption. Breakage is recognized according to an estimate of the miles to expire and those already expired.

**Revenue from Mileage Redemption:** Gross revenue from miles redemption climbed 35.3% compared with 1Q13, reflecting the combination of the 38.7% increase in the number of miles redeemed (accumulated in Smiles S.A.) and the reduction of 2.4% in the average price (mainly due to the effect from the mix between miles originated from Gol and from Partners). The higher share of new miles contributed to the solid increase in revenue from mileage redemption compared with 1Q13, with a consequent reduction in the number of old miles in the program's redemption breakdown.

**Money Revenue:** As explained earlier, the "Money" portion of Smiles & Money is due to the reduction in the number of issues in the period and the unit increase in the Money portion. Note that this result is not deferred under liabilities, as it represents the complementary portion in cash of mileage redemption.

**Breakage Revenue:** This revenue was calculated based on the information provided for in the table below:

Calculus	Summary (R\$ million)	1Q13	2Q13
<b>A</b>	<b>Begin of Period</b>	-	<b>143,9</b>
<b>B</b>	Accumulation	190,7	172,3
<b>C</b>	Redemption	46,8	63,3
<b>D</b>	Expiration	0,0	0,0
<b>E = A + B - C - D</b>	<b>End of Period</b>	<b>143,9</b>	<b>252,9</b>
<b>F</b>	Rate	17,5%	16,3%
<b>G = E * F</b>	<b>Breakage Balance (SF * Rate)</b>	<b>25,2</b>	<b>41,2</b>
<b>H(t) = G(t) - G (t-1)</b>	Variation - P&L	25,2	16,0
<b>I = D + H(t)</b>	<b>Breakage Revenue (gross)</b>	<b>25,2</b>	<b>16,0</b>

The reduction of 36.5% in breakage revenue in 2Q13 versus 1Q13 is due to the decline of 24.3% in the mileage balance and the 16.1% due to the drop in the breakage rate.

The accumulated mileage presented in the table above comprises revenue of R\$ 170.1 million from Gol (ex-program management fee), R\$ 2.5 million of bonus miles (recognized as selling expenses) and the effect from the R\$ 0.3 million billing period effect.

Operational Costs (R\$ million)	2Q13	1Q13	Δ (%)
<b>Cost of Redemptions</b>	<b>(54.1)</b>	<b>(56.2)</b>	<b>(3.8%)</b>
Ticket Purchase	(51.8)	(54.4)	(4.8%)
Classical Gol (100% miles)	(34.1)	(28.4)	20.1%
Smiles&Money	(16.1)	(24.5)	(34.2%)
Partners ex-Gol	(1.6)	(1.5)	5.4%
Product Purchase	(0.4)	(0.2)	69.5%
Other Costs	(1.9)	(1.6)	19.0%

**Direct Margin by Product:** this margin includes the allocation of net miles redemption revenue by the miles proportion between Smiles & Money and Traditional Products, the direct allocation of the Money Revenue and the respective redemption costs. Note that other revenues, costs and expenses have not been specifically allocated to the products.



2T13 (Margin per product)	100% miles products	Smiles & Money	Non-allocated	Total
<b>Gross Revenue</b>	<b>61.0</b>	<b>46.1</b>	<b>17.8</b>	<b>124.9</b>
Miles Redemption Revenue	61.0	2.3	-	63.3
Money Revenue	-	43.8	-	43.8
Breakage Revenue	-	-	16.0	16.0
Other Revenues	-	-	1.8	1.8
(-) Revenue taxes	(5.6)	(4.3)	(1.7)	(11.6)
<b>(=) Net Revenue</b>	<b>55.3</b>	<b>41.8</b>	<b>16.1</b>	<b>113.2</b>
(-) Direct Costs	(36.1)	(16.1)	-	(52.2)
(-) Non allocated Costs	-	-	(1.9)	(1.9)
<b>(=) Gross Margin</b>	<b>19.2</b>	<b>25.7</b>	<b>14.2</b>	<b>59.1</b>
Gross Margin	34.7%	61.5%	n/a	52.2%

1T13 (Margin per product)	100% miles products	Smiles & Money	Non-allocated	Total
<b>Gross Revenue</b>	<b>45,0</b>	<b>57,0</b>	<b>26,6</b>	<b>128,6</b>
Miles Redemption Revenue	45,0	1,8	-	46,8
Money Revenue	-	55,2	-	55,2
Breakage Revenue	-	-	25,2	25,2
Other Revenues	-	-	1,5	1,5
(-) Revenue taxes	(4,2)	(5,3)	(2,5)	(12,0)
<b>(=) Net Revenue</b>	<b>40,8</b>	<b>51,8</b>	<b>24,1</b>	<b>116,6</b>
(-) Direct Costs	(30,2)	(24,5)	-	(54,7)
(-) Non allocated Costs	-	-	(1,6)	(1,6)
<b>(=) Gross Margin</b>	<b>10,6</b>	<b>27,3</b>	<b>22,5</b>	<b>60,4</b>
Gross Margin	26,1%	52,7%	n/a	51,8%

**100% mile products:** Total costs with traditional products increased by 20.1% in relation to 1Q13, is mostly explained by the share of new miles in total redemption volume. The cost per ticket to share of the new Smiles' miles (Smiles + Gol cost) remained virtually stable, growing by 1% over the prior quarter.

**Smiles & Money:** The reduction of 34.2% in the Smiles & Money cost over 1Q13 is primarily due to the decrease of 11.9% in the cost per ticket (Smiles + Gol), the 0.4 p.p. increase in the share of the Smiles costs (90.3% in 2Q13 and 89.9% in 1Q13) and the reduction of 25.7% in the number of tickets issued, the latter being offset by the focus on traditional products.

**Operating Expenses:** Operating expenses fell by 3.3% in 2Q13 over 1Q13, reflecting the 33.0% growth in selling expenses and the reduction of 32.3% in administrative expenses. The increase in selling expenses was led by R\$1.9 mn in personnel expenses, related to the new hirings and the restructuring of the commercial structure. Commercial and advertising expenses moved up by R\$1.4 mn. Administrative expenses decreased by 32.3%, mainly due to the reduction in costs with consultancy services.

Operational Expenses (R\$ million)	2Q13	1Q13	Δ (%)
<b>Operational Expenses</b>	<b>(17.5)</b>	<b>(16.9)</b>	<b>3.3%</b>
Selling Expenses	(12.3)	(9.2)	33.0%
Administrative Expenses	(5.2)	(7.7)	(32.3%)

**Other Revenues and Expenses:**

Other Revenues and Expenses (R\$ million)	2Q13	1Q13	Δ (%)
<b>Other Revenues and Expenses</b>	<b>6.7</b>	<b>(13.7)</b>	<b>(148.8%)</b>
Financial Results	32.0	1.8	n/a
Income Taxes	(25.3)	(15.4)	63.9%

**Financial Income:** In May 2013, Smiles reallocated the proceeds from the anticipated mileage sales and from the IPO, in the total amount of R\$1.5 billion, to the anticipated purchase of GOL tickets. The transaction was pre-fixed 12.5% p.a., reflecting the spread equivalent to the anticipated mileage sales and the future CDI rate for the estimated average period of the anticipation balance (18 months). As a result, the financial result amounted to R\$32.0 million in 2Q13, significantly higher than in the prior quarter.

**Income Tax and Social Contribution:** Expenses with income tax reflects mainly the quarterly operating income and the solid financial result.

**Net Income:** The maintenance of the Company's solid operating result, combined with a strong financial result, resulted in a net income of R\$48.3 million, approximately 62% higher than in 1Q13 (net margin of 42.7%).

**Distribution of Dividends:** The Company announces the distribution of dividends worth R\$37.1 million, in line with its asset light business model, which requires low capital to continue growing. Smiles' dividend yield was 1.4% over the IPO price, with a payout of 47.5%.

## Income Statement

Income Statement (R\$ thousands)	2Q13	1Q13	Δ (%)	Δ (Abs)
<b>Gross Revenues</b>	<b>124.9</b>	<b>128.6</b>	<b>(2.9%)</b>	<b>(3.7)</b>
Miles Redemption Revenue	63.3	46.8	35.3%	16.5
Money Revenue	43.8	55.2	(20.7%)	(11.4)
Breakage Revenue	16.0	25.2	(36.5%)	(9.2)
Other Revenues	1.8	1.5	25.8%	0.4
Revenue Taxes	(11.6)	(12.0)	(2.7%)	0.3
<b>Net Revenue</b>	<b>113.2</b>	<b>116.6</b>	<b>(2.9%)</b>	<b>(3.4)</b>
<b>Cost of Redemptions</b>	<b>(54.1)</b>	<b>(56.2)</b>	<b>(3.8%)</b>	<b>2.1</b>
Ticket Purchase	(51.8)	(54.4)	(4.8%)	2.6
Classical Tickets	34.1	28.4	20.1%	5.7
Smiles&Money	16.1	24.5	(34.2%)	(8.4)
Patners ex-Gol	1.6	1.5	5.4%	0.1
Product Purchase	(0.4)	(0.2)	69.5%	(0.2)
Other Costs	(1.9)	(1.6)	19.0%	(0.3)
<b>Gross Profit</b>	<b>59.1</b>	<b>60.4</b>	<b>(2.1%)</b>	<b>(1.3)</b>
<i>Gross margin</i>	<b>52.2%</b>	<b>51.8%</b>	<b>0.4 p.p.</b>	<b>0.0</b>
<b>Operational expenses</b>	<b>(17.5)</b>	<b>(16.9)</b>	<b>3.3%</b>	<b>(0.6)</b>
Selling Expenses	(12.3)	(9.2)	33.0%	(3.0)
Administrative Expenses	(5.2)	(7.7)	(32.3%)	2.5
<b>Operational Profit</b>	<b>41.6</b>	<b>43.5</b>	<b>(4.3%)</b>	<b>(1.9)</b>
<i>Operational margin</i>	36.8%	37.3%	(0.5 p.p.)	(0.0)
<b>Other Revenues and Expenses</b>	<b>6.7</b>	<b>(13.7)</b>	<b>n/a</b>	<b>20.3</b>
Financial Results	32.0	1.8	n/a	30.2
Income Taxes	(25.3)	(15.4)	63.9%	(9.9)
<b>Net Income</b>	<b>48.3</b>	<b>29.8</b>	<b>61.9%</b>	<b>18.5</b>
<i>Net margin</i>	42.7%	25.6%	17.1 p.p.	0.2

## Balance Sheet

Balance Sheet (R\$ thousands)	2Q13	1Q13	Δ (%)	Δ (Abs)
<b>Assets</b>	<b>1,797.4</b>	<b>227.4</b>	<b>690.5%</b>	<b>1570.0</b>
Current	719.3	225.7	218.7%	493.6
Cash and Cash Equivalents	99.2	73.5	34.9%	25.7
Financial Investments	99.4	-	n/a	99.4
Accounts Receivable	33.4	75.7	(55.8%)	(42.3)
Advance Payment to suppliers	422.8	35.4	n/a	387.3
Deferred Taxes	13.9	0.7	n/a	13.2
Prepaid expenses	2.7	0.9	208.7%	1.8
Credit with Related Companies	46.4	39.2	18.2%	7.1
Other Credits and Amounts	1.5	0.2	506.1%	1.3
Non-Current	1,078.1	1.7	n/a	1076.4
Deferred Taxes	3.5	1.5	133.4%	2.0
Advanced Payment to suppliers	1,074.0	-	n/a	1074.0
Fixed Assets	0.6	0.2	268.2%	0.4
<b>Liabilities</b>	<b>1,797.4</b>	<b>227.4</b>	<b>690.5%</b>	<b>1570.0</b>
Current	424.1	109.0	289.2%	315.1
Accounts Payable	19.1	11.2	70.4%	7.9
Labor Liabilities	3.9	2.2	74.1%	1.7
Tax Payable	9.4	8.4	11.9%	1.0
Advanced Payment from Customers	325.6	56.8	472.9%	268.7
Deferred Revenue	66.1	30.3	118.1%	35.8
Non-Current	198.2	88.4	124.1%	109.8
Advanced Payment from Customers	52.5	-	n/a	52.5
Provisions	0.0	-	n/a	0.0
Deferred Revenue	145.7	88.4	64.7%	57.2
Equity	1,175.1	30.0	n/a	1145.1
Capital Stock	1,132.2	0.0	n/a	1132.2
(-) Cost of Stock issuance	(36.2)	-	n/a	(36.2)
Stock based compensation payment	1.0	0.1	588.2%	0.8
Earnings Accrual	78.1	29.8	162.0%	48.3

## Operating Cash Flow (ex prepayments)

Adjusted cash flow (R\$ thousands)	2Q13	1Q13	Δ (%)	Δ (Abs)
<b>Net cash flow from operating activities</b>	<b>(970.4)</b>	<b>73.7</b>	<b>n/a</b>	<b>n/a</b>
Advanced Payment to suppliers	1,431.3	(56.4)	n/a	n/a
Advanced Payment from Customers	(321.3)	35.0	n/a	n/a
(-) Capex	(0.4)	(0.2)	180.3%	(0.3)
<b>Adjusted Operating Cash Flow</b>	<b>139.2</b>	<b>52.1</b>	<b>167.0%</b>	<b>87.0</b>

## Cash Flow Statement

Cash Flow Statement (R\$ thousands)	2Q13	1Q13	Δ (%)	Δ (Abs)
<b>Net Profit</b>	<b>48.3</b>	<b>29.8</b>	<b>62.0%</b>	<b>18.5</b>
Stock-based compensation	0.8	0.1	488.2%	0.7
Deferred taxes	16.6	(1.5)	(1195.0%)	18.2
Provisions for risks and costs - Litigation	0.0	-	n/a	0.0
Depreciation and Amortization	0.0	-	n/a	0.0
Obtained Discounts	(29.3)	-	n/a	(29.3)
Exchange Rate Variations, net	0.2	-	n/a	0.2
Provision for Doubtful Accounts	0.4	-	n/a	0.4
Accounts Receivable	41.9	(75.7)	(155.3%)	117.6
Advanced Payment to suppliers	(1,431.3)	56.4	(2639.4%)	(1487.6)
Prepaid Expenses	(1.8)	(0.8)	127.0%	(1.0)
Taxes Recoverable	(13.2)	(0.7)	n/a	(12.6)
Other credits	(1.2)	(0.2)	405.7%	(1.0)
Accounts Payable	7.7	11.1	(30.8%)	(3.4)
Labor Liabilities	1.7	2.2	(25.9%)	(0.6)
Advanced Payment from Customers	321.3	(35.0)	(1018.4%)	356.3
Deferred Revenue	93.1	118.8	(21.6%)	(25.7)
Taxes Payable	(10.5)	19.9	(153.0%)	(30.4)
Credit with related companies	(7.1)	(39.2)	(81.8%)	32.1
<b>Cash flow from operating activities</b>	<b>(962.5)</b>	<b>85.2</b>	<b>(1229.6%)</b>	<b>(1047.7)</b>
Income tax and social contributions paid	(7.9)	(11.5)	(31.9%)	3.7
<b>Net cash flow from operating activities</b>	<b>(970.4)</b>	<b>73.7</b>	<b>(1417.2%)</b>	<b>(1044.1)</b>
Purchase of fixed assets	(0.4)	(0.2)	180.3%	(0.3)
Financial investments	(99.4)	-	n/a	(99.4)
<b>Net cash flow from operating activities</b>	<b>(99.9)</b>	<b>(0.2)</b>	<b>n/a</b>	<b>(99.7)</b>
Capital Stock	1.132.2	-	n/a	1132.2
(-) Cost of Stock issuance	(36.2)	-	n/a	(36.2)
<b>Net cash flow used in investment activities</b>	<b>1,096.0</b>	<b>-</b>	<b>n/a</b>	<b>1096.0</b>
<b>Net increase in cash and cash equivalents</b>	<b>25.7</b>	<b>73.5</b>	<b>(65.1%)</b>	<b>(47.8)</b>
Cash and cash equiv. at beginning of period	73.5	-	n/a	73.5
<b>Cash and cash equivalents at end of period</b>	<b>99.2</b>	<b>73.5</b>	<b>34.9%</b>	<b>25.7</b>

## Business Model

Smiles began its operations as an individual loyalty program, but evolved into the current model, becoming a model of coalition with some unique features which allow the accumulation and redemption of Miles on flights with Gol and its international partner airlines, as well as in the principal Brazilian commercial banks, including co-branded cards issued by Bradesco and Banco do Brasil, and a wide network of retail partners. The current model works by (i) the accumulation of Miles by the Member on buying airline tickets from Gol or other partner airlines, or products and services from the business and financial partners that acquire these Miles from Smiles as a form of encouraging customer loyalty, and (ii) the redemption of Awards by the Member when exchanging their Miles for airline tickets from Gol and other partner airlines or for products and services from business and financial Partners.

The company's main sources of revenue are (i) the spread between revenue from Miles issued and their redemption cost, represented by tickets and awards in its network of airline, business and financial partners, (ii) interest income arising from the difference between the dates of accumulation and redemption of Miles, and (iii) breakage revenue if the Miles issued expire without being redeemed.

## Glossary

**Breakage** - Miles expired and not redeemed; it may be expressed as the number of miles, the amount in Reais or as a percentage of miles issued, as appropriate to the context.

**Burn / earn ratio** - The ratio between the number of redeemed and accumulated miles in a given period.

**Miles** - The redemption rights of Members in the Smiles Program sold to Business Partners.

**Award Tickets** - Airline tickets delivered to the Member as a result of redeeming Miles.

**Awards** - Products or services delivered to a Member by a business partner as a result of the Member redeeming Miles acquired in customer loyalty programs.

**Award Products** - Products or services other than airline tickets delivered to a Member by a business partner as a result of the Member redeeming Miles acquired in customer loyalty programs.

**Payout** - percentage of net profits obtained by the company distributed to shareholders through dividends and interest on capital

**Smiles Program** - A multi-loyalty program for several companies, including Gol Linhas Aéreas Inteligentes S.A.

**Smiles & Money** - A way of issuing airline tickets by which it is possible to combine money and miles.

**Smiles Shopping** - A way of using Miles to acquire products instead of tickets. Miles can be redeemed for products and services in various segments, such as portable appliances, cameras and camcorders, tools and garden products, books, gift cards, DVDs and Blu-ray, electronics, housewares, bed, bath and table linen, products for automobiles, furniture and decorations, baby products, toys, home appliances, mobile phones and telephones, health and beauty products, computer products, stationery, sports and leisure, as well as fashion and accessories.

**Spin-off** - corporate separation of the Smiles Program into Smiles S.A., which took place on January 1, 2013.

**Yield** - Index created to measure the profitability of dividends/interest on capital of a company related to the price of its stocks