

# **Interim Financial Information**

## **Smiles S.A.**

For the quarter ended June 30, 2014  
with Report on Review of Interim Financial  
Information

## **Smiles S.A.**

### Individual interim financial information

June 30, 2014

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## Message from Management

In this quarter, we remained focused on the relationship with our financial partners through mutual value creation and enhancement of our customer experience. The effects of our strategy first became apparent through the 25.2% increase in ex-Gol miles accrual over 2Q13, reaching 8.1 billion miles in 2Q14.

In May, we launched our new e-commerce platform, offering more than 500,000 products for redemption, on a website that centralizes the virtual stores of Smiles, Magazine Luiza and Walmart, in addition to magazine subscriptions, event tickets and miles transfer to Netpoints. Non-airline redemptions increased 60.0% over 1Q14, reaching 1.9% of total redemptions.

In 2Q14, the accrual and redemption of miles on flights by Aerolíneas Argentinas was implemented, and we also announced the new frequent flyer program partnership<sup>1</sup> with TAP, one of the leading airlines in Europe, with the highest number of seats between Brazil and the European continent. These new partnerships, along with the already established alliances, bring Smiles more attractiveness and destination options. In 2Q14 we reached 1.2 billion miles redeemed and 35.3 thousand tickets with ex-Gol partner airlines, representing 16.7% of the miles redeemed through the program.

In June, the Board of Directors approved the first issue of non-convertible debentures, bearing the rate of 115% of the CDI, totaling R\$ 600.0 mn worth of principal, to be amortized in 12 monthly installments. The approved debt was liquidated in July 2014, on the capital reduction payment date.

In early July, we also announced a commercial agreement with Cielo S.A., a leader in electronic payment solutions in Latin America, through which we will allow retailers to offer the accrual and redemption of Smiles' miles, in a potential universe of 1.4 million establishments. The universality of Cielo's machine and its established sales force increase Smiles' penetration and offer retailers, Cielo's customers, the opportunity to increase their average ticket, frequency and loyalty. The client prospection process will begin during the second half of 2014.

We closed the quarter with a net profit of R\$ 64.1 million and net margin of 42.1%, driven by the strong growth in the accrual of miles and the discipline in gross redemption margins. On July 15, 2014, we completed the capital reduction process with the payment of R\$ 1.0 billion to shareholders.

<sup>1</sup>The partnership was signed through GOL.

## Comments on Performance

### Operational Performance

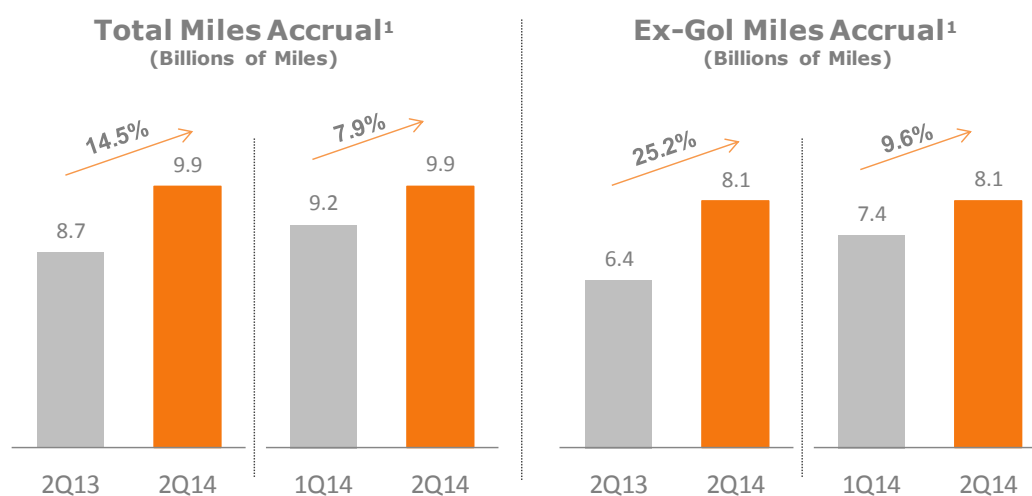
Operational Data <sup>1</sup>	Unit	2Q14	1Q14	2Q13	2Q14 vs. 1Q14 (%)	2Q14 vs. 2Q13 (%)
Members	mn	10.0	9.9	9.3	0.9%	6.7%
Partnerships	unit	224	218	212	2.8%	5.7%
Mile Accumulation <sup>2</sup>	mn	9,935	9,209	8,681	7.9%	14.5%
GOL	mn	1,860	1,840	2,232	1.1%	(16.7%)
Ex-GOL (Banks, Retail and Others)	mn	8,075	7,369	6,448	9.6%	25.2%
Miles Redemption (Program)	mn	7,403	7,859	6,955	(5.8%)	6.4%
Program's Burn/Earn	%	74.5%	85.3%	80.1%	(10.8 p.p.)	(5.6 p.p.)
Breakage Rate	%	16.9%	16.9%	16.3%	0.0 p.p.	0.6 p.p.
% New Miles	k	74.2%	68.6%	42.4%	5.6 p.p.	31.8 p.p.

<sup>1</sup> All amounts corresponding to miles are net of refund effects. The data in this chart does not reflect accounting information.

<sup>2</sup> Redeeming miles refers to miles redeemed with the Smiles Program, including new and legacy miles.

**Participants:** We closed 2Q14 with 10 mn members in 2Q14 and, with Netpoints' customers, we can now count on 18 mn participants, the biggest coalition program in Brazil.

**Partnerships and products:** In 2Q14, with the launch of the new Smiles Shopping platform, we strengthened our redemption partnerships with Walmart, Magazine Luiza and Netpoints. Smiles customers can now redeem their miles for more than 500,000 products, with as little as 100 miles. The Smiles Shopping platform is an easy and complete tool that increases product diversity and mile redemption options.



<sup>1</sup>Graphics' numbers reflect miles net of refund effects

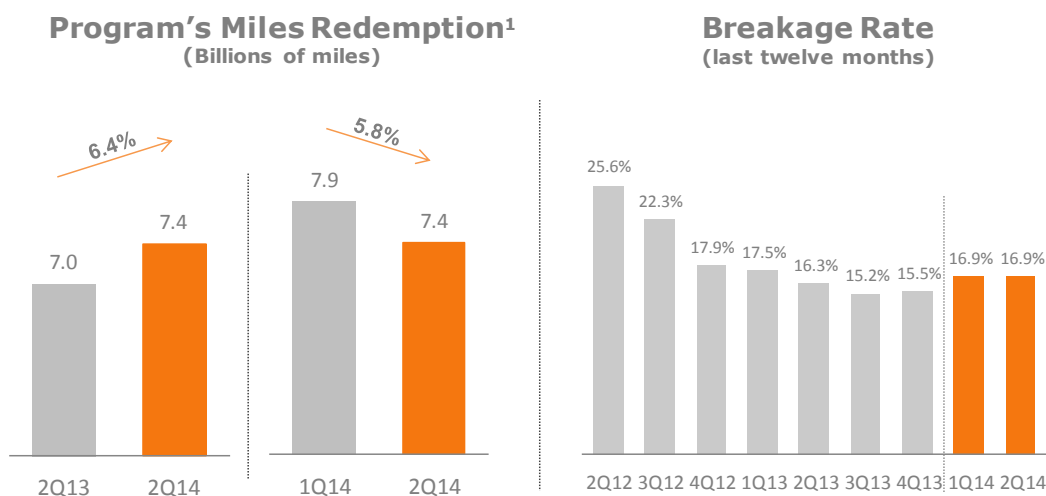
**Miles Accrual:** Miles accrued in the program increased 14.5% over 2Q13, which was primarily driven by the 25.2% increase in the number of ex-Gol miles accrued.

**Miles Redemption:** Mile redemption for the Smiles program presented a 6.4% increase compared to 2Q13, due to the 14.5% increase in miles accrual and the program’s burn/earn rate, which declined 5.6 p.p. over 2Q13. One of the effects during the quarter was the reduction in the number of redemptions prior to and during the World Cup.

Dados Operacionais <sup>1</sup>	Unit	2Q14	1Q14	2Q13	2Q14 vs. 1Q14 (%)	2Q14 vs. 2Q13 (%)
<b>Program Miles Redemption<sup>2</sup></b>	<b>mn</b>	<b>7,403</b>	<b>7,859</b>	<b>6,955</b>	<b>(5.8%)</b>	<b>6.4%</b>
Smiles & Money Redemption	mn	644	832	253	(22.6%)	154.9%
Traditional (100% Miles) Redemption	mn	6,759	7,027	6,702	(3.8%)	0.8%
<b>Number of Redeemed Products</b>	<b>mn</b>	<b>800</b>	<b>908</b>	<b>872</b>	<b>(11.9%)</b>	<b>(8.2%)</b>
Smiles & Money Redemption	Mn	140	209	150	(32.9%)	(6.7%)
Traditional (100% Miles) Redemption	mn	660	700	722	(5.7%)	(8.5%)
<b>Average Miles per Redemption</b>	<b>unit</b>	<b>9,251</b>	<b>8,651</b>	<b>7,976</b>	<b>6.9%</b>	<b>16.0%</b>
Smiles & Money Redemption	unit	4,592	3,982	1,681	15.3%	173.1%
Traditional (100% Miles) Redemption	unit	10,241	10,045	9,287	1.9%	10.3%

<sup>1</sup> All amounts corresponding to miles are net of refund effects. The segregation between Smiles & Money and Traditional redemptions is not audited.

<sup>2</sup> Miles Redemption refers to miles redeemed with the Smiles Program, including new and legacy miles.



<sup>1</sup>Graphics' numbers reflect miles net of refund effects

**Breakage:** The Breakage rate remained stable in 1Q14 compared to 2Q14.

## 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 accrual 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 accrual 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) revenue from miles redeemed, 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 accrual and redemption of Miles, and (iii) expired miles revenue if the Miles issued expire without being redeemed.

## Glossary

**Awards** - Product or service provided to Participants by a commercial partner as the result of redeeming customer loyalty program points.

**Award Products** - Product or service provided to Participants by a commercial partner as the result of redeeming customer loyalty program points (that are not airline tickets).

**Breakage estimate** - 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 accrued miles in a given period.

**Free Float** - Shares owned by non-controlling shareholders.

**Legacy miles** - Miles accrued before the Program's spin-off

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

**New miles** - Miles accrued after the Program's spin-off.

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

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

The Message from Management and Comments on Performance may contain forward-looking statements relating to the prospects of the business, estimates for operating and financial results, and those related to growth prospects of Smiles. These are merely projections and, as such, are based exclusively on the expectations of Smiles' management. Such forward-looking statements depend, substantially, on external factors, in addition to the risks disclosed in Smiles' filed disclosure documents and are, therefore, subject to change without prior notice. The Company's non-financial information has not been audited by independent auditors.

## **Comments on performance**

Until June 30, 2013, the Company did not disclose any forecasts or estimates, whether operational, technical, administrative or financial.

## **Directors' statement on the financial statements**

FOR THE PURPOSES OF ARTICLE 25, §1, Subsection VI, of INSTRUÇÃO CVM 480/09

In accordance with Instrução CVM 480/09, the Directors declare that discussed, reviewed and agreed with the Financial Statements for the year ended on June 30, 2014.



## **Directors' statement on the report of the independent auditors**

FOR THE PURPOSES OF ARTICLE 25, §1, Subsection VI, of INSTRUÇÃO CVM 480/09

In accordance with Instrução CVM 480/09, the Directors declare that discussed, reviewed and agreed with the independent auditors' report for the year ended on June 30, 2014.

**(A free translation from the original in Portuguese into English)**

**Report on the review of interim financial information**

To  
The Shareholders, Board of Directors and Officers  
Smiles S.A.  
Barueri - SP

**Introduction**

We have reviewed the accompanying interim financial information of Smiles S.A. (“Company”), contained in the Quarterly Information (ITR) for the quarter ended June 30, 2014, which comprises the balance sheet as at June 30, 2014 and the related income statements and statements of comprehensive income for the quarter and six-month period then ended, and the statements of changes in equity and statement of cash flows for the quarter and six-month period then ended, and a summary of significant accounting practices and other explanatory notes.

Company management is responsible for the preparation of interim financial information in accordance with the Technical Pronouncement of the Accounting Pronouncements Committee (CPC) 21 (R1) – Interim Financial Reporting and in accordance with CPC 21 (R1) and IAS 34 – Interim Financial Reporting, issued by the International Accounting Standards Board (IASB), as well as for the presentation of these information in compliance with the rules issued by the Brazilian Securities Commission (“CVM”), applicable to the preparation of Quarterly Information (ITR). Our responsibility is to express a conclusion on this interim financial information based on our review.

**Scope of review**

We conducted our review according to the Brazilian and international review standards of interim financial information (NBC TR 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity, and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim financial information consists of inquiries, mainly of the people responsible for the financial and accounting matters, and the application of analytical and other review procedures. The scope of a review is significantly narrower than that of an audit conducted in accordance with audit standards and, accordingly, it did not permit us to obtain assurance that we took notice of all significant matters that could have been raised in an audit. Therefore, we did not express an audit opinion.

## **Conclusion on the interim financial information**

Based on our review, we are not aware of any fact that makes us believe that the interim financial information included in the Quarterly Information referred above was not prepared, in all material respects, in accordance with CPC 21 (R1) applicable to the preparation of Quarterly Information (ITR), and presented in compliance with the rules issued by the CVM.

## **Other matters**

### **Statements of value added**

We have also reviewed the statement of value added (SVA) for the six-month period ended June 30, 2014, prepared under the responsibility of the Company's management, the presentation of which in the interim financial information is required by the rules of the CVM applicable to Quarterly Information (ITR), and as supplementary information under IFRS, whereby no statement of value added presentation is required. These statements have been subject to the same review procedures previously described and, based on our review, we are not aware of any fact that makes us believe that they were not prepared, in all material respects, according to the interim financial information taken as a whole.

### **Audit and review of the amounts corresponding to prior year and period**

The amounts correspondent to balance sheets for the year ended December 31, 2013 and the statements of income, of comprehensive income, of changes in shareholders' equity, of cash flows and of value added for the three and six-months period ended June 30, 2013 presented for comparison purposes, were previously audited and reviewed, respectively, by other independent accountants, who issued an unmodified opinion dated February 4, 2014 and review report of quarterly information dated August 8, 2013.

São Paulo, July 31, 2014.

ERNST & YOUNG  
Auditores Independentes S.S.  
CRC-2SP015199/O-6

Luiz Carlos Passetti  
Accountant CRC-1SP144343/O-3

Vanessa R. Martins  
Accountant CRC-1SP244569/O

## Smiles S.A.

### Balance sheets

June 30, 2014 and December 31, 2013

(In thousands of Brazilian Reais - R\$)

<b>Line code</b>	<b>Line item</b>	<b>Current quarter 06/30/2014</b>	<b>Prior year 12/31/2013</b>
1	Total assets	<b>1,981,058</b>	1,944,150
1.01	Current assets	<b>978,528</b>	834,116
1.01.01	Cash and cash equivalents	<b>396,209</b>	154,243
1.01.02	Short-term investments	<b>73,127</b>	228,489
1.01.03	Trade receivables	<b>79,226</b>	49,637
1.01.06	Recoverable taxes	<b>418</b>	418
1.01.07	Prepaid expenses	<b>2,053</b>	105
1.01.08	Other current assets	<b>427,495</b>	401,224
1.01.08.03	Others	<b>427,495</b>	401,224
1.01.08.03.01	Advances to suppliers	<b>402,412</b>	351,403
1.01.08.03.02	Other credits	<b>353</b>	831
1.01.08.03.03	Related-party transactions	<b>24,730</b>	48,990
1.02	Noncurrent assets	<b>1,002,530</b>	1,110,034
1.02.01	Long-term assets	<b>962,032</b>	1,108,731
1.02.01.06	Deferred taxes	<b>75,537</b>	77,308
1.02.01.09	Other noncurrent assets	<b>886,495</b>	1,031,423
1.02.01.09.03	Advances to suppliers	<b>886,495</b>	1,031,423
1.02.02	Investments	<b>26,638</b>	-
1.02.03	Property, plant and equipment	<b>1,682</b>	1,137
1.02.04	Intangible	<b>12,178</b>	166

<b>Line code</b>	<b>Line item</b>	<b>Current quarter 06/30/2014</b>	<b>Prior year 12/31/2013</b>
2	Total liabilities and equity	<b>1,981,058</b>	1,944,150
2.01	Current liabilities	<b>276,322</b>	344,120
2.01.01	Salaries, wages and benefits	<b>4,349</b>	14,849
2.01.01.02	Salaries, wages and benefits	<b>4,349</b>	14,849
2.01.02	Accounts payable	<b>40,994</b>	16,094
2.01.02.01	National suppliers	<b>40,994</b>	16,094
2.01.03	Tax obligations	<b>13,785</b>	13,502
2.01.05	Other liabilities	<b>217,194</b>	299,675
2.01.05.02	Others	<b>217,194</b>	299,675
2.01.05.02.02	Compulsory dividend payable	-	12,247
2.01.05.02.04	Advance ticket sales	<b>43,680</b>	167,759
2.01.05.02.05	Deferred revenue	<b>161,014</b>	119,669
2.01.05.02.06	Liabilities with related parties	<b>12,500</b>	-
2.02	Noncurrent liabilities	<b>372,665</b>	270,974
2.02.02	Other liabilities	<b>372,315</b>	270,870
2.02.02.02	Others	<b>372,315</b>	270,870
2.02.02.02.03	Deferred revenue	<b>371,932</b>	267,225
2.02.02.02.04	Advance ticket sales	<b>383</b>	3,645
2.02.04	Provisions	<b>350</b>	104
2.02.04.01	Provisions tax social security labor and civil	<b>350</b>	104
2.02.04.01.04	Civil provisions	<b>350</b>	104
2.03	Shareholder's equity	<b>1,332,071</b>	1,329,056
2.03.01	Capital	<b>1,100,261</b>	1,095,772
2.03.01.01	Issued capital	<b>1,134,707</b>	1,132,174
2.03.01.02	Cost of issued shares	<b>(36,402)</b>	(36,402)
2.03.01.03	Shares to issue	<b>1,956</b>	-
2.03.02	Capital reserves	<b>75,950</b>	74,790
2.03.02.02	Special reserve goodwill	<b>72,942</b>	72,942
2.03.02.07	Share-based payments	<b>3,008</b>	1,848
2.03.04	Revenue reserves	<b>10,392</b>	158,494
2.03.04.01	Statutory reserve	<b>10,392</b>	10,392
2.03.04.08	Additional proposed dividend	-	148,102
2.03.05	Accumulated losses	<b>142,423</b>	-
2.03.06	Equity valuation adjustments	<b>3,045</b>	-

See accompanying notes.

## Smiles S.A.

Statement of profit or loss  
 June 30, 2014 and 2013  
 (In thousands of Brazilian Reais - R\$)

Line code	Line item	Current quarter 04/01/2014 to 06/30/2014	Current year 01/01/2014 to 06/30/2014	Same quarter prior year 04/01/2013 to 06/30/2013	Prior year 01/01/2013 to 06/30/2013
3.01	Sales and services revenue	152,285	340,374	113,234	229,877
3.01.01	Net revenue	152,285	340,374	113,234	229,877
3.02	Cost of sales and services	(80,854)	(180,643)	(54,119)	(110,359)
3.02.01	Cost of services rendered	(80,854)	(180,643)	(54,119)	(110,359)
3.03	Gross profit	71,431	159,731	59,115	119,518
3.04	Operating expenses/income	(23,362)	(43,071)	(17,477)	(34,392)
3.04.01	Selling expenses	(13,836)	(26,981)	(12,267)	(21,490)
3.04.01.01	Marketing expenses	(13,836)	(26,981)	(12,267)	(21,490)
3.04.02	General and administrative expenses	(8,565)	(14,683)	(5,210)	(12,902)
3.04.06	Equity income	(961)	(1,407)	-	-
	Income before income taxes and financial				
3.05	income/expenses	48,069	116,660	41,638	85,126
3.06	Financial income/expenses	49,956	100,226	31,976	33,756
3.06.01	Financial income	50,388	100,676	31,968	33,787
3.06.01.01	Financial income	50,118	100,049	32,153	33,972
3.06.01.02	Exchange variation, net	270	627	(185)	(185)
3.06.02	Financial expenses	(432)	(450)	8	(31)
3.06.02.01	Financial expenses	(432)	(450)	8	(31)
3.07	Income before income taxes	98,025	216,886	73,614	118,882
3.08	Income tax (expenses)	(33,915)	(74,463)	(25,305)	(40,743)
3.08.01	Current	(34,063)	(72,693)	(8,671)	(25,629)
3.08.02	Deferred	148	(1,770)	(16,634)	(15,114)
3.09	Loss from continuing operations	64,110	142,423	48,309	78,139
3.11	Profit for the period	64,110	142,423	48,309	78,139

See accompanying notes.

## Smiles S.A.

Statement of comprehensive income  
For the period ended June 30, 2014  
(In thousands of Brazilian Reais - R\$)

<b>Line code</b>	<b>Line item</b>	<b>Current quarter 04/01/2014 to 06/30/2014</b>	<b>Current year 01/01/2014 to 06/30/2014</b>	<b>Same quarter prior year 04/01/2013 to 06/30/2013</b>	<b>Prior year 01/01/2013 to 06/30/2013</b>
4.01	Profit for the period	64,110	142,423	48,309	78,139
4.02	Other comprehensive income	-	-	-	-
4.03	Comprehensive income for the period	64,110	142,423	48,309	78,139

See accompanying notes.

## Smiles S.A.

Statements of changes in equity

From 04/01/2014 to 06/30/2014

(In thousands of Brazilian Reais - R\$)

Line code	Line item	Capital stock	Capital reserves, options granted and treasury shares	Income reserves	Accumulated profits	Total equity
5.01	Opening balance	1,095,772	74,790	158,494	-	1,329,056
5.03	Adjusted balance	1,095,772	74,790	158,494	-	1,329,056
5.04	Shareholders capital transactions	4,489	3,045	(148,102)	-	(140,568)
5.04.08	Share-based payments	2,533	-	-	-	2,533
5.04.10	Distributed dividends	-	-	(148,102)	-	(148,102)
5.04.11	Gain on dilution of equity interest	-	3,045	-	-	3,045
5.04.12	Shares to issue	1,956	-	-	-	1,956
5.05	Total comprehensive income	-	-	-	142,423	142,423
5.05.01	Profit for the period	-	-	-	142,423	142,423
5.06	Internal changes in shareholders' equity	-	1,160	-	-	1,160
5.06.04	Share-based payments	-	1,160	-	-	1,160
5.07	Closing balance	1,100,261	78,995	10,392	142,423	1,332,071



## Smiles S.A.

Statements of changes in equity (Continued)  
From 04/01/2013 to 06/30/2013  
(In thousands of Brazilian Reais - R\$)

Line code	Line item	Capital stock	Capital reserves, options granted and treasury shares	Income reserves	Accumulated profits	Total equity
5.01	Opening balance	-	-	-	-	-
5.04	Shareholders capital transactions	1,095,953	-	-	-	1,095,953
5.04.01	Capital increase	1,132,174	-	-	-	1,132,174
5.04.02	Expenditures with issuance of shares	(36,221)	-	-	-	(36,221)
5.05	Total comprehensive income	-	-	-	78,139	78,139
5.05.01	Profit for the period	-	-	-	78,139	78,139
5.06	Internal changes in shareholders' equity	-	991	-	-	991
5.06.04	Share-based payments	-	991	-	-	991
5.07	Closing balance	1,095,953	991	-	78,139	1,175,083

See accompanying notes.

## Smiles S.A.

Statement of cash flows  
For the period ended June 30, 2014 and 2013  
(In thousands of Brazilian Reais - R\$)

<b>Line code</b>	<b>Line item</b>	<b>Current quarter 06/30/2014</b>	<b>Prior year 06/30/2013</b>
6.01	Net cash provided by (used in) operating activities	<b>255,666</b>	(896,709)
6.01.01	Cash flows from operating activities	<b>(70,108)</b>	(12,556)
6.01.01.01	Deferred taxes	<b>1,770</b>	15,114
6.01.01.02	Shared-based payments	<b>1,080</b>	991
6.01.01.03	Provisions for contingencies	<b>247</b>	9
6.01.01.04	Depreciation and amortization	<b>920</b>	19
6.01.01.05	Obtained discounts	<b>(77,345)</b>	(29,264)
6.01.01.06	Exchange and monetary variations, net	<b>(283)</b>	185
6.01.01.07	Allowance for doubtful accounts	<b>20</b>	390
6.01.01.08	Provision for profit sharing and results	<b>2,116</b>	-
6.01.01.09	Equity in subsidiaries	<b>1,407</b>	-
6.01.02	Changes in assets and liabilities	<b>183,351</b>	(962,292)
6.01.02.01	Accounts receivable	<b>(29,609)</b>	(33,821)
6.01.02.02	Advances to suppliers	<b>171,264</b>	(1,374,919)
6.01.02.03	Prepaid expenses	<b>(1,948)</b>	(2,606)
6.01.02.04	Recoverable taxes	<b>-</b>	(13,928)
6.01.02.05	Other credits	<b>478</b>	(1,497)
6.01.02.07	Salaries, wages and benefits	<b>(12,616)</b>	3,902
6.01.02.08	Advances from customers	<b>(127,341)</b>	286,297
6.01.02.09	Deferred revenue	<b>146,053</b>	211,813
6.01.02.10	Taxes payable	<b>62,469</b>	9,365
6.01.02.11	Income tax and social contribution paid	<b>(62,186)</b>	(19,392)
6.01.02.12	Related-party transactions	<b>24,340</b>	(46,364)
6.01.02.13	Suppliers	<b>12,407</b>	18,858
6.01.03	Others	<b>142,423</b>	78,139
6.01.03.01	Profit for the period	<b>142,423</b>	78,139
6.02	Net cash used in investing activities	<b>142,160</b>	(100,045)
6.02.01	Acquisition of fixed assets	<b>(702)</b>	(597)
6.02.02	Financial application	<b>155,362</b>	(99,448)
6.02.03	Subscription of shares in investees	<b>(12,500)</b>	-
6.03	Net cash generated by financing activities	<b>(155,860)</b>	1,095,953
6.03.01	Capital increase	<b>4,489</b>	1,132,174
6.03.02	Stock issue cost	<b>-</b>	(36,221)
6.03.03	Distributed dividends	<b>(160,349)</b>	-
6.05	Net decrease in cash and cash equivalents	<b>(241,966)</b>	99,199
6.05.01	Opening balance of cash and cash equivalents	<b>154,243</b>	-
6.05.02	Cash and cash equivalents at end of the period	<b>396,209</b>	99,199

See accompanying notes.

## Smiles S.A.

Statement of value added  
For the period ended June 30, 2014 and 2013  
(In thousands of Brazilian Reais - R\$)

<b>Line code</b>	<b>Line item</b>	<b>Current year 06/30/2014</b>	<b>Prior year 06/30/2013</b>
7.01	Revenues	<b>375,275</b>	253,100
7.01.01	Sales of goods, products and services	<b>373,019</b>	250,209
7.01.02	Other income	<b>2,276</b>	3,281
7.01.02.01	Other operating income	<b>2,276</b>	3,281
7.01.04	Allowance for doubtful accounts	<b>(20)</b>	(390)
7.02	Acquired from third parties	<b>(223,616)</b>	(145,311)
7.02.01	Cost products, goods and services sold	<b>(188,150)</b>	(117,471)
7.02.02	Aircraft insurance	<b>(22,104)</b>	(17,279)
7.02.04	Other	<b>(13,362)</b>	(10,561)
7.02.04.01	Sales and advertising	<b>(13,362)</b>	(10,561)
7.03	Gross value added	<b>151,659</b>	107,789
7.04	Retentions	<b>(919)</b>	(19)
7.04.01	Depreciation, amortization and exhaustion	<b>(919)</b>	(19)
7.05	Added value produced	<b>150,740</b>	107,770
7.06	Value added received in transfer	<b>99,268</b>	33,972
7.06.01	Equity income	<b>(1,407)</b>	-
7.06.02	Finance income	<b>100,675</b>	33,972
7.07	Total wealth for distribution (distributed)	<b>250,008</b>	141,742
7.08	Wealth for distribution (distributed)	<b>250,008</b>	141,742
7.08.01	Employees	<b>11,194</b>	8,207
7.08.02	Taxes	<b>95,682</b>	55,007
7.08.03	Third part capital remuneration	<b>709</b>	389
7.08.04	Return on own capital	<b>142,423</b>	78,139

See accompanying notes.

## Smiles S.A.

Notes to the interim financial information

June 30, 2014

(In thousands of Brazilian Reals - R\$, except when indicated otherwise)

### 1. General information

Smiles S.A. ("Company"), established on June 10, 2012, originally named "Santa Angélica Empreendimentos e Participações S.A.", is a publicly-listed company incorporated in accordance with Brazilian laws. On June 27, 2012, Gol Linhas Aéreas Inteligentes S.A. ("GLAI") acquired the Company at its book value. GLAI is a Company listed on the São Paulo Stock, Commodities and Futures Exchange - BM&FBOVESPA, and the Stock Exchange in New York.

The Company is engaged in the customer loyalty program to accomplish primarily: (a) the development and management of the program; (b) the marketing rights of rewards acquired; and (c) establishment of a database of individuals and legal entities.

The Company's operations result from the organizational restructuring of GLAI, which transferred to the Company the Smiles mileage program ("Smiles Program"), which was managed by VRG Linhas Aéreas ("VRG"). The Smiles Program consists of the granting of credit reward miles to participants who can use them to redeem rewards, mainly airline tickets. Agreements have been entered into GLAI and VRG to facilitate the transfer of operations, which are described in Note 8.

The miles are issued by the Smiles Program to: (a) transfer to participating passengers through the VRG loyalty program; (b) the sale of miles to banks that transfer to its customers with miles according to credit card spending; (c) the sale of miles to retail and entertainment customers; (d) the sale of miles to airline partners; and (e) the sale of miles to individuals.

On April 25, 2013, the Company completed the IPO of its common shares. Under this context, the Company issued 52,173,912 common shares at R\$21.70 per share, resulting in a capital increase of R\$1,132,174, approved on the same date by the Board of Directors. The total cost of the shares' issuance on the IPO determined by the Company, net of the deferred tax effects, was R\$36,402 and is recorded in shareholders' equity under "cost of issuing shares".

On October 8, 2013, the Company signed an investment agreement for the acquisition of 25% of the capital of Netpoints, which operates a loyalty program specialized in retail's customers. On January 21, 2014, the Administrative Council for Economic Defense ("CADE") approved the transaction, enabling the agreement closure. The payment for the acquisition of 25% in the amount of R\$25,000 will occur in 4 (four) equal installments, and on February 07, 2014 the Company paid the amount related to the first installment of R\$6,250 and the other installments, which amount R\$18,750, will be paid quarterly. The transaction also provides the option of acquiring 50% plus one share of Netpoints, which may be exercised after the end of year 2018.

## **Smiles S.A.**

Notes to the interim financial information (Continued)

June 30, 2014

(In thousands of Brazilian Reais - R\$, except when indicated otherwise)

### **1. General information (Continued)**

On December 31, 2013, the Company incorporated its non-controlling shareholder G.A. Smiles Participações S.A. in order to simplify and modernize its corporate structure. The incorporation was made based on the book value of its equity as of December 31, 2013, and the transaction did not result in a capital increase and/or grant of new shares. The goodwill generated by the operation of R\$214,534 led to a tax credit of R\$72,942, with counterpart in the special reserve in shareholder's equity registered at the incorporation date and approved by the Extraordinary General Meeting.

On June 30, 2014, Marisa Lojas S.A. acquired 20% of Netpoints' capital. The transaction diluted the Company's portion on Netpoints from 25% to 21.25% as Note 10.

### **2. Approval and summary of significant accounting policies applied in preparing the financial statements**

These financial statements were approved and authorized for issue at the Company's Board of Directors' meeting held on May 6, 2014. The Company's head office is at Alameda Rio Negro, 585, Edifício Padauri, Bloco B, 2nd Floor, Alphaville, Industrial, Cidade de Barueri, SP, Brazil.

#### **2.1. Declaration of conformity**

The Consolidated Interim Financial Information - ITR were prepared for the three-month period ended on June 30, 2014 in accordance with International Accounting Standards (IAS) n. 34 and technical pronouncement CPC 21 (R1) - "Demonstração Intermediária" (Interim Financial Reporting).

The accounting practices adopted in Brazil comprise those included in the Brazilian corporate law and the technical pronouncements, guidelines and interpretations issued by the Brazilian Accounting Pronouncements Committee - "CPC" and approved by the Federal Accounting Board - "CFC" and the Brazilian Securities and Exchange Commission - "CVM".

#### **2.2. Basis of presentation**

These Interim Financial Information - ITR were prepared using the Brazilian Real as the functional and presentation currency.

IAS 34 requires the use of certain accounting estimates by the Company Management. The interim financial information was prepared based on historical cost, except for certain financial assets and liabilities, which are measured at fair value.

## Smiles S.A.

Notes to the interim financial information (Continued)

June 30, 2014

(In thousands of Brazilian Reals - R\$, except when indicated otherwise)

### 2. Approval and summary of significant accounting policies applied in preparing the financial statements (Continued)

#### 2.2. Basis of presentation (Continued)

These Interim Financial Information - ITR do not include all the information and disclosure items required in the annual financial statements and, therefore, it must be read along with the financial statements referring to the year ended December 31, 2013 filed on February 04, 2014, which were prepared in accordance with Brazilian accounting practices and IFRS. There were no changes in accounting policies adopted on December 31, 2013 when compared to June 30, 2014.

The acquisition of 25% of Netpoints' total capital by the issuance of new shares and accordingly change on participation to 21.25% as Note 1 did not represent a control acquisition, and does not achieve the requirements of CPC 36 - Consolidated Financial Statements and as a result the Company is not presenting consolidated interim financial information.

### 3. Cash and cash equivalents

	<u>06/30/2014</u>	<u>12/31/2013</u>
Cash and bank deposits	2,771	1,337
Cash equivalents - investment funds	393,438	152,906
	<u>396,209</u>	<u>154,243</u>

The balance classified as cash equivalents is composed as follows:

	<u>06/30/2014</u>	<u>12/31/2013</u>
Investment funds	233,960	106,127
Private Securities	159,479	46,779
	<u>393,439</u>	<u>152,906</u>

The investment funds classified as cash equivalents are those which have immediate liquidity and, according to our analysis, can be converted to a known amount of cash with insignificant risk of change in its value.

As of June 30, 2014, the cash equivalents are represented by private bonds (Bank Deposit Certificates "CDB"), public bonds (Financial Treasury Bills "LFT") remunerated at approximately the weighted average rate of 100.9% of CDI rate. The Company invests on buy-back transactions remunerated at approximately the weighted average rate of 100.1% of the CDI rate and CDBs remunerated at the weighted average rate of 100.9% of the CDI rate. The Company does not have balances in foreign currency.

## Smiles S.A.

Notes to the interim financial information (Continued)

June 30, 2014

(In thousands of Brazilian Reais - R\$, except when indicated otherwise)

### 4. Short-term investments

The short-term investments are financial assets with maturity up to 90 days, with risk of value changes and measured at fair value through profit or loss.

As of June 30, 2014, the short-term investments in the amount of R\$73,127 (R\$228,489 as of December 31, 2013) are represented by investment funds, primarily private bonds, LTNs and buy-back money transactions, mainly based on NTN-F (National Treasury Bills - F Series) and NTN-B (National Treasury Bills - B Series). Such are remunerated at approximately the weighted average rate of 100.9% of the CDI rate.

### 5. Trade receivables

	<u>06/30/2014</u>	<u>12/31/2013</u>
Non-airline partners companies	48,385	29,174
Airline partners companies	18,145	14,373
Credit card administrators	13,010	6,385
	<u>79,540</u>	<u>49,932</u>
Allowance for doubtful accounts	(314)	(295)
	<u>79,226</u>	<u>49,637</u>

Of the balance of non-airline partners, R\$41,587 (R\$17,851 as of December 31, 2013) is mainly represented by the miles sales to financial institutions. Of the balance of the airlines partners, R\$13,286 (R\$10,028 as of December 31, 2013) is related to miles sales and R\$849 (R\$671 as of December 31, 2013) is related to administration fees of the Smiles Program to VRG, as described in Note 8.

The total receivables are denominated in Brazilian Reais. The composition of accounts receivable by maturity is as follows:

	<u>06/30/2014</u>	<u>12/31/2013</u>
<b>To mature</b>		
Up to 30 days	78,791	48,916
<b>Overdue</b>		
Until 30 days	105	425
31 to 60 days	99	238
61 to 90 days	231	58
91 to 180 days	100	272
181 to 360 days	193	-
Above 360 days	21	23
<b>Total</b>	<u>79,540</u>	<u>49,932</u>

## Smiles S.A.

Notes to the interim financial information (Continued)

June 30, 2014

(In thousands of Brazilian Reais - R\$, except when indicated otherwise)

### 5. Trade receivables (Continued)

The maximum exposure to credit risk as of June 30, 2014 is represented by the book value of each type of receivable mentioned above.

The changes in the allowance for doubtful accounts are as follows:

	<u>06/30/2014</u>	<u>06/30/2013</u>
Balance at beginning of the period	(295)	-
Additions	(209)	(932)
Recoveries	189	637
Balance at the end of the period	<u>(315)</u>	<u>(295)</u>

### 6. Advances to suppliers

The Company signed, on May 10, 2013, the second agreement of anticipated airline tickets purchase and sale with VRG for monthly tickets acquisition.. This agreement has a conditional discount based on CDI which corresponds to 12.49% p.a, applied for the period of 4 years from the date of the signature, over the open amount of the advances. As of June 30, 2014, the amount of advance ticket purchases was R\$402,412 (R\$351,403 as of December 31, 2013) classified in current assets and R\$886,495 (R\$1,031,423 as of December 31, 2013) classified in noncurrent assets.

### 7. Deferred taxes

	<u>06/30/2014</u>	<u>12/31/2013</u>
<b>Temporary differences:</b>		
Suppliers and other provisions	8,458	3,700
Other temporary differences	1,432	666
Tax benefit from goodwill incorporation (*)	65,647	72,942
<b>Total deferred tax and social contribution</b>	<u>75,537</u>	<u>77,308</u>

(\*) On June 30, 2014, the amount of R\$65,647 (R\$72,942 as of December 31, 2013) is related to the tax benefit from the incorporation of its minority shareholder G.A. Smiles Participações S.A. which will be realized proportionally to its use over 5 years, as determined in ICPC 09 R1 (Individual Financial Statements, Consolidated Financial Statements, Equity Method Application). Under the terms of the current legislation, the goodwill generated by the operation will be a deductible expense in the Income Tax and Social Contribution calculation.

The estimated recovery of deferred tax assets was based on taxable income projections, considering the assumptions adopted for the long-term business plan preparation, besides the several financial assumptions, business and internal and external factors considered at the end of



## Smiles S.A.

Notes to the interim financial information (Continued)

June 30, 2014

(In thousands of Brazilian Reais - R\$, except when indicated otherwise)

### 7. Deferred taxes (Continued)

the year. Consequently, the estimates may not materialize in the future, due to the uncertainties inherent in these estimates.

The Company considers that the deferred taxes registered as of June 30, 2014 resulting from temporary differences will be realized in accordance with the provision realization.

	06/30/2014	12/31/2013
2014	17,185	18,956
2015	14,588	14,588
2016	14,588	14,588
2017	14,588	14,588
2018	14,588	14,588
	75,537	77,308

The amounts of income tax and social contribution presented in the income statement are reconciled to the combined rate as follows:

	Three-month period ended on		Six-month period ended on	
	06/30/2014	06/30/2013	06/30/2014	06/30/2013
Profit before income tax and social contribution	98,025	73,614	216,886	118,882
Combined tax rate	34%	34%	34%	34%
Income tax expense at the combined tax rate	(33,328)	(25,029)	(73,741)	(40,420)
Adjustments to calculate the effective tax rate:				
Equity in subsidiaries	(326)	-	(478)	-
Nondeductible expenses	(328)	48	(501)	-
Income tax on permanent differences	-	(323)	-	(323)
Tax incentive	67	-	257	-
Expense of income tax and social contribution	(33,915)	(25,304)	(74,463)	(40,743)
Current income tax and social contribution	(34,063)	(8,671)	(72,693)	(25,629)
Deferred income tax and social contribution	148	(16,634)	(1,770)	(15,114)
Effective rate	34.6%	34.4%	34.3%	34.3%

### 8. Related-party transactions

The Company's related parties are basically represented by the purchase of airline tickets and mile sales agreements with its associate VRG with the following characteristics:

#### i. Operating agreement

On December 28, 2012, the Company, VRG and GLAI entered into an agreement to govern their operating and business relationship, the exclusivity characteristics of the Smiles Program, which is the sole VRG's customer loyalty program. Additionally, the agreement also

## Smiles S.A.

Notes to the interim financial information (Continued)

June 30, 2014

(In thousands of Brazilian Reals - R\$, except when indicated otherwise)

### 8. Related-party transactions (Continued)

specifies VRG as the exclusive partner in the Company's air segment and establishes guidelines for the program management by the Company.

The agreement maturity is 20 years from the execution date referred to above, and is automatically renewed for successive five-year periods, unless the Company, VRG or GLAI decides otherwise and gives prior notice of such decision within no less than 2 years before the agreement expiration.

The Company monthly charges a management fee to VRG related to the program, which is calculated based on the gross sales of miles to VRG, in accordance with factor proportionally decreased as established on the agreement, as the gross revenue of mile sales to VRG increases, based in the previous year revenue adjusted by the General Market Price Index - IGP-M. For 2014, the established management fee was 6%, and the value recognized in the income statement as of June 30, 2014 under "Other revenue" was R\$2,277 (R\$3,281 as of June 30, 2013), as described in Note 18. The trade receivable from affiliate VRG as of June 30, 2014 was R\$849 (R\$671 as of December 31, 2013), as described in Note 5.

The Company has agreements with companies that perform miles exchange for several products to be delivered to its customers. A portion of this amount, which is charged by the Company's partners, is transferred to its related party VRG due to miles that were issued before January 1, 2013 and were redeemed after the Program transfer to Smiles as described in Note 1 and the balance as of June 30, 2014 recorded in "Receivables from related parties" is R\$244 (R\$395 as of December 31, 2013).

#### ii. Miles and air tickets purchase agreement

This agreement sets the prices and the terms and conditions for the purchase by VRG of miles issued by the Company, and the purchase of air tickets by the Company from VRG. The agreement duration is 20 years from the execution date (December 28, 2012), and is automatically renewed for successive five-year periods, unless the Company, VRG or GLAI decides otherwise and gives prior notice of such decision within no less than 2 years before the agreement expiration.

Additionally, VRG must transfer the amount received by the portion in money related to Smiles & Money transactions, which are deposited in the related-party banking account, but refers to the Company's revenue. On June 30, 2014, the receivable balance from VRG related to transfers of ticket sales with counterparts and individuals was R\$25,610 (R\$53,345 as of December 31, 2013), recognized in "related-parties transactions" with an average settlement of 30 days. The payable amount to its affiliate VRG regarding to the transfer of receivables of mileage selling from counterparts is R\$1,616 (R\$5,120 as of December 31, 2013).

## Smiles S.A.

Notes to the interim financial information (Continued)

June 30, 2014

(In thousands of Brazilian Reais - R\$, except when indicated otherwise)

### 8.Related-party transactions (Continued)

#### ii. Miles and air tickets purchase agreement (Continued)

During the period ended June 30, 2014, the total miles sold to VRG was 1,840,530,782 (1,864,639,189 as of March 31, 2013), representing the amount of R\$23,197 (R\$24,613 as of March 31, 2013) and the total of tickets purchased from VRG was 867,849, (1,294,648 as of March 31, 2013) representing the amount of R\$89,634 (R\$52,899 as of March 31, 2013) net of recoverable taxes. The receivable amount regarding the miles sales as of June 30, 2014 is R\$7,603 (R\$10,028 as December 31, 2013) as disclosed in Note 5.

#### iii. Share-based plans

The Company holds share-based plans which were issued in VRG employee's benefit. During the year ended on June 30, 2014, the Company registered the amount of R\$412, registered under "Credits with related parties", as disclosed in Note 9.

The related parties transactions mentioned above are summarized as follows:

<b>Asset</b>	<b>06/30/2014</b>	<b>12/31/2013</b>
Operational agreement (i)	244	395
Transfer of miles sales (ii)	25,610	53,345
Stock options plan (iii)	492	370
	<b>26,346</b>	54,110
<b>Liability</b>		
Transfer of miles sales (ii)	(1,616)	(5,120)
	<b>(1,616)</b>	(5,120)
<b>Credits with related parties</b>	<b>24,730</b>	48,990

#### iv. Service agreement

Under the Service Agreement entered into on December 28, 2012, VRG will provide certain administrative services to the Company for which the Company will pay a fixed monthly amount for each service group, subject to annual renegotiation. This agreement is effective for 36 months and can be canceled by either party after a minimum prior notice of 120 days. For the three-month period ended June 30, 2014, the Company recognized the total expenses related to these services of R\$4,702 (R\$4,609 as of March 31, 2013), of which R\$3,513 (R\$3,433 as of March 31, 2013) is recorded as "selling expenses" and R\$1,190 (R\$1,176 as of March 31, 2013) recorded as "administrative expenses". Of this amount, R\$1,592 (R\$1,513 as of December 31, 2013) comprises the amount under "Suppliers" in current liabilities on June 30, 2014.

## Smiles S.A.

Notes to the interim financial information (Continued)

June 30, 2014

(In thousands of Brazilian Reais - R\$, except when indicated otherwise)

### 8. Related-party transactions (Continued)

v. Domain name and trademark assignment agreement

VRG assigned, on permanent, non-onerous terms, the rights of use and the rights to exploit the trademarks and the domain name "Smiles" to the Company.

vi. Key management personnel payments

	Three-month period ended on		Six-month period ended on	
	06/30/2014	06/30/2013	06/30/2014	06/30/2013
Salaries and benefits	1,818	362	3,584	911
Related taxes	337	82	675	239
Share-based payments	325	601	650	721
	<b>2,480</b>	1,045	<b>4,909</b>	1,871

As of June 30, 2014, the Company did not offer postemployment benefits, and there are no severance benefits or other long-term benefits for the Management or other employees.

### 9. Share-based payments

Stock options plan - Smiles

The Company's Board of Directors, during the Extraordinary General Meeting held on February 22, 2013, approved the grant of a stock options plan, which consists of an additional payment to the Company's management and executives. On August 08, 2013, the Company's Board of Directors approved the grant of 1,058,043 shares related to the stock option plan, of which 260,020 shares were granted to employees of its affiliate VRG. This plan stimulates and promotes the alignment of the Company's goals, the administrators and employees, mitigates risks in value creation to the Company for the loss of their executives and strengthens the commitment and productivity of these executives to long-term results. The plans were developed to attract and retain key managers and strategic talents, linking a significant part of their equity to the value of the Company.

On February 04, 2014, the Company's Board of Directors approved the issuance of 1,150,000 (one million, one hundred and fifty thousand) stock options at a price R\$31.28 per share, under the terms of the existing Stock Options Plan to the management and executives whose holds the requirements to the Plan. Until June 30, 2014, there was no grant approval of these shares to its beneficiaries.

The fair value of stock options was estimated on the grant date using the Black-Scholes option pricing model. The expected volatility of the options is based on the historical volatility of 252 working days of the Bovespa index.

## Smiles S.A.

Notes to the interim financial information (Continued)

June 30, 2014

(In thousands of Brazilian Reais - R\$, except when indicated otherwise)

### 9. Share-based payments (Continued)

#### Stock options plan - Smiles (Continued)

The other assumptions utilized in the Black-Scholes option pricing model are as follows:

Stock Options Plan								
Year of the option	Date of the board meeting	Total options granted	Exercise price of the option (in Brazilian reais)	Fair value of the option at grant date - in Brazilian Reais - (a)	Estimate volatility of share price	Expected dividend	Risk-free rate return	Length of the option (in years)
2013	08/08/2013	1,058,043	21.70	4.13(a)	36.35%	6.96%	7.40%	10
2014	04/02/2014	1,150,000	31.28	4.90(a)	33.25%	10.67%	9.90%	10

(a) The fair value calculated for the 2013 plan was R\$4.84, R\$4.20 R\$3.73 and R\$3.73 for the respective periods of vesting of 2013, 2014, 2015 and 2016.

(b) The fair value calculated for the 2013 plan was R\$4.35, R\$4.63 R\$4.90, R\$5.15 and R\$5.17 for the respective periods of vesting of 2014, to 2018.

	Total stock options	Weighted average exercise price
Options outstanding at December 31, 2013	1,058,043	21,70
Options canceled and adjustments in estimated lost rights	(524,760)	26,66
Options granted	1,150,000	31,28
Options exercised	(223,522)	21,70
<b>Options outstanding at June 30, 2014</b>	<b>1,459,761</b>	<b>27,46</b>

There is no vested option under this plan as of June 30, 2014.

Additionally, through its parent Company GLAI, the Company has stock options and restricted shares - plans granted to some executives transferred from VRG on January 1, 2013. Consequently, the remaining expenses related are recognized in the Company's income statements. The amounts granted to executives transferred are summarized below:

#### Stock options plan - GLAI

Year of the option	Outstanding options			Options exercisable			Fair value (Black & Scholes)
	Range of exercise prices	Options outstanding	Average remaining maturity (in years)	Average exercise price	Options exercisable	Average exercise price	
2009	10.52	18,000	5	10.52	18,000	10.52	8.53
2010	20.65	94,581	6	20.65	94,581	20.65	16.81
2011	27.83	125,003	7	27.83	125,003	27.83	16.11
2012	12.81	41,127	8	12.81	35,986	12.81	5.35
	<b>10.52-27.83</b>	<b>278,711</b>	<b>6.5</b>	<b>22.06</b>	<b>273,570</b>	<b>22.29</b>	

## Smiles S.A.

Notes to the interim financial information (Continued)

June 30, 2014

(In thousands of Brazilian Reais - R\$, except when indicated otherwise)

### 9. Share-based payments (Continued)

#### Stock options plan - GLAI (Continued)

The movement of existing stock options during the period to June 30, 2014 is as follows:

	<b>Total of stock options</b>	<b>Weighted average exercise price</b>
Options outstanding as of December 31, 2013	278,711	22.06
<b>Options outstanding as of June 30, 2014</b>	<b>278,711</b>	<b>22.06</b>
Number of options exercisable as of December 31, 2013	271,856	22.29
<b>Number of options exercisable as of June 30, 2014</b>	<b>273,570</b>	<b>22.29</b>

#### Restricted shares plan - GLAI

<b>Year of the share grant</b>	<b>Total shares granted</b>	<b>Fair value of the shares at grant date</b>	<b>Duration of the shares (in years)</b>
2012	37,139	9.70	9

The movement of existing restricted shares during the period to June 30, 2014 is as follows:

	<b>Total of shares</b>
Restricted shares outstanding at December 31, 2013	37,139
<b>Restricted shares outstanding at June 30, 2014</b>	<b>37,139</b>

As of June 30, 2014, the Company recorded under shareholders' equity a result from share-based payments in the amount of R\$3,008 (R\$1,848 as of December 31, 2013). During the period ended June 30, 2014, the Company recognized R\$1,080 which is registered in the income statement classified as salaries expenses and R\$80 is registered in current assets under "credit with related parties".

### 10. Investments

On October 8, 2013, the Company' subsidiary Smiles S.A. signed an investment agreement for the acquisition of 25% of the capital of Netpoints, that operates in the customers loyalty program of retail stores. On January 21, 2014, the Administrative Council for Economic Defense ("CADE") approved the transaction, enabling the agreement closure. The subscribed capital for the acquisition of 25% in the amount of R\$25,000 will occur in 04 (four) equal installments, being paid R\$12,500 on February 10, 2014 and May 10, 2014. The other installments, which totaled R\$12,500, will be paid on August 07, 2014 and November 07, 2014. The transaction also provides the option to acquire 50% plus one share of Netpoints, which may be exercised after the end of 2018. The Company performed an evaluation of the assets and liabilities acquired in order to determinate the goodwill from the transaction, as follows:

## Smiles S.A.

Notes to the interim financial information (Continued)

June 30, 2014

(In thousands of Brazilian Reals - R\$, except when indicated otherwise)

### 10. Investments (Continued)

#### Goodwill calculation

Equity at the acquisition date	28,547
Interest on equity of the investee (25%)	7,137
Goodwill based on the expected future profitability	17,863
<b>Total cost of acquisition</b>	<b>25,000</b>

The Goodwill based on the expected future profitability of R\$17,863 was registered in “Intangible assets” and will be annually evaluate.

On June 30, 2014, Marisa Lojas S.A. acquired 20% of Netpoints’ capital. Accordingly, the transaction diluted the Company’s portion on Netpoints from 25% to 21.25%. The book effects of the decrease were recorded on equity as ICPC 09 - “Demonstrações Contábeis Individuais, Demonstrações Separadas, Demonstrações Consolidadas e Aplicação do Método de Equivalência Patrimonial”.

As of June, 30, 2014, the equity of Netpoints is presented below:

<b>Relevant information of the investment as of June 30, 2014:</b>	<b>30/06/2014</b>	<b>07/02/2014(*)</b>
Total number of shares	60,492,404	51,418,543
Capital	63,451	44,751
Share-based payments	10,822	10,455
Accumulated losses ended December 31, 2013	(32,978)	(26,659)
<b>Equity as of June 30, 2014</b>	<b>41,295</b>	<b>28,547</b>
<b>Participation</b>	<b>21,25%</b>	<b>25%</b>

The changes in the investments during the period ended June 30, 2014 are as follows:

Balance as of February 7, 2014	7,137
Equity result (*)	(1,407)
Effect of transactions between shareholders	3,045
<b>Balance as of June 30, 2014</b>	<b>8,775</b>
<b>(+) Goodwill</b>	<b>17,863</b>
<b>Total Investment as of June 30, 2014</b>	<b>26,638</b>

(\*) Corresponds to 25% of the net loss resulted between the acquisition date and June 30, 2014.

### 11. Intangible

As of June 30, 2014, the Company acquired licenses for a software usage related to the mileage program (“Siebel”), in the amount of R\$12,774. The value will be amortized in a linear basis, according with the maturity of the licenses acquired.

## Smiles S.A.

Notes to the interim financial information (Continued)

June 30, 2014

(In thousands of Brazilian Reals - R\$, except when indicated otherwise)

### 12. Earnings per share

The basic earnings per share is calculated based on the net income of the year attributable to shareholders of the Company and the weighted average number of common shares outstanding during the year. The diluted earnings per share is calculated based on the average shares outstanding, adjusted by instruments that are potentially convertible into shares with a dilutive effect for the period presented.

	Three-month period ended on		Six-month period ended on	
	06/30/2014	06/30/2013	06/30/2014	06/30/2013
<b><u>Numerator</u></b>				
Income for the period, net	64,110	48,309	142,423	78,139
<b><u>Denominator</u></b>				
Weighted average number of outstanding shares (in thousands)	122,300	107,488	122,213	88,744
Effect of diluted position				
Stock options plan	333	-	333	-
Adjusted weighted average number of outstanding shares and diluted presumed (in thousands)	122,633	107,488	122,546	88,744
<b>Basic earning per share</b>	<b>0.524</b>	0.449	<b>1.165</b>	0.880
<b>Diluted earning per share</b>	<b>0.523</b>	0.449	<b>1.162</b>	0.880

Diluted earnings per share are calculated by adjusting the weighted average number of shares outstanding to assume the conversion of all potential dilutive shares. The Company has a category of potential dilutive shares which refers to the stock option plan.

In order to estimate the diluted earnings per share, the Company assumes the exercise of options granted and the assumed values from these instruments are considered as been received from the grant of shares at the average market price during the period. The difference between the number of granted shares and the number of common shares that would have been granted at average market price during the period was estimated as the granted ordinary shares with no effect on the diluted earnings per share.



## Smiles S.A.

Notes to the interim financial information (Continued)

June 30, 2014

(In thousands of Brazilian Reais - R\$, except when indicated otherwise)

### 13. Accounts payable

	<u>06/30/2014</u>	<u>12/31/2013</u>
Airline partners companies	(15,815)	(3,028)
Licenses acquisition	(12,774)	-
Other	(12,405)	(13,066)
	<u>(40,994)</u>	<u>(16,094)</u>

(a) Related to software licenses acquired as describe in Note 11.

### 14. Salaries, wages and benefits

	<u>06/30/2014</u>	<u>12/31/2013</u>
Profit sharing plan and results	2,116	13,408
INSS and FGTS recoverable	887	638
13 salary and holiday allowance	1,340	803
Other obligations	5	-
	<u>4,349</u>	<u>14,849</u>

### 15. Taxes payable

Taxes payable are registered in current liabilities and are shown below:

	<u>06/30/2014</u>	<u>12/31/2013</u>
IRPJ and CSLL payable	10,507	9,872
PIS and COFINS	2,718	3,180
IRRF on payroll	162	254
Other	398	196
	<u>13,785</u>	<u>13,502</u>

On November, 2013 the provisional measure n. 627 was issued establishing that non-taxation over the profit and dividends calculated based on results from January 01, 2008 to December 31, 2013 by the Companies taxable based on actual profits, presumed or arbitrate, paid until the date of the provisional measure publication, in higher values that the ones calculated by the current accounting policies on December 31, 2007 since the Company has already paid the profit or dividends the anticipated adoption by 2014.

On May, 2014, the provisional measure was converted to Law n. 12,973, resulting in significant changes to the previously established, along with dividends, return on own capital and investments measurement through equity. A change from provisional measure n. 627 to Law n. 12,973, was the unconditional non-taxation for the profits and dividends calculated based on the results from January 01, 2008 to December 31, 2013.

## Smiles S.A.

Notes to the interim financial information (Continued)

June 30, 2014

(In thousands of Brazilian Reais - R\$, except when indicated otherwise)

### 15. Taxes payable (Continued)

The Company analyzed the potential effects on the Law n. 12,973 adoption and concluded that there is no significant effects on its interim financial information as of June 30, 2014 and December 31, 2013 and will anticipate the adoption of its effects, which will be presented on the Declaration of Federal Tax Debits and Credits (DCTF) related to the generated operations to be incur on a determined date by the "Secretaria da Receita Federal do Brasil" (SRFB).

### 16. Advances from customers

The Company realized advance miles sales and recorded such under "Advances from Customers". On June 30, 2014, the outstanding balance regarding these anticipated sales is represented as follows:

	<u>06/30/2014</u>	<u>12/31/2013</u>
Financial institutions (a)	<b>42,860</b>	169,649
Others	<b>1,203</b>	1,755
	<b>44,063</b>	171,404
Current	<b>43,680</b>	167,759
Non current	<b>383</b>	3,645

- (a) Part of the balance registered in current liabilities of R\$98,247 as of June 30, 2014 (R\$166,004 e R\$3,645) refers to the advances on miles sales agreement in the approximately total amount of R\$400,000 signed on April 08, 2013, with the financial institutions Bradesco S.A., Banco do Brasil S.A. and Santander S.A.

Advances from customers are transferred to "Deferred revenue" as the miles are transferred to the participants of Smiles Program.

### 17. Deferred revenue

The miles issued are initially recorded as deferred revenue, and as they are redeemed by the customers are recognized as revenue in the income statement. As of June 30, 2014, the balance of Smiles deferred revenue was R\$445,849 (R\$386,894 as of December 31, 2013) and the number of outstanding miles amounted to 22,728,031,812 (20,211,339,640 as of December 31, 2013).

	<u>06/30/2014</u>	<u>12/31/2013</u>
Deferred revenue (a)	<b>637,832</b>	457,927
( - ) Breakage provision	<b>(104,886)</b>	(71,033)
	<b>532,946</b>	386,894

- (a) A portion of the total amount registered on noncurrent liabilities of R\$18,586 is related to the operational agreement of anticipated purchase of airline tickets between the Company and VRG as Note 8 (ii).

## Smiles S.A.

Notes to the interim financial information (Continued)

June 30, 2014

(In thousands of Brazilian Reals - R\$, except when indicated otherwise)

### 17. Deferred revenue (Continued)

Current	<b>161,014</b>	119,669
Non current	<b>371,932</b>	267,225

Breakage consists of a statistical calculation of miles issued for which there is no expectation of redemption, miles that will expire without the expectation of use, recognized in advance in the earnings of the period.

### 18. Provisions

#### Lawsuits

Balance as of December 31, 2013	104
Additions	340
Utilized provisions	(93)
Balance as of June 30, 2014	<b>350</b>

Lawsuits provisions are reviewed based on the progress of the proceedings and history of losses based on the best current estimate for labor and civil lawsuits.

As of June 30, 2014 the Company is involved with 377 civil judicial and administrative procedures.

The civil proceedings are primarily related to compensation claims generally to redeem miles for exchange in prizes. As of June 30, 2014, the allowance for risks related to civil lawsuits with probable losses is R\$252 (R\$104 as of December 31, 2013).

There are other civil lawsuits assessed by management and its legal counsel as to possible loss, with an estimated exposure of R\$396 as of June 30, 2014 (R\$370 as of December 31, 2013), for which no provision was registered.

The Company has no lawsuits in respect of labor and tax.

### 19. Shareholders' equity

#### a) Issued capital

On June 30, 2014, the share capital subscribed and fully paid by shareholders domiciled in Brazil, was R\$1,132,174, represented by 122,173,912 common shares, nominative, without face value, paid primarily with funds from the public offering of shares of the Company held on April 25, 2013. The authorized share capital as of June 30, 2014 was 139,999,999 common shares. Shares are held as follows:

## Smiles S.A.

Notes to the interim financial information (Continued)

June 30, 2014

(In thousands of Brazilian Reais - R\$, except when indicated otherwise)

### 19. Shareholders' equity (Continued)

#### a) Issued capital (Continued)

	<u>03/31/2014</u>	<u>12/31/2013</u>
	<u>Common</u>	<u>Common</u>
Gol Linhas Aéreas Inteligentes S.A.	54.386%	57.295%
G.A. Brasil V Fundo de Investimento em Participações	17.865%	15.088%
Others	27.749%	27.617%
	<u>100.000%</u>	<u>100.000%</u>

On May 05, 2014, was approved on the Company's General Meeting the capital increase of R\$2,533 from subscription of 126,147 ordinary shares of stock options, at price of R\$20.08 per share. The Company also recorded the amount of R\$1,956 related to the issuance of 97,375 through exercise of the stock options that is in progress of payment under "Capital".

The Company shares as of June 30, 2014 quoted on the São Paulo Stock Exchange - BOVESPA amounted R\$46.98 each. The book value per share as of June 30, 2014 is R\$10.88 (R\$11.03 as of December 31, 2013).

#### b) Share issuance costs

Costs incurred for the capital increase through the issue of shares by the Company amounted to R\$55,155 in February 2013, which, net of tax, represents R\$36,402.

#### c) Share-based payments

As of June 30, 2014, the amount recorded related to share-based payment expenses was R\$2,210 (R\$1,848 as of December 31, 2013). During the period ended June 30, 2014, the Company registered R\$282 in the statement of profit or loss classified as personnel costs, and R\$80 was registered under current assets as "related parties transactions".

#### d) Dividends and interest on capital

The Company's bylaws provide for a mandatory minimum dividend to be paid to shareholders, in the aggregate of at least 25% of annual adjusted profit under the article n. 202 of the "Lei das Sociedades por Ações (LSA - 11.638/2007)". The Company can chose the additional dividends distribution, and if the Company choses to pay, it should be submitted to the Company's Board of Directors meeting. If approved the Company maintains the portion that exceeds that anticipated by Law on its equity, in a specified account, until the final approval.

## Smiles S.A.

Notes to the interim financial information (Continued)

June 30, 2014

(In thousands of Brazilian Reais - R\$, except when indicated otherwise)

### 19. Shareholders' equity (Continued)

#### d) Dividends and interest on capital (Continued)

The remaining balance of net income for the year ended on December 31, 2013 designated after capital reserves and dividends distribution in the amount of R\$148,089 was classified as additional dividends suggested in equity in accordance with Management's proposition for the net income destination on December 31, 2013, which was submitted for approval to the Shareholders' Ordinary General Meeting, on April 30, 2014. The value per share of the proposed additional dividend distribution amounts to R\$1.21 per share.

#### e) Capital reserve

The goodwill special reserve is originated by the reverse incorporation of its shareholder G.A. Smiles Participações S.A. on December 31, 2013. This reserve can be used for capital increase at the end of each year after the amortization of the related tax benefit. The amount as of June 30, 2014 was R\$72,942.

#### f) Legal reserve

It is recognized by allocating 5% of the profit for the year after the absorption of accumulated losses in accordance with Article 193 of Law 11,638/07, limited to 20% of the capital, according to the Brazilian Corporate Law and the Company's bylaws.

### 20. Sales revenue

The net sales revenue for the period has the following composition:

	Three-month period ended on		Six-month period ended on	
	06/30/2014	06/30/2013	06/30/2014	06/30/2013
Revenue from redeemed miles	114,332	63,272	226,441	110,044
Smiles & Money revenue	37,612	43,795	107,626	99,020
Breakage revenue and expired miles	14,564	15,982	38,952	41,145
Other operating income (a)	1,325	1,828	2,277	3,281
Gross revenue	167,833	124,877	375,296	253,490
Taxes	(15,548)	(11,643)	(34,922)	(23,613)
Net revenue	152,285	113,234	340,374	229,877

- (a) Is related to the management fee of the Smiles Program relationship charged to VRG, as described in Note 8. The total amount registered for the three-month and six-month period was R\$1,325 and R\$2,277 respectively (R\$1,828 and R\$3,281 for the three-month and six-month period ended June 30, 2013).

## Smiles S.A.

Notes to the interim financial information (Continued)

June 30, 2014

(In thousands of Brazilian Reais - R\$, except when indicated otherwise)

### 21. Costs of redeeming rewards, selling expenses and administrative expenses

	Three-month period ended on									
	06/30/2014					06/30/2013				
	Cost of award redemption	Selling expenses	Administrative expenses	Total	%	Cost of award redemption	Selling expenses	Administrative expenses	Total	%
Salaries	-	(3,300)	(3,426)	(6,726)	6.5	-	(2,942)	(2,664)	(5,606)	7.8
Cost of purchase of airline tickets (a)	(74,599)	-	-	(74,599)	72.2	(51,831)	-	-	(51,831)	72.5
Cost of purchase of various products	(1,147)	-	-	(1,147)	1.1	(409)	-	-	(409)	0.6
Computer services	(4,055)	-	(590)	(4,645)	4.5	(1,852)	-	(29)	(1,881)	2.6
Call center	-	(3,471)	-	(3,471)	3.4	-	(3,138)	-	(3,138)	4.4
Services	-	-	(3,065)	(3,065)	3.0	-	-	(988)	(988)	1.4
Sales and marketing	-	(7,065)	-	(7,065)	6.8	-	(6,187)	-	(6,187)	8.6
Depreciation and amortization	(814)	-	-	(814)	0.8	(19)	-	-	(19)	0.0
Other	(239)	-	(1,484)	(1,723)	1.8	(8)	-	(1,529)	(1,537)	2.1
	<b>(80,854)</b>	<b>(13,836)</b>	<b>(8,565)</b>	<b>(103,255)</b>	<b>100.0</b>	<b>(54,119)</b>	<b>(12,267)</b>	<b>(5,210)</b>	<b>(71,596)</b>	<b>100.0</b>

## Smiles S.A.

Notes to the interim financial information (Continued)

June 30, 2014

(In thousands of Brazilian Reais - R\$, except when indicated otherwise)

### 21. Costs of redeeming rewards, selling expenses and administrative expenses (Continued)

	Six-month period ended on					Six-month period ended on				
	06/30/2014					06/30/2013				
	Cost of award redemption	Selling expenses	Administrative expenses	Total	%	Cost of award redemption	Selling expenses	Administrative expenses	Total	%
Salaries	-	(6,614)	(6,475)	(13,089)	5.9	-	(3,968)	(5,461)	(9,429)	6.5
Cost of purchase of airline tickets (a)	(171,041)	-	-	(171,041)	76.9	(106,251)	-	-	(106,251)	73.4
Cost of purchase of various products	(1,533)	-	-	(1,533)	0.7	(650)	-	-	(650)	0.4
Computer services	(6,678)	-	(676)	(7,354)	3.3	(3,386)	-	(484)	(3,870)	2.7
Call center	-	(6,984)	-	(6,984)	3.1	-	(6,570)	-	(6,570)	4.5
Services	-	-	(4,046)	(4,046)	1.8	-	-	(5,345)	(5,345)	3.7
Sales and marketing	-	(13,383)	-	(13,383)	6.0	-	(10,952)	-	(10,952)	7.6
Depreciation and amortization	(919)	-	-	(919)	0.4	(19)	-	-	(19)	0.0
Other	(472)	-	(3,486)	(3,958)	1.8	(53)	-	(1,612)	(1,665)	1.2
	<b>(180,643)</b>	<b>(26,981)</b>	<b>(14,683)</b>	<b>(222,307)</b>	<b>100.0</b>	<b>(110,359)</b>	<b>(21,490)</b>	<b>(12,902)</b>	<b>(144,751)</b>	<b>100.0</b>

- (a) From the total amount of R\$63,158 for the three-month period and R\$152,791 for the six-month period ended on June 30, 2014 (R\$50,227 and R\$103,126 for the three-month and six-month period ended June 30, 2013), related to flight tickets costs with VRG and R\$11,442 for the three-month period and R\$18,250 for the six-month period ended June 30, 2014 (R\$1,604 and R\$3,125 for the three and six-month period ended June 30, 2013), from flight tickets purchase from airline partners.

## Smiles S.A.

Notes to the interim financial information (Continued)

June 30, 2014

(In thousands of Brazilian Reals - R\$, except when indicated otherwise)

### 22. Financial result

	Three-month period ended on		Six-month period ended on	
	06/30/2014	06/30/2013	06/30/2014	06/30/2013
<b>Financial income</b>				
Obtained discounts	38,106	29,819	77,348	31,351
Income from Short-term Investments	11,976	2,304	22,626	2,590
Other financial revenue	36	30	75	31
	<b>50,118</b>	<b>32,153</b>	<b>100,049</b>	<b>33,972</b>
<b>Financial expenses</b>				
Tax on financial and currency operations (IOF-IOC)	(10)	11	(24)	(15)
Cost of Issued Shares	(212)	-	(213)	-
Others	(210)	(3)	(213)	(16)
	<b>(432)</b>	<b>8</b>	<b>(450)</b>	<b>(31)</b>
<b>Foreign Exchange Changes, net</b>	<b>270</b>	<b>(185)</b>	<b>627</b>	<b>(185)</b>
<b>Total</b>	<b>49,956</b>	<b>31,976</b>	<b>100,226</b>	<b>33,756</b>

On "obtained discounts" is registered the amount of R\$38,106 and R\$77,348 for the three and six-month period ended June 30, 2014, respectively (R\$29,819 and R\$31,351 for the three and six-month period ended June 30, 2013, respectively) related to anticipated purchases of tickets with VRG as explained in Note 6 - Advances to suppliers.

### 23. Financial instruments

The description of the account balances and the categories of financial instruments included in the balance sheet as of June 30, 2014 is as follows:

	Measured at fair value through profit or loss		Measured at amortized cost	
	06/30/2014	12/31/2013	06/30/2014	12/31/2013
<b>ASSETS</b>				
Cash and bank deposits	2,771	-	-	1,337
Cash and cash equivalents	393,438	152,906	-	-
Short-term investments	73,127	228,489	-	-
Trade receivables	-	-	79,226	49,637
Related-party transactions	-	-	24,730	48,990
Other	-	-	353	831
<b>LIABILITY</b>				
Accounts payable	-	-	40,994	16,094
Debts to Affiliates	-	-	12,500	-



## Smiles S.A.

Notes to the interim financial information (Continued)

June 30, 2014

(In thousands of Brazilian Reals - R\$, except when indicated otherwise)

### 23. Financial instruments (Continued)

Financial assets and financial liabilities are measured at amortized cost. Their carrying amount approximates their fair value due to their nature and to their short-term maturity.

Management manages the financial instruments in accordance with a formal guideline, consistent with the Risk Management Policy of parent GLAI, periodically defined by the Financial Policies and Risk Committee and submitted to GLAI's Board of Directors. The Committee establishes the guidelines and the limits, and monitors the controls, including the mathematical models adopted for the continuous monitoring of the exposures and possible financial impacts, as well as to prevent the use of speculative transactions with financial instruments.

#### Risks

The operating activities expose the Company and its subsidiaries to the following financial risks: market (including currency risk and interest rate risk), credit and liquidity risks. The Company's risk management policy aims at mitigating potential adverse effects from transactions that could affect its financial performance.

The Company's decisions on the exposure portion to be hedged against financial risk, both for currency and interest rate exposures, considers the risks and hedge costs.

Until June 30, 2014, the Company has not entered into any financial instruments related to derivative transactions.

#### a) Market

##### i) *Interest rate risk*

The Company is exposed to fluctuations in interest rates in respect of interest income generated by cash balances and short-term investments. The Company has no derivatives in respect of cash flow hedges on interest rate fluctuations as of June 30, 2014.

##### ii) *Sensitivity analysis*

The sensitivity analysis of financial instruments was prepared according to CVM Instruction 475/08, in order to estimate the impact on the fair value of financial instruments operated by the Company, considering three scenarios considered in the risk variable: most likely scenario, the assessment of the Company; deterioration of 25% (possible adverse scenario) in the risk variable, deterioration 50% (remote adverse scenario).

## Smiles S.A.

Notes to the interim financial information (Continued)

June 30, 2014

(In thousands of Brazilian Reals - R\$, except when indicated otherwise)

### 23. Financial instruments (Continued)

a) Market (Continued)

ii) *Sensitivity analysis* (Continued)

The estimates presented, since they are based on simple statistics, do not necessarily reflect the amounts to be reported in the next financial statements. The use of different methodologies and /or assumptions may have a material effect on the estimates presented.

Additionally, the Company must present in its sensitivity analysis of derivative instruments the risk that may result in material losses, directly or indirectly considering the following elements, as determined by CVM Instruction no. 475/08:

- The likely scenario is defined as the expected scenario by the Company and referenced by an independent external source;
- The possible adverse scenario considers a deterioration of 25% in the major risk variable that determines the fair value of financial instruments; and
- The remote adverse scenario considers a deterioration of 50% in the major risk variable that determines the fair value of financial instruments.

The only financial instruments that the Company owns are investments in Bank Deposit Certificates (CDB) and investment funds, classified as cash equivalents and short term investments. The Company measured its non-derivative financial instruments, considering the impact of quarterly interest on the values exposed on June 30, 2014, from changes in interest rates and the scenarios as follows:

The likely scenario adopted by the Company is the market levels maintenance.

<b>Instrument</b>	<b>Risk</b>	<b>Exposed values</b>	<b>Possible adverse scenario 25% (*)</b>	<b>Remote adverse scenario 50% (*)</b>	<b>Possible favorable scenario 25%</b>	<b>Remote favorable scenario 50%</b>
Cash equivalents	Reduction of CDI	393,438	(9,510)	(19,021)	19,021	19,021
Short term investments	Reduction of CDI	73,127	(1,786)	(3,571)	3,571	3,571

(\*) These values represent the estimated amount of gains reduction, given the adverse scenarios presented above.

## Smiles S.A.

Notes to the interim financial information (Continued)

June 30, 2014

(In thousands of Brazilian Reals - R\$, except when indicated otherwise)

### 23. Financial instruments (Continued)

#### b) Credit risk

The credit risk is inherent in the Company's operating and financing activities, mainly represented by trade receivables, cash and cash equivalents, including bank deposits.

The "trade receivable" credit risk consists of amounts falling due from the largest credit card companies, with a credit risk better than or equal to those of the Company, and receivables from non-airline partners.

As defined in the Risk Management Policy, the Company is required to evaluate, for the more relevant clients, the counterparty risks in financial instruments and diversify the exposure. Financial instruments are performed with counterparties rated at least as investment grade by S&P and Moody's.

#### c) Liquidity risk

Liquidity risk takes on two distinct forms: market liquidity risk and cash flow liquidity risk. The first is related to current market prices and varies in accordance with the types of assets and the markets where they are traded. Cash flow liquidity risk, however, is related to difficulties in meeting the contracted operating obligations at the agreed dates.

As a way of managing the liquidity risk, the Company invests its funds in liquid assets, basically represented by CDBs and buy-back transactions. The Company maintains a strong dependence on its associate VRG and on financial institutions, which together represents almost the entire Company revenue source. A reduction of the sale of miles to any main partner or business relationship severance may result in adverse events that could significantly impact the Company's results.

#### d) Exchange rate risk

The Company has a low volume of foreign currency transactions, which are mainly represented by purchase of tickets with counterparts. Therefore, exchange rate risks which the Company is exposed are not significant given to the low volume of such transactions.

#### e) Capital management

The Company remains committed to maintain high liquidity, and to ensure continued operations over time, providing its shareholders a strong capital base, as well as a return of benefits to other stakeholders. The available resources are sufficient to meet current liabilities.

## Smiles S.A.

Notes to the interim financial information (Continued)

June 30, 2014

(In thousands of Brazilian Reais - R\$, except when indicated otherwise)

### 23. Financial instruments (Continued)

e) Capital management (Continued)

As of June 30, 2014 the Company had no financial leverage.

f) Measurement of the fair value of financial instruments

In order to comply with the disclosure requirements for financial instruments measured at fair value, the Company must classify its instruments in Levels 1 to 3, based on observable fair value levels:

- a) *Level 1*: Fair value measurements are calculated based on quoted prices (without adjustment) in active market or identical liabilities;
- b) *Level 2*: Fair value measurements are calculated based on other variables besides quoted prices included in Level 1, that are observable for the asset or liability directly (such as prices) or indirectly (derived from prices); and
- c) *Level 3*: Fair value measurements are calculated based on valuation methods that include the asset or liability but that are not based on observable market variables (unobservable inputs).

The following table states a summary of the Company's financial instruments measured at fair value, including their related classifications of the valuation method, as of June 30, 2014.

<u>Financial instrument</u>	<u>Book value</u>	<u>Other significant observable factors (Level 2)</u>
Cash equivalents	393.438	393.438
Short term investments	73.127	73.127

### 24. Insurance (Non audited)

As of June 30, 2014, the main insurance coverage by nature, and related to the maximum reimbursable amounts, is as follows:

<u>Modality</u>	<u>In BR Reais</u>
Bail lessor (condominium Rio Negro - Alphaville)	946
Civil responsibility	50,000
Fire (asset insurance condominium Rio Negro - Alphaville)	7,625

The work scope of our auditors does not include the review of the sufficiency of the insurance coverage, which was determined by the Company to cover possible losses.

## **Smiles S.A.**

Notes to the interim financial information (Continued)

June 30, 2014

(In thousands of Brazilian Reais - R\$, except when indicated otherwise)

### **25. Non-cash transactions**

As of June 30, 2014, the Company recorded the amount of R\$ 18,750 related to the affiliate Company obligation due to the acquisition of Netpoints S.A. with counterpart in "Investments". This transaction did not affect its cash position during the period ended June 30, 2014.

### **26. Subsequent events**

- a) On April 30, 2014, was approved by the Extraordinary Shareholders' Meeting and the proposition for the reduction of the Company's capital in the amount of R\$1,000,000 (one billion Reais), without reducing the number of shares, with the consequent amendment of the 5<sup>th</sup> Article of the Bylaws. The restitution to its shareholders will occur upon: (i) delivery of its own resources arising from the Company's cash; and (ii) debt contract with financial institutions, worth up to R\$700,000.
- b) On July 03, 2014, it was approved the capital subscription of R\$1,956 related to the issuance of 97,375 from the exercise of stock options.
- c) On July 15, 2014 it was approved the first debentures issuance of 60,000 debentures non-convertible with main value of R\$600,000, under the terms of Instruction CVM 476 from 2009. The debentures will be paid at 115% of CDI rate, with monthly amortization in 12 consecutive installments, maturing as of August 04, 2014 with possibility of anticipated maturity and redemption. The funds obtained from the issuance will be exclusively utilized by the Company to the payment of its shareholders, of the amount of the decrease on capital.