
PortobelloGrupo

Contents

Company information / Breakdown of Capital

Quantity of shares (Thousand)	Last fiscal year 12/31/2017
Paid-in capital	
Common	**158,489**
Preferred	0
Total	**158,489**
Treasury	
Common	0
Preferred	0
Total	0

Individual financial statements / Balance sheet – Assets

(In thousand of reais)

Code of account	Account description	Last year 12/31/2017	Penultimate year 12/31/2016	Antepenultimate year 12/31/2015
1	Total assets	1,306,897	1,300,544	1,421,200
1.01	Current assets	520,623	529,775	611,817
1.01.01	Cash and cash equivalents	78,756	100,085	81,761
1.01.02	Interest earning bank deposits	0	0	100,478
1.01.03	Accounts receivable	203,703	202,658	175,837
1.01.03.01	Trade accounts receivable	203,703	202,658	175,837
1.01.04	Inventories	179,166	185,605	205,088
1.01.06	Recoverable taxes	14,496	16,943	20,153
1.01.06.01	Current taxes recoverable	14,496	16,943	20,153
1.01.06.01.01	Income and social contribution tax recoverable	4,034	4,330	4,964
1.01.06.01.02	Other current taxes recoverable	10,462	12,613	15,189
1.01.08	Other current assets	44,502	24,484	28,500
1.01.08.03	Other	44,502	24,484	28,500
1.01.08.03.01	Dividends receivable	32,529	15,893	14,850
1.01.08.03.03	Advance to suppliers	4,594	3,025	2,796
1.01.08.03.04	Other	7,379	5,566	10,854
1.02	Non-current assets	786,274	770,769	809,383
1.02.01	Long-term assets	336,233	330,824	354,216
1.02.01.08	Related party credits	162,512	158,473	168,864
1.02.01.08.02	Credits from subsidiaries	67,861	69,050	84,263
1.02.01.08.04	Other related party credits	94,651	89,423	84,601
1.02.01.09	Other non-current assets	173,721	172,351	185,352
1.02.01.09.03	Judicial deposits	93,470	81,693	59,899
1.02.01.09.04	Receivables - Eletrobrás	12,821	32,208	48,621
1.02.01.09.05	Recoverable taxes	6,407	6,124	10,477
1.02.01.09.06	Tax assets	45,969	26,735	22,718
1.02.01.09.07	Actuarial assets	5,758	4,369	9,676
1.02.01.09.08	Interest earning bank deposits	6,938	6,451	5,826
1.02.01.09.09	Advance for future capital increase	0	13,976	27,321

Individual financial statements / Balance sheet – Assets

(In thousand of reais)

Code of account	Account description	Last year 12/31/2017	Penultimate year 12/31/2016	Antepenultimate year 12/31/2015
1.02.01.09.10	Other	2,358	795	814
1.02.02	Investments	9,429	1,696	678
1.02.02.01	Ownership interest	9,429	1,696	678
1.02.02.01.02	Interest in subsidiaries	9,131	1,454	480
1.02.02.01.04	Other ownership interest	298	242	198
1.02.03	Property, plant and equipment	431,122	425,256	436,679
1.02.04	Intangible assets	9,490	12,993	17,810

Individual financial statements/ Balance sheet – Liabilities

(In thousand of reais)

Code of account	Account description	Last year 12/31/2017	Penultimate year 12/31/2016	Antepenultimate year 12/31/2015
2	Total liabilities	1,306,897	1,300,544	1,421,200
2.01	Current liabilities	403,124	395,330	417,770
2.01.01	Social and labor obligations	27,879	24,382	26,192
2.01.02	Suppliers	112,413	98,557	112,665
2.01.03	Tax obligations	28,463	23,927	18,858
2.01.03.01	Federal tax obligations	28,463	23,927	18,858
2.01.03.01.02	Installment payment of tax obligations	14,033	9,788	9,018
2.01.03.01.03	Taxes, rates and contributions	14,430	14,139	9,840
2.01.04	Loans and financing	146,402	197,004	210,714
2.01.04.01	Loans and financing	98,678	171,249	210,053
2.01.04.02	Debentures	47,724	25,755	661
2.01.05	Other obligations	83,678	51,460	45,476
2.01.05.02	Other	83,678	51,460	45,476
2.01.05.02.04	Credit granting from suppliers	35,127	21,522	15,642
2.01.05.02.05	Advance from clients	10,959	12,699	13,732
2.01.05.02.06	Dividends payable	6,002	879	7,646
2.01.05.02.07	Accounts payable from investments	19,049	0	0
2.01.05.02.08	Other	12,541	16,360	8,456
2.01.06	Provisions	4,289	0	3,865
2.01.06.02	Other provisions	4,289	0	3,865
2.01.06.02.06	Provision for profit sharing	0	0	3,865
2.02	Non-current liabilities	618,725	666,766	771,584
2.02.01	Loans and financing	365,982	388,468	485,904
2.02.01.01	Loans and financing	238,003	214,424	289,067
2.02.01.02	Debentures	127,979	174,044	196,837
2.02.02	Other obligations	140,722	137,864	120,842
2.02.02.02	Other	140,722	137,864	120,842
2.02.02.02.03	Suppliers	78,496	68,990	47,923
2.02.02.02.06	Installment payment of tax obligations	62,226	68,874	72,919

Individual financial statements/ Balance sheet – Liabilities

(In thousand of reais)

Code of account	Account description	Last year 12/31/2017	Penultimate year 12/31/2016	Antepenultimate year 12/31/2015
2.02.03	Deferred taxes	14,186	7,603	21,665
2.02.03.01	Deferred income and social contribution taxes	14,186	7,603	21,665
2.02.04	Provisions	97,835	132,831	143,173
2.02.04.02	Other provisions	97,835	132,831	143,173
2.02.04.02.04	Provision for loss on investments	67,717	74,515	93,389
2.02.04.02.05	Provisions for contingencies	28,183	51,004	41,075
2.02.04.02.06	Provision for long-term incentive	1,935	7,312	8,709
2.03	Shareholders' equity	285,048	238,448	231,846
2.03.01	Realized capital	130,000	119,565	99,565
2.03.03	Revaluation reserves	35,876	0	0
2.03.04	Profit reserves	159,220	121,129	139,193
2.03.04.01	Legal reserve	18,426	15,219	15,113
2.03.04.05	Profit retention reserve	95,400	103,197	86,070
2.03.04.08	Additional dividend proposed	15,232	0	12,504
2.03.04.10	Profit reserve to be allocated	30,162	2,713	25,506
2.03.05	Retained Earnings/Losses	0	0	0
2.03.06	Equity valuation adjustments	-40,048	0	0
2.03.08	Other comprehensive income	0	-2,246	-6,912

Individual financial statements / Statement of income

(In thousand of reais)

Code of account	Account description	Last year 01/01/2017–12/31/2017	Penultimate year 01/01/2016 à31/12/2016	Antepenultimate year 01/01/2015–12/31/2015
3.01	Income from sales of goods and/or services	929,818	926,076	931,873
3.02	Cost of goods and/or services sold	-603,886	-649,256	-612,785
3.03	Gross income (loss)	325,932	276,820	319,088
3.04	Operating expenses/income	-187,402	-207,438	-196,657
3.04.01	Sales expenses	-204,156	-202,719	-166,825
3.04.02	General and administrative expenses	-35,251	-29,839	-31,122
3.04.04	Other operating income	40,997	19,080	8,040
3.04.04.01	Other operating income	40,997	19,080	8,040
3.04.05	Other operating expenses	-27,015	-16,501	-17,551
3.04.05.01	Other operating expenses	-27,015	-16,501	-17,551
3.04.06	Equity in net income of subsidiaries	38,023	22,541	10,801
3.05	Income (loss) before financial income (loss) and taxes	138,530	69,382	122,431
3.06	Financial income (loss)	-67,811	-80,169	-57,757
3.06.01	Financial income	24,165	34,642	49,432
3.06.01.01	Financial income	24,185	30,335	49,432
3.06.01.02	Net exchange rate change	-20	4,307	0
3.06.02	Financial expenses	-91,976	-114,811	-107,189
3.06.02.01	Financial expenses	-91,976	-114,811	-75,537
3.06.02.02	Net exchange rate change	0	0	-31,652
3.07	Income (loss) before income taxes	70,719	-10,787	64,674
3.08	Income and social contribution taxes on net income	-6,583	12,912	-12,022
3.08.01	Current	0	0	-20,541
3.08.02	Deferred	-6,583	12,912	8,519
3.09	Net income (loss) from continued operations	64,136	2,125	52,652
3.11	Income/loss for the period	64,136	2,125	52,652
3.99	Earnings per share - (Reais / Share)			
3.99.02	Diluted earnings per share			
3.99.02.01	Common shares	0.37654	0.01341	0.33221

Individual financial statements / Statement of comprehensive income

(In thousand of reais)

Code of account	Account description	Last year 01/01/2017–12/31/2017	Penultimate year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015
4.01	Net income for the period	64,136	2,125	52,652
4.02	Other comprehensive income	-1,003	5,864	-22,669
4.02.02	Actuarial liability	-1,003	-7,327	2,790
4.02.04	Exchange rate change in foreign subsidiary	0	13,191	-25,459
4.03	Comprehensive income for the period	63,133	7,989	29,983

Individual financial statements / Statement of cash flows - Indirect method

(In thousand of reais)

Code of account	Account description	Last year 01/01/2017–12/31/2017	Penultimate year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015
6.01	Net cash from operating activities	67,386	105,348	-11,575
6.01.01	Cash generated in operations	94,187	75,425	155,143
6.01.01.01	Income/loss for the year before taxes	70,719	-10,787	64,674
6.01.01.02	Depreciation and amortization	36,841	36,882	31,316
6.01.01.03	Equity in net income of subsidiaries	-38,023	-22,541	-10,801
6.01.01.04	Unrealized exchange rate change	7,672	-9,091	35,128
6.01.01.05	Provision for inventory at market value	-2,453	3,327	-506
6.01.01.06	Allowance for doubtful accounts	-464	1,768	54
6.01.01.07	Provisions for contingencies	-18,609	12,220	14,683
6.01.01.08	Provisions for labor obligations	-1,997	510	-1,796
6.01.01.09	Profit sharing and long-term incentives	-1,088	-5,262	-2,967
6.01.01.10	Other provisions	-4,356	-7,322	-224
6.01.01.11	Restatement of Eletrobrás compulsory loans	19,387	16,413	0
6.01.01.12	Restatement of tax assets	-19,234	-4,017	-7,332
6.01.01.13	Restatement of credits from other related parties	-5,228	-4,822	-7,406
6.01.01.14	Restatements of financial charges on tax installments	4,903	6,405	6,716
6.01.01.15	Accrued interest on loans	51,577	61,628	35,742
6.01.01.16	Negative goodwill on credits received from related parties	0	0	1,698
6.01.01.17	Actuarial assets	-261	-2,019	-1,811
6.01.01.19	Other	-5,200	2,133	-2,025
6.01.02	Changes in assets and liabilities	24,861	94,730	-108,074
6.01.02.01	(Increase)/Decrease in accounts receivable	-581	-28,331	3,217
6.01.02.02	Increase/(Decrease) in advance from clients	-1,740	-1,033	1,457
6.01.02.04	(Increase)/Decrease in inventories	8,892	16,156	15,351
6.01.02.05	(Increase)/Decrease in judicial deposits	-11,777	-21,794	-13,335
6.01.02.06	(Increase)/Decrease in credits from related parties	0	0	10,000
6.01.02.07	(Increase)/Decrease in recoverable taxes	1,868	6,929	8,831
6.01.02.08	(Increase)/Decrease in pledged financial investments	-487	99,853	-106,304
6.01.02.09	(Increase)/Decrease in other assets	-3,376	5,307	-4,222

Individual financial statements / Statement of cash flows - Indirect method

(In thousand of reais)

Code of account	Account description	Last year 01/01/2017–12/31/2017	Penultimate year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015
6.01.02.10	Increase/(Decrease) in accounts payable	36,967	13,155	-6,798
6.01.02.11	(Increase)/Decrease in advance to suppliers	-1,569	-229	361
6.01.02.12	Increase/(Decrease) in provisions for contingency	-4,212	-2,291	-1,271
6.01.02.13	Increase/(Decrease) in installment payments	-7,306	-9,680	-8,965
6.01.02.14	Increase/(Decrease) in Tax and labor obligations	6,081	1,462	-6,661
6.01.02.15	Increase/(Decrease) in other accounts payable	2,101	15,226	265
6.01.03	Other	-51,661	-64,807	-58,644
6.01.03.01	Interest paid	-51,661	-64,807	-38,372
6.01.03.02	Income and social contribution taxes paid	0	0	-20,272
6.02	Net cash used in investment activities	-2,172	8,749	-144,707
6.02.01	Acquisition of fixed assets	-18,336	-20,310	-98,174
6.02.02	Acquisition of intangible assets	-1,863	-1,076	-5,329
6.02.03	Dividends received	15,892	14,851	15,234
6.02.04	Paid-up capital in subsidiaries	0	-10	-440
6.02.05	Receipt from the sale of permanent assets	-56	-44	0
6.02.06	Advance for future capital increase	0	13,345	-58,724
6.02.07	(Granting)/Receipt of credits from related parties	2,190	1,993	2,726
6.03	Net cash from financing activities	-86,542	-95,773	150,240
6.03.01	Funding of loans and financing and debentures	117,804	109,415	422,804
6.03.02	Payment of loans and financing	-194,237	-197,034	-227,928
6.03.03	Dividends paid	-10,109	-8,154	-44,636
6.05	Increase (decrease) in cash and cash equivalents	-21,329	18,324	-6,042
6.05.01	Opening balance of cash and cash equivalents	100,085	81,761	87,803
6.05.02	Closing balance of cash and cash equivalents	78,756	100,085	81,761

Individual financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2017–12/31/2017

(In thousand of reais)

Code of account	Account description	Paid-up capital	Capital reserves, options granted and treasury shares	Profit reserves	Retained earnings or losses	Other comprehensive income	Shareholders' equity
5.01	Opening balances	119,565	0	121,129	0	-2,246	238,448
5.03	Adjusted opening balances	119,565	0	121,129	0	-2,246	238,448
5.04	Capital transactions with partners	0	0	-75	-16,719	0	-16,794
5.04.06	Dividends	0	0	0	-5,618	0	-5,618
5.04.07	Interest on own capital	0	0	-75	-11,101	0	-11,176
5.05	Total comprehensive income	0	0	0	65,320	-1,926	63,394
5.05.01	Net income for the period	0	0	0	64,136	0	64,136
5.05.02	Other comprehensive income	0	0	0	1,184	-1,926	-742
5.05.02.06	Realization of revaluation reserve	0	0	0	1,184	-1,184	0
5.05.02.07	Exchange rate change of foreign subsidiary	0	0	0	0	-1,003	-1,003
5.05.02.08	Actuarial gain (loss)	0	0	0	0	261	261
5.06	Internal changes in shareholders' equity	10,435	0	38,166	48,601	0	0
5.06.04	Allocations after 2017 Annual Shareholders' Meeting - Capital increase	10,435	0	-10,435	0	0	0
5.06.05	Allocation after 2017 Annual Shareholders' Meeting – Approval of Additional Dividends	0	0	15,232	-15,232	0	0
5.06.06	Formation of legal reserve (5%)	0	0	3,207	-3,207	0	0
5.06.07	Formation of profit reserves to be allocated	0	0	30,162	-30,162	0	0
5.07	Closing balances	130,000	0	159,220	0	-4,172	285,048

Individual financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2016–12/31/2016

(In thousand of reais)

Code of account	Account description	Paid-up capital	Capital reserves, options granted and treasury shares	Profit reserves	Retained earnings or losses	Other comprehensive income	Shareholders' equity
5.01	Opening balances	99,565	0	139,193	0	-6,912	231,846
5.03	Adjusted opening balances	99,565	0	139,193	0	-6,912	231,846
5.04	Capital transactions with partners	0	0	-883	-504	0	-1,387
5.04.06	Dividends	0	0	0	-504	0	-504
5.04.07	Interest on own capital	0	0	-883	0	0	-883
5.05	Total comprehensive income	0	0	0	3,323	4,666	7,989
5.05.01	Net income for the period	0	0	0	2,125	0	2,125
5.05.02	Other comprehensive income	0	0	0	1,198	4,666	5,864
5.05.02.06	Realization of revaluation reserve	0	0	0	1,198	-1,198	0
5.05.02.07	Exchange rate change of foreign subsidiary	0	0	0	0	13,191	13,191
5.05.02.08	Actuarial gain (loss)	0	0	0	0	-7,327	-7,327
5.06	Internal changes in shareholders' equity	20,000	0	-17,181	-2,819	0	0
5.06.04	Allocations after 2016 Annual Shareholders' Meeting – Capital increase	20,000	0	-20,000	0	0	0
5.06.06	Formation of legal reserve (5%)	0	0	106	-106	0	0
5.06.07	Formation of profit reserves to be allocated	0	0	2,713	-2,713	0	0
5.07	Closing balances	119,565	0	121,129	0	-2,246	238,448

Individual financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2015–12/31/2015

(In thousand of reais)

Code of account	Account description	Paid-up capital	Capital reserves, options granted and treasury shares	Profit reserves	Retained earnings or losses	Other comprehensive income	Shareholders' equity
5.01	Opening balances	76,565	0	143,749	0	16,956	237,270
5.03	Adjusted opening balances	76,565	0	143,749	0	16,956	237,270
5.04	Capital transactions with partners	0	0	0	-13,209	0	-13,209
5.04.06	Dividends	0	0	0	-7,269	0	-7,269
5.04.07	Interest on own capital	0	0	0	-5,940	0	-5,940
5.05	Total comprehensive income	0	0	0	53,851	-23,868	29,983
5.05.01	Net income for the period	0	0	0	52,652	0	52,652
5.05.02	Other comprehensive income	0	0	0	1,199	-23,868	-22,669
5.05.02.06	Realization of revaluation reserve	0	0	0	1,199	-1,199	0
5.05.02.07	Exchange rate change of foreign subsidiary	0	0	0	0	-25,459	-25,459
5.05.02.08	Actuarial gain (loss)	0	0	0	0	2,790	2,790
5.06	Internal changes in shareholders' equity	23,000	0	-4,556	-40,642	0	-22,198
5.06.04	Allocations after 2015 Annual Shareholders' Meeting - Capital increase	23,000	0	-23,000	0	0	0
5.06.05	Allocations after 2015 Annual Shareholders' Meeting – Approval of Additional Dividends	0	0	-22,198	0	0	-22,198
5.06.06	Formation of legal reserve (5%)	0	0	2,632	-2,632	0	0
5.06.07	Formation of profit reserves to be allocated	0	0	38,010	-38,010	0	0
5.07	Closing balances	99,565	0	139,193	0	-6,912	231,846

Individual financial statements / Statement of added value

(In thousand of reais)

Code of account	Account description	Last year 01/01/2017–12/31/2017	Penultimate year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015
7.01	Income	1,190,896	1,189,260	1,205,418
7.01.01	Sale of goods, products and services	1,146,609	1,162,983	1,158,487
7.01.02	Other income	41,904	26,787	14,363
7.01.03	Income from construction of own assets	1,919	1,258	32,622
7.01.04	Formation/reversal of allowance for doubtful accounts	464	-1,768	-54
7.02	Inputs acquired from third parties	-584,180	-618,670	-623,310
7.02.01	Cost of products, goods and services sold	-401,452	-451,238	-453,524
7.02.02	Materials, Energy, outsourced services and other	-183,452	-169,961	-170,390
7.02.03	Loss/recovery of asset values	724	2,529	604
7.03	Gross added value	606,716	570,590	582,108
7.04	Retentions	-36,841	-36,882	-31,316
7.04.01	Depreciation, amortization and depletion	-36,841	-36,882	-31,316
7.05	Net added value produced	569,875	533,708	550,792
7.06	Added value received in transfer	88,755	110,310	155,107
7.06.01	Equity in net income of subsidiaries	38,023	22,541	10,801
7.06.02	Financial income	50,732	87,769	144,306
7.07	Total added value payable	658,630	644,018	705,899
7.08	Distribution of added value	658,630	644,018	705,899
7.08.01	Personnel	201,293	197,069	184,548
7.08.01.01	Direct remuneration	169,899	163,025	156,323
7.08.01.02	Benefits	19,910	21,143	17,322
7.08.01.03	Severance Pay Fund (FGTS)	11,484	12,901	10,903
7.08.02	Taxes, rates and contributions	263,507	265,673	257,993
7.08.02.01	Federal	115,267	113,252	131,628
7.08.02.02	State	147,542	151,804	125,940
7.08.02.03	Municipal	698	617	425
7.08.03	Third-party capital remuneration	129,694	179,151	210,706
7.08.03.01	Interest	118,541	167,938	202,063
7.08.03.02	Rentals	11,153	11,213	8,643

Individual financial statements / Statement of added value

(In thousand of reais)

Code of account	Account description	Last year 01/01/2017–12/31/2017	Penultimate year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015
7.08.04	Remuneration of own capital	64,136	2,125	52,652
7.08.04.01	Interest on own capital	11,101	0	5,940
7.08.04.02	Dividends	20,850	504	7,269
7.08.04.03	Retained earnings / Loss for the period	32,185	1,621	39,443

Consolidated financial statements / Balance sheet – Assets

(In thousand of reais)

Code of account	Account description	Last year 12/31/2017	Penultimate year 12/31/2016	Antepenultimate year 12/31/2015
1	Total assets	1,252,008	1,237,360	1,351,893
1.01	Current assets	522,623	535,369	639,604
1.01.01	Cash and cash equivalents	94,379	105,745	87,664
1.01.02	Interest earning bank deposits	0	0	100,478
1.01.03	Accounts receivable	218,412	215,379	208,367
1.01.03.01	Trade accounts receivable	218,412	215,379	208,367
1.01.04	Inventories	179,323	185,880	205,291
1.01.06	Recoverable taxes	15,922	19,079	22,775
1.01.06.01	Current taxes recoverable	15,922	19,079	22,775
1.01.06.01.01	Income and social contribution tax recoverable	4,050	5,017	6,020
1.01.06.01.02	Other current taxes recoverable	11,872	14,062	16,755
1.01.08	Other current assets	14,587	9,286	15,029
1.01.08.03	Other	14,587	9,286	15,029
1.01.08.03.03	Advance to suppliers	5,136	2,637	2,053
1.01.08.03.04	Other	9,451	6,649	12,976
1.02	Non-current assets	729,385	701,991	712,289
1.02.01	Long-term assets	268,926	247,847	242,657
1.02.01.08	Related party credits	94,651	89,423	84,601
1.02.01.08.04	Other related party credits	94,651	89,423	84,601
1.02.01.09	Other non-current assets	174,275	158,424	158,056
1.02.01.09.03	Judicial deposits	93,501	81,742	59,924
1.02.01.09.04	Receivables - Eletrobrás	12,821	32,208	48,621
1.02.01.09.05	Recoverable taxes	6,407	6,124	10,477
1.02.01.09.06	Tax assets	45,969	26,735	22,718
1.02.01.09.07	Actuarial assets	5,758	4,369	9,676
1.02.01.09.08	Interest earning bank deposits	6,938	6,451	5,826
1.02.01.09.09	Other	2,881	795	814
1.02.02	Investments	298	243	198
1.02.02.01	Ownership interest	298	243	198

Consolidated financial statements / Balance sheet – Assets

(In thousand of reais)

Code of account	Account description	Last year 12/31/2017	Penultimate year 12/31/2016	Antepenultimate year 12/31/2015
1.02.02.01.04	Other ownership interest	298	243	198
1.02.03	Property, plant and equipment	440,595	433,348	444,194
1.02.04	Intangible assets	19,566	20,553	25,240

Consolidated financial statements / Balance sheet – Liabilities

(In thousand of reais)

Code of account	Account description	Last year 12/31/2017	Penultimate year 12/31/2016	Antepenultimate year 12/31/2015
2	Total liabilities	1,252,008	1,237,360	1,351,893
2.01	Current liabilities	414,310	409,155	439,490
2.01.01	Social and labor obligations	31,330	27,155	29,015
2.01.02	Suppliers	114,569	102,929	127,352
2.01.03	Tax obligations	31,157	25,188	20,400
2.01.03.01	Federal tax obligations	31,157	25,188	20,400
2.01.03.01.01	Income and social contribution tax payable	1,758	311	571
2.01.03.01.02	Installment payment of tax obligations	14,126	9,857	9,081
2.01.03.01.03	Taxes, rates and contributions	15,273	15,020	10,748
2.01.04	Loans and financing	146,402	197,004	210,714
2.01.04.01	Loans and financing	98,678	171,249	210,053
2.01.04.02	Debentures	47,724	25,755	661
2.01.05	Other obligations	86,563	56,879	47,481
2.01.05.02	Other	86,563	56,879	47,481
2.01.05.02.04	Credit granting from suppliers	35,127	21,522	15,642
2.01.05.02.05	Advance from clients	12,615	17,977	15,301
2.01.05.02.06	Dividends payable	6,035	915	7,667
2.01.05.02.08	Other	32,786	16,465	8,871
2.01.06	Provisions	4,289	0	4,528
2.01.06.02	Other provisions	4,289	0	4,528
2.01.06.02.06	Provisions for profit sharing	4,289	0	4,528
2.02	Non-current liabilities	552,638	589,746	680,547
2.02.01	Loans and financing	367,159	389,657	487,014
2.02.01.01	Loans and financing	239,180	215,613	290,177
2.02.01.02	Debentures	127,979	174,044	196,837
2.02.02	Other obligations	141,144	138,332	121,342
2.02.02.02	Other	141,144	138,332	121,342
2.02.02.02.03	Suppliers	78,496	68,990	47,923
2.02.02.02.06	Installment payment of tax obligations	62,648	69,342	73,414

Consolidated financial statements / Balance sheet – Liabilities

(In thousand of reais)

Code of account	Account description	Last year 12/31/2017	Penultimate year 12/31/2016	Antepenultimate year 12/31/2015
2.02.02.02.08	Other	0	0	5
2.02.03	Deferred taxes	14,186	3,250	21,665
2.02.03.01	Deferred income and social contribution taxes	14,186	3,250	21,665
2.02.04	Provisions	30,149	58,507	50,526
2.02.04.02	Other provisions	30,149	58,507	50,526
2.02.04.02.05	Provisions for contingencies	0	51,195	41,190
2.02.04.02.06	Provision for long-term incentive	30,149	7,312	9,336
2.03	Consolidated shareholders' equity	285,060	238,459	231,856
2.03.01	Realized capital	130,000	119,565	99,565
2.03.04	Profit reserves	159,220	121,129	139,193
2.03.04.01	Legal reserve	18,426	15,219	15,113
2.03.04.05	Profit retention reserve	95,400	103,197	86,070
2.03.04.08	Additional dividend proposed	15,232	0	12,504
2.03.04.10	Profit reserve to be allocated	30,162	2,713	25,506
2.03.05	Retained Earnings/Losses	0	0	0
2.03.06	Equity valuation adjustments	-4,172	0	0
2.03.08	Other comprehensive income	0	-2,246	-6,912
2.03.09	Non-controlling interest	12	11	10

Consolidated financial statements / Statement of income

(In thousand of reais)

Code of account	Account description	Last year 01/01/2017–12/31/2017	Penultimate year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015
3.01	Income from sales of goods and/or services	1,023,937	1,016,400	1,060,395
3.02	Cost of goods and/or services sold	-606,917	-653,198	-664,193
3.03	Gross income (loss)	417,020	363,202	396,202
3.04	Operating expenses/income	-268,014	-287,394	-261,797
3.04.01	Sales expenses	-246,510	-250,744	-214,205
3.04.02	General and administrative expenses	-35,877	-37,155	-34,568
3.04.04	Other operating income	41,956	17,390	8,045
3.04.04.01	Other operating income	41,956	17,390	8,045
3.04.05	Other operating expenses	-27,583	-16,885	-21,069
3.04.05.01	Other operating expenses	-27,583	-16,885	-21,069
3.05	Income (loss) before financial income (loss) and taxes	149,006	75,808	134,405
3.06	Financial income (loss)	-68,014	-81,695	-58,024
3.06.01	Financial income	24,882	35,173	50,244
3.06.01.01	Financial income	24,892	31,093	50,244
3.06.01.02	Net exchange rate change	-10	4,080	0
3.06.02	Financial expenses	-92,896	-116,868	-108,268
3.06.02.01	Financial expenses	-92,896	-116,868	-76,726
3.06.02.02	Net exchange rate change	0	0	-31,542
3.07	Income (loss) before income taxes	80,992	-5,887	76,381
3.08	Income and social contribution taxes on net income	-16,822	8,029	-23,708
3.08.01	Current	-10,239	-9,236	-32,227
3.08.02	Deferred	-6,583	17,265	8,519
3.09	Net income (loss) from continued operations	64,170	2,142	52,673
3.11	Consolidated income/loss for the period	64,170	2,142	52,673
3.11.01	Attributed to the Parent company's partners	64,136	2,125	52,652
3.11.02	Attributed to non-controlling partners	34	17	21
3.99	Earnings per share - (Reais / Share)			
3.99.01	Basic earnings per share			
3.99.01.01	Common shares	0.40467	0.01341	0.33000

Consolidated financial statements / Statement of income

(In thousand of reais)

Code of account	Account description	Last year 01/01/2017–12/31/2017	Penultimate year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015
3.99.02	Diluted earnings per share			
3.99.02.01	Common shares	0.37654	0.01341	0.33000

Consolidated financial statements / Statement of comprehensive income

(In thousand of reais)

Code of account	Account description	Last year 01/01/2017–12/31/2017	Penultimate year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015
4.01	Consolidated net income for the period	64,170	2,142	52,673
4.02	Other comprehensive income	-742	5,864	-22,669
4.02.02	Actuarial liability	261	-7,327	2,790
4.02.04	Exchange rate change in foreign subsidiary	-1,003	13,191	-25,459
4.03	Consolidated comprehensive income for the period	63,428	8,006	30,004
4.03.01	Attributed to the Parent company's partners	63,394	7,989	29,983
4.03.02	Attributed to non-controlling partners	34	17	21

Consolidated financial statements / Statement of cash flows - Indirect method

(In thousand of reais)

Code of account	Account description	Last year 01/01/2017–12/31/2017	Penultimate year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015
6.01	Net cash from operating activities	102,736	138,942	-45,134
6.01.01	Cash generated in operations	145,122	105,164	179,300
6.01.01.01	Income/loss for the year before taxes	80,992	-5,887	76,381
6.01.01.02	Depreciation and amortization	40,011	39,504	32,363
6.01.01.04	Unrealized exchange rate change	7,670	-9,120	35,233
6.01.01.05	Provision for inventory at market value	-2,453	3,327	-506
6.01.01.06	Allowance for doubtful accounts	-464	1,768	54
6.01.01.07	Provision for contingencies	-18,769	12,309	14,933
6.01.01.08	Provisions for labor obligations	-2,233	744	-2,036
6.01.01.09	Profit sharing	-1,088	-6,552	-2,697
6.01.01.10	Other provisions	-4,356	-7,099	-291
6.01.01.11	Restatement of Eletrobrás compulsory loans	19,387	16,413	0
6.01.01.12	Restatements of tax assets	-19,234	-4,017	-7,332
6.01.01.13	Restatements of credits from other related parties	-5,228	-4,822	-7,406
6.01.01.14	Restatements of financial charges on tax installments	4,546	6,448	6,762
6.01.01.16	Accrued interest on loans	51,588	61,653	35,851
6.01.01.17	Negative goodwill on credits received from related parties	0	0	1,698
6.01.01.18	Actuarial assets	0	-2,019	-1,811
6.01.01.20	Other	-5,247	2,514	-1,896
6.01.02	Changes in assets and liabilities	17,313	105,031	-153,746
6.01.02.01	(Increase)/Decrease in accounts receivable	-2,569	-8,522	-20,687
6.01.02.02	Increase/(Decrease) in advance from clients	-5,362	2,676	-307
6.01.02.03	(Increase)/Decrease in pledged financial investments	-487	99,853	-106,304
6.01.02.04	(Increase)/Decrease in inventories	9,010	16,084	-12,493
6.01.02.05	(Increase)/Decrease in judicial deposits	-11,759	-21,818	-13,343
6.01.02.06	(Increase)/Decrease in credits from related parties	0	0	10,000
6.01.02.07	(Increase)/Decrease in recoverable taxes	1,907	7,046	3,294
6.01.02.08	Increase/(Decrease) in provisions for contingencies	-4,212	-2,304	-1,473
6.01.02.09	(Increase)/Decrease in other assets	-4,366	6,346	-5,461

Consolidated financial statements / Statement of cash flows - Indirect method

(In thousand of reais)

Code of account	Account description	Last year 01/01/2017–12/31/2017	Penultimate year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015
6.01.02.10	Increase/(Decrease) in accounts payable	34,751	2,840	7,098
6.01.02.11	(Increase)/Decrease in advance to suppliers	-2,499	-584	-265
6.01.02.12	Increase/(Decrease) in installment payments	-6,971	-9,744	-9,027
6.01.02.13	Increase /(Decrease) in Tax and labor obligations	6,874	-1,530	-5,319
6.01.02.14	Increase/(Decrease) in other accounts payable	2,996	14,688	541
6.01.03	Other	-59,699	-71,253	-70,688
6.01.03.01	Interest paid	-51,661	-64,807	-38,372
6.01.03.02	Income and social contribution taxes paid	-8,038	-6,446	-32,316
6.02	Net cash used in investment activities	-27,534	-25,142	-109,806
6.02.01	Acquisition of fixed assets	-25,511	-23,276	-101,678
6.02.02	Acquisition of intangible assets	-1,968	-1,821	-8,128
6.02.05	Receipt from the sale of permanent assets	-55	-45	0
6.03	Net cash from financing activities	-86,568	-95,719	150,221
6.03.01	Funding of loans and financing and debentures	117,804	109,469	422,804
6.03.02	Payment of loans and financing	-194,260	-197,034	-227,928
6.03.03	Dividends paid	-10,112	-8,154	-44,655
6.05	Increase (decrease) in cash and cash equivalents	-11,366	18,081	-4,719
6.05.01	Opening balance of cash and cash equivalents	105,745	87,664	92,383
6.05.02	Closing balance of cash and cash equivalents	94,379	105,745	87,664

Consolidated financial statements / Statement of changes in shareholders’ equity / DMPL - 01/01/2017–12/31/2017

(In thousand of reais)

Code of account	Account description	Paid-up capital	Capital reserves. Options granted and treasury shares	Profit reserves	Retained earnings or losses	Other comprehensive income	Shareholders' equity	Non-controlling interest	Consolidated shareholders' equity
5.01	Opening balances	119,565	0	121,129	0	-2,246	238,448	11	238,459
5.03	Adjusted opening balances	119,565	0	121,129	0	-2,246	238,448	11	238,459
5.04	Capital transactions with partners	0	0	-75	-16,719	0	-16,794	-33	-16,827
5.04.06	Dividends	0	0	0	-5,618	0	-5,618	-33	-5,651
5.04.07	Interest on own capital	0	0	-75	-11,101	0	-11,176	0	-11,176
5.05	Total comprehensive income	0	0	0	65,320	-1,926	63,394	34	63,428
5.05.01	Net income for the period	0	0	0	64,136	0	64,136	34	64,170
5.05.02	Other comprehensive income	0	0	0	1,184	-1,926	-742	0	-742
5.05.02.06	Realization of revaluation reserve	0	0	0	1,184	-1,184	0	0	0
5.05.02.07	Exchange rate change of foreign subsidiary	0	0	0	0	-1,003	-1,003	0	-1,003
5.05.02.08	Actuarial gain (loss)	0	0	0	0	261	261	0	261
5.06	Internal changes in shareholders' equity	10,435	0	38,166	-48,601	0	0	0	0
5.06.04	Allocations after 2017 Annual Shareholders' Meeting - Capital increase	10,435	0	-10,435	0	0	0	0	0
5.06.05	Allocation after 2017 Annual Shareholders’ Meeting – Approval of Additional Dividends	0	0	15,232	-15,232	0	0	0	0
5.06.06	Formation of legal reserve (5%)	0	0	3,207	-3,207	0	0	0	0
5.06.07	Formation of profit reserves to be allocated	0	0	30,162	-30,162	0	0	0	0
5.07	Closing balances	130,000	0	159,220	0	-4,172	285,048	12	285,060

Consolidated financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2016–12/31/2016

(In thousand of reais)

Code of account	Account description	Paid-up capital	Capital reserves. Options granted and treasury shares	Profit reserves	Retained earnings or losses	Other comprehensive income	Shareholders' equity	Non-controlling interest	Consolidated shareholders' equity
5.01	Opening balances	99,565	0	139,193	0	-6,912	231,846	10	231,856
5.03	Adjusted opening balances	99,565	0	139,193	0	-6,912	231,846	10	231,856
5.04	Capital transactions with partners	0	0	-883	-504	0	-1,387	-15	-1,402
5.04.01	Capital increases	0	0	0	-504	0	0	0	0
5.04.06	Dividends	0	0	0	0	0	-504	-15	-519
5.04.07	Interest on own capital	0	0	-883	0	0	-883	0	-883
5.05	Total comprehensive income	0	0	0	3,323	4,666	7,989	16	8,005
5.05.01	Net income for the period	0	0	0	2,125	0	2,125	16	2,141
5.05.02	Other comprehensive income	0	0	0	1,198	4,666	5,864	0	5,864
5.05.02.06	Realization of revaluation reserve	0	0	0	1,198	-1,198	0	0	0
5.05.02.07	Exchange rate change of foreign subsidiary	0	0	0	0	13,191	13,191	0	13,191
5.05.02.08	Actuarial gain (loss)	0	0	0	0	-7,327	-7,327	0	-7,327
5.06	Internal changes in shareholders' equity	20,000	0	-17,181	-2,819	0	0	0	0
5.06.04	Allocations after 2016 Annual Shareholders' Meeting - Capital increase	20,000	0	-20,000	0	0	0	0	0
5.06.06	Formation of legal reserve (5%)	0	0	106	-106	0	0	0	0
5.06.07	Formation of profit reserves to be allocated	0	0	2,713	-2,713	0	0	0	0
5.07	Closing balances	119,565	0	121,129	0	-2,246	238,448	11	238,459

Consolidated financial statements / Statement of changes in shareholders' equity / DMPL – 01/01/2015–12/31/2015

(In thousand of reais)

Code of account	Account description	Paid-up capital	Capital reserves. Options granted and treasury shares	Profit reserves	Retained earnings or losses	Other comprehensive income	Shareholders' equity	Non-controlling interest	Consolidated shareholders' equity
5.01	Opening balances	76,565	0	143,749	0	16,956	237,270	10	237,280
5.03	Adjusted opening balances	76,565	0	143,749	0	16,956	237,270	10	237,280
5.04	Capital transactions with partners	0	0	0	-13,209	0	-13,209	-21	-13,230
5.04.06	Dividends	0	0	0	-7,269	0	-7,269	-21	-7,290
5.04.07	Interest on own capital	0	0	0	-5,940	0	-5,940	0	-5,940
5.05	Total comprehensive income	0	0	0	53,851	-23,868	29,983	21	30,004
5.05.01	Net income for the period	0	0	0	52,652	0	52,652	21	52,673
5.05.02	Other comprehensive income	0	0	0	1,199	-23,868	-22,669	0	-22,669
5.05.02.06	Realization of revaluation reserve	0	0	0	1,199	-1,199	0	0	0
5.05.02.07	Exchange rate change of foreign subsidiary	0	0	0	0	-25,459	-25,459	0	-25,459
5.05.02.08	Actuarial gain (loss)	0	0	0	0	2,790	2,790	0	2,790
5.06	Internal changes in shareholders' equity	23,000	0	-4,556	-40,642	0	-22,198	0	-22,198
5.06.04	Allocations after 2015 Annual Shareholders' Meeting - Capital increase	23,000	0	-23,000	0	0	0	0	0
5.06.05	Allocations after 2015 Annual Shareholders' Meeting – Approval of Additional Dividends	0	0	-22,198	0	0	-22,198	0	-22,198
5.06.06	Formation of legal reserve (5%)	0	0	2,632	-2,632	0	0	0	0
5.06.07	Formation of profit reserves to be allocated	0	0	38,010	-38,010	0	0	0	0
5.07	Closing balances	99,565	0	139,193	0	-6,912	231,846	10	231,856

Consolidated financial statements / Statement of added value

(In thousand of reais)

Code of account	Account description	Last year 01/01/2017–12/31/2017	Penultimate year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015
7.01	Income	1,294,470	1,283,902	1,354,348
7.01.01	Sale of goods, products and services	1,258,421	1,272,537	1,313,124
7.01.02	Other income	33,666	11,875	8,656
7.01.03	Income from construction of own assets	1,919	1,258	32,622
7.01.04	Formation/reversal of allowance for doubtful accounts	464	-1,768	-54
7.02	Inputs acquired from third parties	-597,446	-643,179	-685,854
7.02.01	Cost of products, goods and services sold	-403,318	-454,126	-483,094
7.02.02	Materials, Energy, outsourced services and other	-194,563	-191,582	-203,365
7.02.03	Loss/recovery of asset values	435	2,529	605
7.03	Gross added value	697,024	640,723	668,494
7.04	Retentions	-40,011	-39,504	-32,363
7.04.01	Depreciation, amortization and depletion	-40,011	-39,504	-32,363
7.05	Net added value produced	657,013	601,219	636,131
7.06	Added value received in transfer	51,449	88,478	145,232
7.06.02	Financial income	51,449	88,478	145,232
7.07	Total added value payable	708,462	689,697	781,363
7.08	Distribution of added value	708,462	689,697	781,363
7.08.01	Personnel	223,762	216,343	213,759
7.08.01.01	Direct remuneration	189,505	179,619	181,591
7.08.01.02	Benefits	21,288	22,293	19,136
7.08.01.03	Severance Pay Fund (FGTS)	12,969	14,431	13,032
7.08.02	Taxes, rates and contributions	286,304	286,525	294,408
7.08.02.01	Federal	137,638	133,542	162,027
7.08.02.02	State	147,925	152,263	131,849
7.08.02.03	Municipal	741	720	532
7.08.03	Third-party capital remuneration	134,226	184,687	220,523
7.08.03.01	Interest	119,485	170,194	203,256
7.08.03.02	Rentals	14,741	14,493	17,267
7.08.04	Remuneration of own capital	64,170	2,142	52,673

Consolidated financial statements / Statement of added value

(In thousand of reais)

Code of account	Account description	Last year 01/01/2017–12/31/2017	Penultimate year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015
7.08.04.01	Interest on own capital	11,101	0	5,940
7.08.04.02	Dividends	20,850	504	7,269
7.08.04.03	Retained earnings / Loss for the period	32,185	1,621	39,443
7.08.04.04	Non-controlling interest in retained earnings	34	17	21

COMMENTS ON THE CONSOLIDATED PERFORMANCE OF 2017

PBG S.A. (BM&FBovespa: PTBL3 NM), current name of Portobello S.A., presents its results referring to year ended December 31, 2017. Financial information presented in this document derives from consolidated financial statements of PBG S.A., prepared in accordance with standards of the Accounting Pronouncements Committee (CPC) and International Financial Reporting Standards (IFRS).

About PBG S.A.

PBG S.A. is today the largest company of ceramic coating in Brazil, with annual gross income of R$1.3 billion. Its sales, over 40 million square meters, supply the domestic market through Portobello Shop retail chain, home centers, development and construction companies, in addition to clients of the five continents, with brands Portobello and Pointer.

HIGHLIGHTS

- Accumulated **GROSS INCOME** of **R$ 1,278** million for the year, **similar** to the previous year;
- **GROSS PROFIT** of **R$ 417 million** in 2017 and **R$ 363 million** in 2016 - **growth** of **15%;**
- **GROSS MARGIN** of **41**% for the year, 5 pp **higher** than in 2016;
- **EBITDA** reaches the annual record of **R$ 189 million** in 2017, with a margin of 18.5%. Growth of **64%** and 7 pp in the margin when compared to 2016;
- Net **INCOME** of **R$ 64 million;**
- **Decrease** in net **INDEBTEDNESS** in the amount of **R$ 70 million**, **15%** lower than in 2016, with a significant **decrease** of **Net debt/EBITDA ratio** from 4.03x (in 2016) to **2.09x** (in 2017).
- **PTBL3** share ends the year at **R$ 5.49** (R$ 2.03 in 2016), **appreciation of 170%** and growth of **288% in average financial trading volume** in the last 12 months.

MANAGEMENT COMMENTS

The Company has ended 2017 with positive results in a year whose economic instability continued, and the industry has performed below expectations again. The strategy was to increase profitability throughout this year, based on differentials and internal levers of results, which proved to be the adequate path. Exports reached record levels and represented a good alternative in the face of the volatile scenario and the retraction of the domestic market.

Gross sales totaled R$ 1.3 billion, almost equal to 2016. According to Abramat, deflated billings of the construction finishing materials market presented fall of 4.0% in the year, indicating a gain of market share for the Company in the industry.

The Company focused its commercial strategy on a mix of more profitable products in the domestic market, albeit with lower sales volume. Thus, although domestic market revenue fell 3%, the consolidated gross margin recorded a 5 pp gain between 2017 and 2016. In the foreign market, the Company recorded a 21% growth in Reais, directly impacted by the increase in exports. Exports recorded US$ 57 million in 2017 and US$ 43 million in 2016, equivalent to a 32% increase.

Cash generation measured by EBITDA totaled R$189 million and net income was R$64 million in 2017. With margins of 18.5% and 6.3%, respectively. The resumption of profitability is due to the gross margin increase, the rigorous management of expenses, the readjustment of the new business to the current scenario and the significant reduction in financial expenses, with the fall in the basic interest rate and lower indebtedness.

In thousands of reais, unless otherwise indicated

Portobello Shop maintains its plan to expand the exhibition area and its leading role in the Company's growth. The network has 142 units, of which 11 are self-owned. Own stores maintain their franchise laboratory role and advanced in the process of maturation and improved profitability in 2017.

With a focus on innovation and design, the Company launched its new Officina product portfolio in 2017, exclusive to the Portobello Shop network. Officina items bring unique solutions in the art of porcelainware, through the combination of artisanal mastery and state-of-the-art technology for special cuts, design objects, furniture and countertops. With a functional feature, high quality and design signed by national references, Officina items translate Portobello's essence of high technical and aesthetic performance in several applications.

In the Pointer brand, the Company maintained its plans to improve gross margins and plant adequacy. The market in the Northeast region undergoes a significantly slower stabilization and recovery process. Thus, the productive capacity of the Alagoas plant was adequate to meet the prospects of a lower demand in the medium term and have not jeopardize the unit's working capital.

In Tijucas, manufacturing costs were reduced due to the initiatives of modernization, continuous optimization of the structure and inputs. The plant was redesigned to produce items with higher added value (enameled porcelain tiles). The plant also offers greater flexibility and maintains a focus on quality. Throughout 2017, the plant used 100% of its productive capacity.

Debt reduction and increased EBITDA contributed to a less onerous financial leverage. The debt/EBITDA ratio was reduced to 2.09 times, the lowest in the last 36 months.

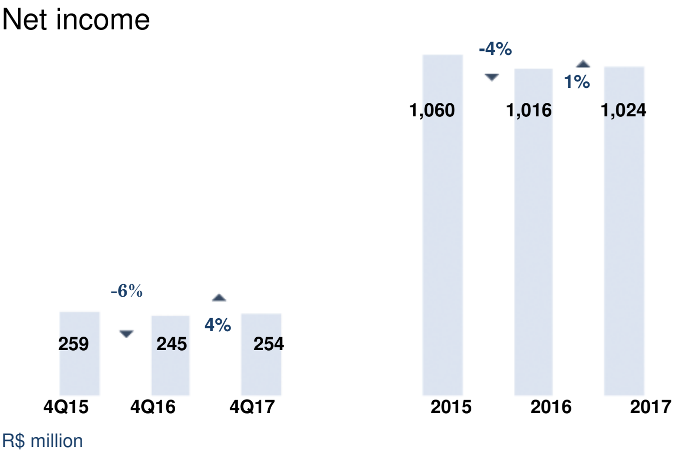
The positive result of the year is in line with the expectations of Management. The good margin performance, coupled with the adequacy of expenses, demonstrates the Company's confidence in its strategy, business model, management and competitive differentials.

ECONOMIC AND FINANCIAL PERFORMANCE

	R$ thousand	4Q15	4Q16	4Q17	▲%	2015	2016	2017	▲%
PERFORMANCE	**Gross income**	**332,548**	**312,765**	**316,868**	**1%**	**1,345,015**	**1,301,050**	**1,277,945**	-2%
	Net income	259,482	245,148	254,163	4%	1,060,395	1,016,400	1,023,937	1%
	Gross income	**95,837**	**88,134**	**99,973**	**13%**	**396,202**	**363,202**	**417,020**	**15%**
	Gross margin	36.9%	36.0%	39.3%	3.3 p.p.	37.4%	35.7%	40.7%	5 p.p.
	EBIT	**28,528**	**13,185**	**31,412**	**138%**	**134,405**	**75,808**	**149,006**	**97%**
	EBIT margin	11.0%	5.4%	12.4%	7 p.p.	12.7%	7.5%	14.6%	7.1 p.p.
	Financial income (loss)	(15,909)	(12,386)	(26,563)	114%	(58,024)	(81,695)	(68,014)	-17%
	Net income	**12,340**	**5,243**	**4,829**	**-8%**	**52,673**	**2,142**	**64,170**	
	Net Margin	4.8%	2.1%	1.9%	-0.2 p.p.	5.0%	0.2%	6.3%	6.1 p.p.
	EBITDA	**37,695**	**23,528**	**41,795**	**78%**	**166,769**	**115,312**	**189,017**	**64%**
	EBITDA margin	*14.5%*	*9.6%*	*16.4%*	6.8 p.p.	*15.7%*	*11.3%*	*18.5%*	7.1 p.p.
INDICATORS	Current liquidity					*1.46*	*1.31*	*1.26*	(0.05)
	Net debt					501,654	464,241	394,367	-15%
	Net debt/EBITDA					*3.01*	*4.03*	*2.09*	(1.94)
	Net debt/Shareholders' equity					*2.16*	*1.95*	*1.38*	(0.56)
PTBL3	Closing quotation					2.06	2.03	5.49	170%
	Market value					326,486	321,732	870,102	

In thousands of reais, unless otherwise indicated

Net income



Consolidated net income totaled R$1,024 million in 2017, maintaining practically the same in the period of prior years.

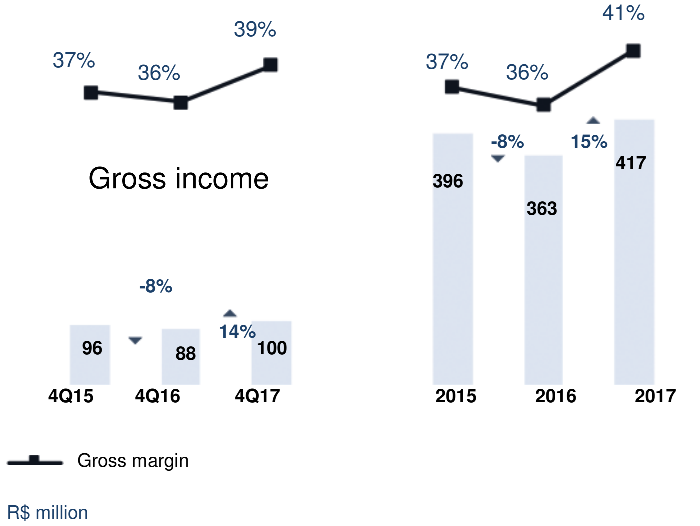
Domestic market net income represented 82% of total and decreased 3% in relation to 2016. The reduction follows the market downturn. According to ABRAMAT, in 2017, domestic finishing material market presented a reduction of 4.0% (deflated) in gross billings.

In the foreign market, sales grew 21% compared to 2016. Exports in 2017 reached US$ 57 million, about 32% higher than the previous year.

	4Q15	4Q16	4Q17	▲%	2015	2016	2017	▲%
Net income	**259,482**	**245,148**	**254,163**	**4%**	**1,060,395**	**1,016,400**	**1,023,937**	**1%**
Domestic market	218,359	210,328	209,909	0%	912,806	864,858	840,999	-3%
Foreign market	41,123	34,820	44,254	27%	147,589	151,542	182,938	21%

Gross income

Gross profit in 2017 totaled R$ 417 million, a growth of 15% compared to 2016. The gross margin recorded a 5 pp gain, due to a mix of sales with higher profitability products and lower costs.



In thousands of reais, unless otherwise indicated

Operating income

Selling expenses totaled R$247 million in 2017, and almost the same as in 2016. This is mainly due to the increase in the effectiveness of the logistics operators' expenses and the adequacy of their operating capacity. Freight expenses and logistic structure represent 16% of commercial expenses. A more effective distribution structure is an important difference to the Company's position in the market, as service quality would improve.

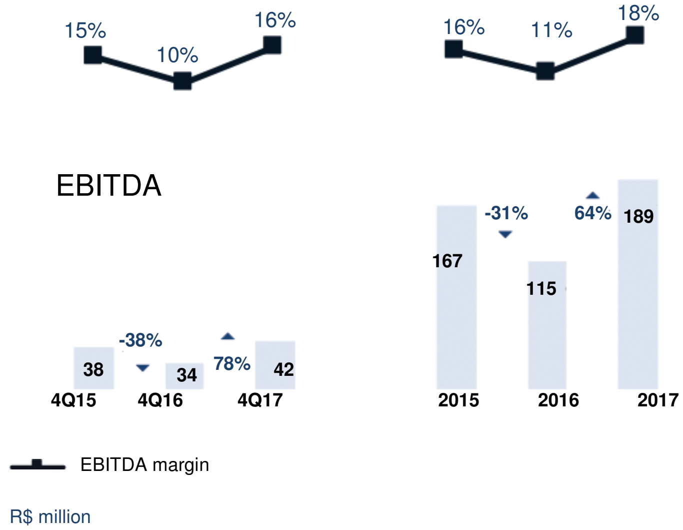
Regarding net income, sales expenses represented 24% in 2017 (25% in 2016), similar to the performance of the previous year. The Company understands that this level is adequate to support its current operation.

	4Q15	4Q16	%RL	4Q17	%RL	▲%	2015	2016	%RL	2017	%RL	▲%
Operating expenses	**(67,309)**	**(74,949)**	**31%**	**(68,561)**	**27%**	**-9%**	**(261,797)**	**(287,394)**	**28%**	**(268,014)**	**26%**	**-7%**
Sales	(62,681)	(66,365)	27%	(63,023)	25%	-5%	(214,205)	(250,744)	25%	(246,510)	24%	-2%
General and administrative	(9,057)	(9,972)	4%	(11,023)	4%	11%	(34,568)	(37,155)	4%	(35,877)	4%	-3%
Other income (expenses)	4,429	1,388	-1%	5,485	-2%		(13,024)	505	0%	14,373	-1%	

Administrative expenses totaled R$ 35.9 million in 2017, 3% lower than in 2016, mainly due to the adequacy of the structure for the Pointer/Alagoas operation and review of the expenditure structure carried out at the end of 2016. Regarding net income, the ratio of 4% was maintained when compared to 2016.
Other operating income totaled R$ 14 million and derive from extemporary tax credits and favorable judicial decisions recognized throughout this year.

EBITDA

The Company closed the year with a record annual EBITDA of R$ 189 million, representing an increase of 58%. EBITDA margin increased from 11% in 2016 to 18.5% in 2017, which demonstrates the resumption of the profitability and maturity that the new businesses are achieving.



	4Q15	4Q16	4Q17	%RL	▲%	2015	2016	2017	%RL	▲%
Net income	12,340	5,243	4,829	2%	-8%	52,673	2,142	64,170	6%	
(+) Financial income (loss)	15,909	12,386	26,563	10%	114%	58,024	81,695	68,014	7%	-17%
(+) Depreciation and amortization	9,167	10,343	10,383	4%	0%	32,364	39,504	40,011	4%	1%
(+) Income taxes	279	(4,444)	20	0%		23,708	(8,029)	16,822	2%	
EBITDA	**37,695**	**23,528**	**41,795**	**16%**	**78%**	**166,769**	**115,312**	**189,017**	**18%**	**64%**

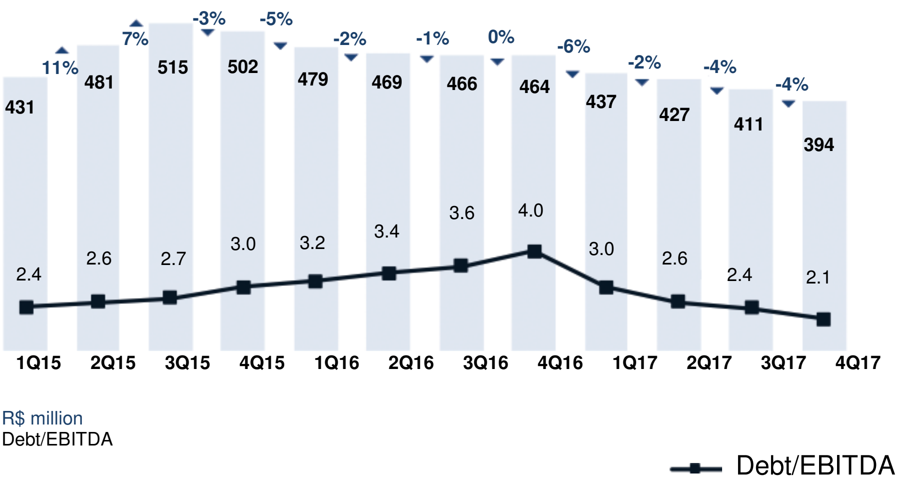
In thousands of reais, unless otherwise indicated

Net income

The year ended with a profit of R$ 64 million, higher than in 2015. The performance is the result of the greater operating income, diligent efforts for reduction of expenses, judicial favorable results and reduction of financial expenses (exchange rate, lower interest rate and lower indebtedness).

INDEBTEDNESS/CAPITAL STRUCTURE

Net debt



The Company's net debt decreased to R$ 394 million at the end of 2017. Compared to the perceived peak in 3Q15, there was a decrease of R$ 121 million, or around 23%.

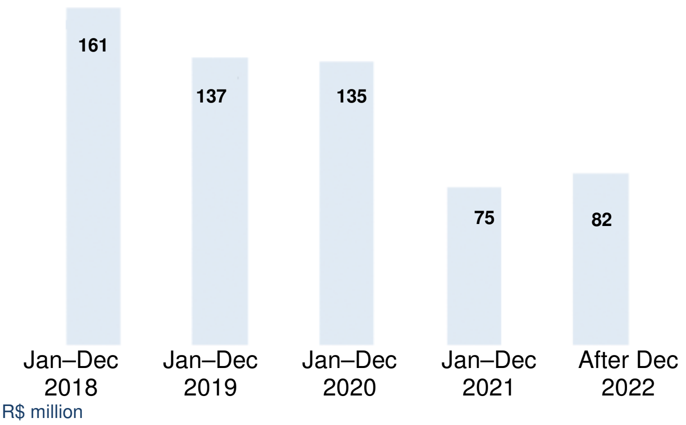
Net indebtedness is equivalent to 2.09X EBITDA for the year and 1.4X the shareholders' equity. In the last semester The year 2017 recorded the lowest ratio of the last 36 months.

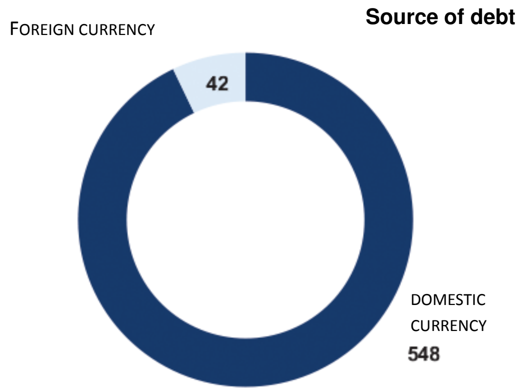
The minimum covenants of all existing financing agreements in force are being met.

	2015	2016	2017	▲ R$
Bank indebtedness	697,728	586,661	513,561	(73,100)
Tax indebtedness	82,495	79,199	76,774	(2,425)
(=) Gross indebtedness	**780,223**	**665,860**	**590,335**	**(75,525)**
(+) Cash and cash equivalents	(193,968)	(112,196)	(101,317)	10,879
(+) Related party credits	(84,601)	(89,423)	(94,651)	(5,228)
(=) Net indebtedness	**501,654**	**464,241**	**394,367**	**(69,874)**
EBITDA (last 12 months)	166,769	115,312	189,017	73,705
Net debt/EBITDA	*3.01*	*4.03*	*2.09*	
Net debt/Shareholders' equity	*2.16*	*1.95*	*1.38*	

Gross indebtedness value is divided into: 27% maturing in the short-term and 73% maturing in the long term. The Company is working on extending its debt profile.

Amortization schedule
(gross indebtedness)

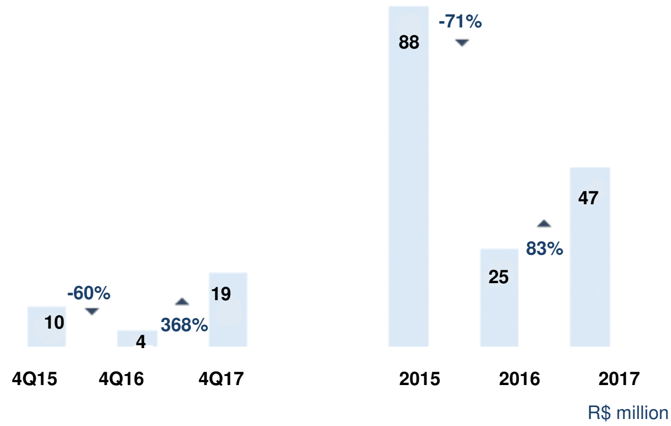




INVESTMENTS

There was a resumption of organic investments in the second half of 2017, ending the year with R$ 47 million. Of this amount, R$ 29 million (60%) corresponds to the preparation and updating of the industrial facilities in Tijucas for the production of products with higher added value and larger formats. Other investments were allocated to own stores (16%), to make Alagoas (7%) plant adequate and to systems (4%).

Investments



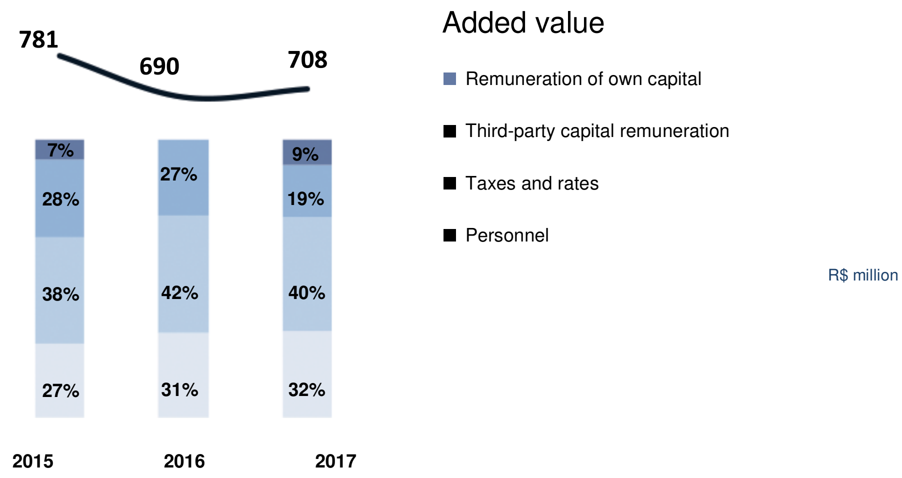
REMUNERATION TO SHAREHOLDERS AND DECISIONS IN SHAREHOLDERS' MEETING

Management will propose to distribute total dividends of 50% in the amount of R$ 30,464. Of these, R$ 9,615 have already been advanced in the form of interest on own capital on August 18. The amount to be paid will be R$ 20,850, whose approval, payment form and payment date will be decided at the Annual General Meeting.

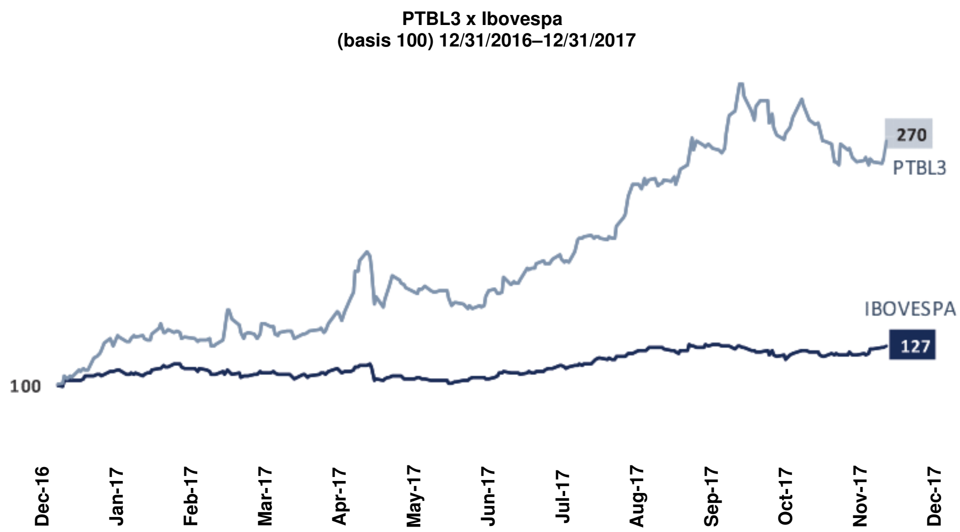
Thus, the total remuneration to be distributed to shareholders for 2017 will represent a yield (dividend per share divided by final share quotation) of 3.50%.

ADDED VALUE

Added value in 2017 totaled R$708 million (R$690 million in 2016). Of this amount, 40% was allocated to taxes, 32% to labor (personnel) remuneration, and 19% to remuneration of third parties and 9% retained as income for the period.



PERFORMANCE OF PTBL3 SHARES



Common shares issued by PBG S.A., traded at BM&FBovespa under code PTBL3, closed December 2017 last trading session quoted at R$5.49, an appreciation of 170% in the last twelve months, and, in the same period, Ibovespa grew 27%.

Average financial volume traded in the last 12 months was R$ 46 million, an increase of 288% in face of the R$ 12 million for the same prior year. In the end of 2017, PBG S.A. presented a market value equivalent to R$ 870 million (R$ 426 million as of September 31, 2016).

PROSPECTS

- The Company remains confident that the market in 2018 should maintain the gradual improvement perceived throughout 2017;

- The retail segment should remain a pillar of industry growth, along with exports. On the other hand, the construction market is expected to show signs of resumption this year, which should reflect more clearly in the finishing industry in early 2019. Thus, the next year for this segment should still remain challenging for the Engineering area;

- Efforts in the foreign market are focused on expanding exports or internationalizing the Company to create a more robust structure to reduce the dependence on the domestic market;

- Internally, the focus will be maintained on qualifying sales mix, seeking margin gains;

- The Alagoas plant and the Pointer brand continue their plan to adapt themselves to the current market context and seek economic balance;

- The Company resumed the pace of investment for 2018. In the manufacturing plants of Tijucas and Alagoas, the focus is the qualification of the production. In its own stores, investments are divided into the expansion of the current units and creation of new ones. The distribution structure will also be the focus of investments, both domestically (for both brands) and internationally;

- Thus, efforts are translated into the expansion and improvement of the competitive differentials of Portobello Shop business, with new own stores, distribution and Officina;

- Management will continue focused on decrease of debt/EBITDA ratio. Actions are directed to discipline cash management, decrease working capital, and preserve liquidity and decrease of financial costs;

- The Company remains confident about its competitive differences and reaffirms its efforts to improve results.

INDEPENDENT AUDIT

The policy of PBG S.A. towards its auditors with respect to service provision not related to external audits of financial statements, which is covered by the principles that preserve the professional independence. These principles are based on the assumption that the auditor should not audit their own work, perform managerial functions, or act as a lawyer for their client. In 2017, the Company did not hire independent auditors for services other than those related to external auditing.

COMPOSITION OF MANAGEMENT

Board of Directors

Name	Position
Cesar Bastos Gomes	President
Cesar Gomes Júnior	Vice-President (CEO)
Nilton Torres de Bastos Filho	Board Member
Roberto Alves de Souza Waddington	Board Member (Independent)
Plínio Villares Musetti	Board Member (Independent)
Glauco José Corte	Board Member (Independent)
Mário José Gonzaga Petrelli	Board Member (Independent)

Executive Board

Name	Position
Cesar Gomes Júnior	Chief Executive Officer
Cláudio Ávila da Silva	Director Vice-President
John Shojiro Suzuki	Financial and Investor Relations Officer
Mauro do Valle Pereira	Corporate Officer

WEBCAST TELECONFERERENCE

On Wednesday, February 28, 2018 at 10 a.m., teleconference in Portuguese will be held to address results for 2017.

Data for connection: Telephone: +55 11 3193 1001 Password: PORTOBELLO

For those not able to accompany teleconferences live, full audio record will be made available directly at the Company's website www.ri.portobello.com.br/).

In thousands of reais, unless otherwise indicated

Balance sheet

Assets	12/31/2017	12/31/2016	Liabilities	12/31/2017	12/31/2016
Current	**522,623**	**535,369**	**Current**	**414,310**	**409,155**
Cash and cash equivalents	94,379	105,745	Loans / Debentures	146,402	197,004
Accounts receivable	218,412	215,379	Suppliers and Credit Granting	149,696	124,451
Inventories	179,323	185,880	Taxes and social contributions	31,157	25,188
Recoverable taxes	15,922	19,079	Social and labor obligations	31,330	27,155
Prepaid expenses	1,720	1,995	Advances from clients	12,615	17,977
Other	12,867	7,291	Dividends payable	6,035	915
			Other	37,075	16,465
Non-current	**729,385**	**701,991**	**Non-current**	**552,638**	**589,746**
Long-term assets	**268,926**	**247,847**	Loans / Debentures	367,159	389,657
Judicial deposits	93,501	81,742	Suppliers	78,496	68,990
Recoverable taxes	6,407	6,124	Deferred income and social contribution taxes	14,186	3,250
Judicial assets	45,969	26,735	Tax obligations to be paid in installments	62,648	69,342
Related party credits	94,651	89,423	Provisions	30,149	58,507
Receivables - Eletrobrás	12,821	32,208			
Other non-current assets		11,615			
			Shareholders' equity	**285,060**	**238,459**
Investments	**298**	**243**	Capital	130,000	119,565
Property, plant and equipment	**440,595**	**433,348**	Profit reserves	143,988	121,129
Intangible assets	**19,566**	**20,553**	Other comprehensive income	(4,172)	(2,246)
			Retained earnings	15,232	-
			Non-controlling interest	12	11
Total assets	**1,252,008**	**1,237,360**	**Total liabilities**	**1,252,008**	**1,237,360**

Please visit the Investor Relations website: *www.portobello.com.br/ri*

PBG SJV and subsidiaries
Notes to the financial statements
Notes to financial statements for the year ended December 31, 2017
In thousands of reais, unless otherwise indicated

1 Operations

PBG S.A, herein also referred to as “Company” or “Parent Company”, is a publicly-held corporation whose shares are traded on the segment Novo Mercado of Bolsa de valores Brasil, Bolsa, Balcão (B3), under code “PTBL3”. The Company is controlled by a group of shareholders, formalized by agreement entered into on April 15, 2011, and amended on August 04, 2017 and holds 54% of company’s shares on December 31, 2017. Remaining 46% of shares are held by several shareholders.

The Company, with head office in Tijucas, Santa Catarina, was incorporated in 1977 engaged in the manufacture and sale of ceramic and porcelain products in general, such as floor tiles, technical porcelain and enameled tiles, decorated and special pieces, mosaic tiles, products for indoor walls, outdoor façades, as well as the provision of supplementary services in the sector of civil construction materials in Brazil and abroad.

In addition, the Company holds shareholding interest in subsidiaries: (i) Portobello Shop, administrator of store franchise chains Portobello Shop and Empório Portobello, with network of franchised stores specialized in porcelain tiles and ceramic coatings; (ii) PBTech, which is responsible for managing own Portobello Shop stores and, currently, manages eleven stores; (iii) Mineração Portobello, which is responsible for providing part of raw material used for ceramic coating production; (iv) Companhia Brasileira de Cerâmica, established in the Northeast and currently not operational; (i) Portobello América, which was established for the purpose of selling Portobello products in the North-American market and currently is not active.

2 Presentation of financial statements

a) Statement of compliance (in relation to IFRS standards and CPC standards)

These financial statements include:

- The consolidated financial statements prepared according to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and also in accordance with accounting practices adopted in Brazil (BR GAAP); and

- The individual financial statements of the parent company are prepared according to the BR GAAP.

Difference between parent company and consolidated is the provision for investment losses, which is not required by IFRS.

Accordingly, recording of equity deficit, in accordance with BR GAAP, is the reason why statements are not presented in dual compliance.

Such financial statements were prepared in accordance with the standards of the Securities Commission (CVM), applicable to the preparation of Financial statements (DFP).

The presentation of the Individual and Consolidated Statement of Added Value is required by Brazilian corporate law and the accounting practices adopted in Brazil applicable to publicly-held companies. The IFRS do not require the presentation of this statement.

The issue of individual and consolidated financial statements was authorized by the Board of Directors on February 22, 2018. After their issuance, only the shareholders have the power to change the financial statements.

All material information proper to the financial statements, and only it, is being evidenced, and corresponds to those used by Management for administration.

b) Measuring basis

Individual and consolidated financial statements were prepared based on historical cost except for actuarial asset of the defined benefit which is recognized in financial statements as the plan assets, plus actuarial losses, net of actuarial gains and the present value of the defined benefit obligation and it is limited as Note 3.17.

c) Functional and presentation currency

These individual and consolidated financial statements are presented in Brazilian Real, which is the Company and its subsidiaries' functional currency, except the functional currency of subsidiary Portobello América, Inc., which is the US dollar, translated into Brazilian Real on presentation date, as explained in Note 3.3 b). All financial information presented in Brazilian Reais has been rounded to the nearest value, except otherwise indicated.

d) Use of estimates and judgments

The preparation of individual and consolidated financial statements according to IFRS and CPC standards requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported values of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and assumptions are reviewed in a continuous manner. Reviews to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected.

Information about critical estimates and judgment referring to the accounting policies adopted which impact significantly the amounts recognized in the individual and consolidated financial statements are included in the Note 4.

e) EmpresasNet (ENET) system

It is worth noting that the table "Statement of Changes in Shareholders' Equity" of the CVM's "EmpresasNet - ENET" System, the equity valuation adjustment mentioned in "Other Comprehensive Income," is presented in the column as such as there is no more appropriate option in the standard CVM statement for the presentation of said transaction.

3 Significant accounting policies

The main accounting policies applied in the preparation of these individual and consolidated financial statements are as follows. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Consolidations

3.1.1 Consolidated financial statements

a) Subsidiaries

Subsidiaries are all entities over which the Company has the power to establish the financial and operating policies, usually accompanied of an interest of more than half of voting rights. The existence and effect of potential voting rights, currently exercisable or convertible, are taken into account when assessing whether the Company controls other entity. The subsidiaries are fully consolidated as of the date control is transferred to the Company, and stop being consolidated as of the date when control no longer exists. Percentage of the Company's ownership interest in subsidiaries as of December 31, 2017, is as follows: Portobello América, Inc. 100%, PBTech Com. Serv. Revest. Cer. Ltda 99.94%, Portobello Shop S/A 99.90%; Mineração Portobello Ltda. - 99.76%, and Companhia Brasileira de Cerâmica - 98.00%.

The transactions among the Company and its subsidiaries, as well as the balances and unrealized gains and losses in those transactions, were eliminated for preparation purposes of the consolidated financial statements.

The accounting policies of the subsidiaries are changed when required in order to assure the consistency with the policies adopted by the Company.

b) Transactions and non-controlling interest

The Company and its subsidiaries treat transactions with non-controlling interest likewise the transactions with holders of assets classified as related parties. For purchases of non-controlling ownership interest, the difference between any considerations paid and the acquired portion of the book value of subsidiary's net assets is recorded in shareholders' equity. Gains or losses on disposals of non-controlling interest are also recorded in shareholders' equity.

3.1.2 Individual financial statements

In the individual financial statements, subsidiaries are accounted for under the equity method. According to this method, the investment is initially recognized at cost and then adjusted by the recognition of interest attributed to the Company in changes in net assets of the investee. Adjustments to the book value of investment are also required by the recognition of proportional interest of the Company in changes in balance of the components of adjustments of the investee's equity valuation adjustment, directly recognized in its shareholders' equity. These changes are recognized on a reflexive basis, that is, in equity valuation adjustment directly in shareholders' equity.

Upon adoption of the equity method, the portion of the result of subsidiaries destined to dividends is recognized as dividends receivable in current assets. Thus, the value of investment is shown net of the dividend proposed by the subsidiary. Accordingly there is no recognition of income from dividends.

3.2 Presentation of information per business segment

The operating segment information is shown consistently with the internal report supplied to the main operating decision maker. The main operating decision maker, in charge of allocating funds and evaluating performance of operating segments is the Executive Board, also in charge of the strategic decision making of the Company and its subsidiaries.

3.3 Foreign currency translation

a) Transactions and balances

Transactions with foreign currencies are converted into reais by using exchange rates prevailing on the transaction or valuation dates, when the items are remeasured. Foreign exchange gains and losses resulting from the settlement of those transactions and from the conversion at year-end exchange rates referring to monetary assets and liabilities in foreign currencies, are recognized in the statement of income as described in Note 33.

b) Subsidiaries

Assets and liabilities in foreign currency (US Dollar) recorded for the subsidiary located abroad were translated into reais at the foreign exchange rate in effect at the balance sheet date. Exchange-rate change on investment abroad was recorded as accumulated translation adjustment in shareholders' equity under the caption “Equity valuation adjustment”.

3.4 Financial assets

3.4.1 Rating

The financial assets are classified under the following categories: loans and receivables, held to maturity, financial assets measured at fair value through profit or loss (held for trading) and financial assets available for sale. The classification depends on the purpose for which the financial assets were acquired. Management classifies its financial assets upon initial recognition.

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments, but not quoted on any active market. They are included in current assets, except those maturing at least 12 months after balance sheet date (these are classified as noncurrent assets). The loans and receivables of the Company and its subsidiaries includes "trade accounts receivable", “cash and cash equivalents”, “credits from other related parties”.

i) Cash and cash equivalents

Cash and cash equivalents include cash, bank deposits, and other highly liquid short-term interest earning bank deposits with original maturities of 3 months or less, are promptly convertible into a known sum of cash and subject to an insignificant risk of change of value.

ii) Trade accounts receivable

Trade accounts receivable correspond to the amounts receivable from clients for sales of products and goods and provision of services in the normal course of the activities of the Company and its subsidiaries the accounts payable to suppliers are initially recognized at fair value and, subsequently, measured at amortized cost using the effective interest rate method less the allowance for doubtful accounts “PDD” (impairment). In practice, they are usually recognized at the billed amount, adjusted by provision for impairment, if necessary. If the payment term is equivalent to one year or less (or any other term that is in conformity with the normal cycle of the Company and its subsidiaries), accounts receivable are classified as current assets. Otherwise, they are presented under “non-current assets”. The allowance for doubtful accounts (impairment) is formed when there is objective evidence that the Company and its subsidiaries will not be able to receive all amounts due according original terms of accounts receivable and the calculation of the allowance is based on an estimate sufficient to cover losses in the realization of accounts receivable, considering the situation of each client and respective guarantees provided.

b) Measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss are financial assets held for active and frequent trading. A financial asset is classified in this category if it is acquired mostly for short-term sale and classified as non-current assets. Gains or losses resulting from fluctuations in their fair value are presented in statement of income under "financial income" for the period in which they occur.

i) Financial investments and derivatives

Financial investments are recorded at acquisition cost and measured at fair value on financial statements date. The changes to fair values are recorded in the result when obtained.

3.4.2 Recognition and measurement

The regular purchases and sales of financial assets are recognized on the trading date, which is the date when the Company commits to buy or sell the asset. Investments are initially recognized at fair value plus transaction cost for all financial assets not classified at fair value through profit or loss. Financial assets classified at fair value through profit or loss are initially recognized at fair value, and transaction costs are charged to income. Financial assets are written off when rights to receive cash flows from the investments have been expired or transferred to the Company; in the latter case, as long as the Company has transferred virtually all ownership risks and benefits. Financial assets available for sale and financial assets measured at fair value through profit or loss as subsequently measured at fair value. After their initial recognition, loans and receivables and investments held to maturity are measured at amortized cost using the effective interest rate method, reduced by any impairment losses.

3.5 Impairment of financial assets

The Company and its subsidiaries, at the end of each year evaluate whether there is objective evidence that the financial asset or group of financial assets has been impaired. An asset or group of financial assets has been impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events occurred after the initial recognition of the assets (a "loss event") and such loss event(s) will have a reliably estimable impact on the estimated future cash flows of the financial asset or group of financial assets.

The criteria used by the Company to determine whether there is objective evidence of an impairment loss include:

i) Issuer or debtor's relevant financial difficulties;
ii) a breach of contract, such as a default or delay on payment of interest or the principal;
iii) it is likely that the debtor will declare bankruptcy or other financial reorganization;
iv) The disappearance of an active market for that financial asset due to the financial difficulties; or
v) Observable data indicating a measurable reduction in estimated future cash flows from a financial asset portfolio since the initial recognition of the assets, even if the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

- Adverse changes in the payment situation of the portfolio's debtors;
- National or local economic conditions correlating with defaults on the portfolio's assets.

PBG SJV and subsidiaries
Notes to the financial statements
Notes to financial statements for the year ended December 31, 2017
In thousands of reais, unless otherwise indicated

3.6 Inventories

Inventories are presented at the lower value between the cost and net realizable value. Cost is calculated under the moving weighted average cost method. The cost of finished products and work in process comprises raw materials, direct labor, other direct costs and related general production expenses, always (based on the normal operating capacity), except for the costs of loans obtained. The net realizable value is the sales price estimated for the normal course of business, less the performance costs and selling expenses.

3.7 Judicial deposits

The balances of judicial deposits are monetarily restated at the savings rate and presented as non-current assets, long-term assets.

3.8 Receivables - Eletrobrás

The recognition of the receivables from Eletrobrás is based on the opinion of the company's legal counsel and is supported by the fact that the lawsuit is no longer appealable and is in the stage of payment. The amounts have been computed by the Federal Justice accounting department, taking into account the rules of the court decision and the limitations established by the judge.

3.9 Investments

The investments in subsidiaries are stated under the equity method of accounting, and recognized in income for the year as operating income (or expense). In the case of exchange-rate change in investment in the subsidiary Portobello América Inc., changes in the value of investment derived exclusively from exchange-rate change are recorded under “Equity valuation adjustment”, in the Company’s shareholders’ equity, and are only recorded in the result for the year when the investment is sold or written off to loss.

The provision for losses on investments is recognized when there are losses on investments in subsidiaries and these losses exceed the limit of the book value of investment. The Company classifies the provision in non-current liabilities, under the caption “Provision for losses on investments” with a corresponding entry recorded in the income (loss), under the caption “Equity in earnings of subsidiaries”. Other investments are recognized at historical cost and adjusted by the provision for impairment, in case there is indication of loss (Note 0).

3.10 Property, plant and equipment

Property, plant and equipment are recorded at the deemed cost less accumulated depreciation. The corresponding entry of the revaluations is recorded in an account of the shareholders’ equity and under deferred taxes in non-current liabilities. In 2010, upon the initial adoption of international CPC standards 37 and IFRS 1, as well as the adoption of CPC 43 and ICPC 10, the Company adopted the option to use the property, plant and equipment revaluation made in 2006 as deemed cost, understanding that the same represented substantially the fair value at the date of transition.

Subsequently incurred costs are added to the asset's book value or are recognized as a separate asset, as applicable, and only when it is likely that associated future economic benefits will flow and that the item's cost can be reliably measured. The book value of replaced items and parts is written off. All other maintenance and repair costs are recorded as production cost, when incurred.

Depreciation is calculated using the straight-line method, with the costs of other assets being allocated to their residual values over the estimated useful life, as depreciation rate.

Residual values and the useful lives of material assets are reviewed and adjusted, if adequate, at the end of each year.

An asset's book value is immediately written down to its recoverable value if the asset's book value is greater than its estimated recoverable value.

Gains and losses from disposals are determined by the comparison of results with the book value and are recognized in "Other net operating income (expense)" in the statement of income.

3.11 Intangible assets

Intangible assets refer to the registry of rights whose object are intangible assets, such as brands and patents, expenses with implementation of the management system and software programs and rights of exploitation of ore mines, goodwill. Stated at cost incurred on acquisition or formation and, subsequently deducted from accumulated amortization and losses of the recoverable value, when applicable. Accordingly, they are stated at acquisition cost, combined with annual amortization rates mentioned in Note 19, under the straight-line method, considering the defined useful life for the asset.

The Company and its subsidiaries determined the useful life of the brands and patents and goodwill as indefinite. Based on analysis of all the significant factors, we noted that these assets did not present predictable limits in relation to the period during which they are expected to generate net cash inflows to the entities.

The recovery of an intangible asset with indefinite useful life is tested by comparing its recoverable value to its respective book value. The procedure is adopted every year or whenever there is indication that the intangible asset may be losing economic substance, in conformity with CPC 01 – Impairment.

3.12 Impairment of non-financial assets, (except for inventories, deferred income and social contribution taxes)

Assets subject to depreciation and amortization are reviewed to confirm their impairment annually and whenever events or changes in circumstances indicate that the book value may not be recoverable. Impairment loss is recognized in the amount by which the book value of the asset exceeds its recoverable value. The latter is the higher of the asset's fair value less its sale costs and value in use. For impairment valuation purposes, assets are grouped at the lowest levels for which exist separately identifiable cash flows (Cash Generating Units - CGU). Non-financial assets are subsequently reviewed for possible reversal of the impairment at each reporting date.

3.13 Suppliers

Trade accounts payable are obligations due for assets or services acquired from suppliers in the normal course of businesses, and are classified as current liabilities if payment is due within one year. Otherwise, trade accounts payable are presented as non-current liabilities.

They are initially recognized at fair value and, subsequently, measured at amortized cost using the effective interest rate method. In practice, they are usually recognized at the amount of the related invoice.

3.14 Loans, financing and debentures

They are initially recognized at fair value when funds are received net of transaction costs. Subsequently, loans taken are stated at amortized cost, i.e., with the addition of charges and interest proportional to the period elapsed (calculated on a pro rata temporis basis).
They are classified as current liabilities unless the Parent Company and its subsidiaries have an unconditional right to defer settlement of the liability for at least 12 months after the end of the year.

3.15 Provisions for contingencies, contingent liabilities and contingent assets

Provisions for contingencies are recognized when the Company has a present, legal or unformalized obligation, as a result of past events, and it is likely that an outlay of funds will be necessary to settle the obligation, and a reliable estimate of the amount can be made. Provisions are measured at present value of expenditure necessary to settle the obligation and are individually evaluated by the Company's legal counselors who classify them according to the expectation of success of the lawsuits. The increase in the obligation over time due to inflation adjustment is recognized as a financial expense.

The contingent liabilities classified as possible losses are not recorded, and are only divulged in the financial statements, and those classified as remote losses are neither accrued nor disclosed.

Contingent assets – are not recognized in accounting books, except when the Company considers that the gain is practically certain or when there are real guarantees or favorable court decisions against which appeals may not be filed.

3.16 Current and deferred income and social contribution taxes

Current income tax and social contribution are calculated with a basis on the effective rates of income tax (25%) and of social contribution (9%) on adjusted net income under the terms of the current legislation. Offset of tax loss carryforwards is considered, limited to 30% of taxable income.

Deferred income and social contribution tax credits derive from accumulated balances of tax losses, social contribution tax loss carryforwards and asset temporary differences, whereas deferred income and social contribution tax debits derive from revaluation of fixed assets and liability temporary differences. The credits considered the future expectation of generation of taxable income and are calculated based on the tax rates currently applicable by the tax legislation and recorded up to the amount considered as realizable based on estimates prepared by the Company.

Deferred tax assets and liabilities are offset when there is a legal enforceable right to set off current tax assets and liabilities, and the latter relate to income taxes levied by the same tax authority on the same taxable entity.

3.17 Employee benefits

a) Private pension plan

The Company sponsors a defined-contribution benefit plan, however it offers a minimum retirement benefit for length of service or age (components of defined benefit). A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company does not have legal or constructive obligations to make contributions if the fund does not have sufficient assets to pay to all the employees the benefits related to the employee's service in the current and prior period. A defined benefit plan is different from a defined contribution plan. Defined benefit plans, usually establish a benefit amount that the employee will receive upon retirement, depending on one or more factors, such as age, time in company and salary.

The defined benefit liability is annually calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation was determined by discounting estimated future cash outlays, using interest rate yields prevailing in the market for the currency in which benefits will be paid, and having maturity periods similar to those in the related pension plan obligation. The liability recognized in the balance sheet is the present value of the defined-benefit obligations on the balance sheet date, less the fair value of plan assets, with the adjustments of unrecognized past services. The calculation is made by a qualified actuary and when it results in a benefit for the Company, the asset to be recognized is limited to the total of any unrecognized prior service costs and the present value of the economic benefits available as future plan refunds or reduction in the future payments.

Actuarial gains and losses, resulting from adjustments based on experience and on changes in actuarial assumptions, are recorded as other comprehensive results, in shareholders' equity under the caption "Equity valuation adjustment".

Costs of past services are immediately recognized in the result, unless the changes in the pension plan are not conditioned to the employee's permanence in the job, for a specific period of time (the period in which the right is acquired). In this case, the costs of past services are amortized under the straight-line method during the period in which the right was acquired.

Regarding the defined contribution plans, the Company has no additional obligation to make payments after the contribution is made. The contributions are recognized as employee benefit expenses, when due and the contributions made in advance are recognized as asset as a refund in cash or a reduction of payments of current or future services is made available.

b) Profit sharing plan

This interest is recognized monthly in current liabilities, under the caption "Other" and in the income statement under the caption "Other operating expenses". It is calculated based on a formula that considers the attainment of 80% of income before estimated interest and taxes and it is limited up to 20% of net income before expenses with profit sharing expenses.

c) Long-term incentive

The Company operates a long-term incentive plan according to which the Company receives services from employees and offers cash payments as compensation. Fair value of employee services received in exchange for cash is recognized as expenses. The total amount to be recognized as obligation is determined every year considering the principal aspects: the EBITDA growth and a ratio of EBITDA with the Company's net debt (Note 28). Total expenses are recognized during the period in which the right is acquired; period during which the specific conditions of acquisition of rights should be met. On the balance sheet date, the entity reviews its estimates based on the conditions of acquisition of rights and recognizes the impact of the review of the initial estimates, if any, in the income statement, with a corresponding adjustment in the liabilities.

3.18 Capital

The Company’s capital is represented solely by common shares and is classified in shareholders’ equity in conformity with Note 29.

3.19 Total Dividends and Interest on Own Capital of the period

Payment of dividends to Company’s shareholders is recognized as a liability in the financial statements at the end of each year, with basis on the Company's by-laws. Any amount above the mandatory minimum is provisioned only on the date of its approval by the Shareholders' Meeting.

The tax benefit of interest on own capital is recorded at the statement of income.

3.20 Income recognition

The income comprises the fair value of the consideration received or receivable for the sale of products in the normal course of activities of the Company and its subsidiaries, the income is presented net of taxes, goods returned, rebates and discounts, and elimination of intergroup sales of the Companies and its subsidiaries.

Sales income is recognized upon physical delivery of assets or services, transfer of property, and when all the following conditions are met: a) client assumes significant risks and benefits deriving from asset ownership; b) income value may be reliably measured; c) it is probable that accounts receivable will be recognized; and d) costs incurred or to be incurred referring to such transaction may be reliably measured.

a) Sale of goods - Wholesale

The Company produces and sells a variety of ceramic tiles in the wholesale market. Sales of products are recognized whenever the Company delivers the products to the wholesale dealer, which then has total liberty over the channel and the price of resale of products, and there is no obligation not satisfied that could affect the acceptance of the products by the wholesale dealer. The delivery does not occur until: (i) the products have been shipped to the specified location; (ii) the risks of obsolescence and loss have been transferred to the wholesale dealer; (iii) the wholesale dealer has accepted the products according to the sales agreement; and (iv) the acceptance provisions have been agreed upon, or the Company has objective evidences that all the acceptance criteria have been met.

Ceramic tiles are eventually sold at discounts per volume. Clients have the right to return products with defects in the wholesale market. Sales are recorded based on the price specified in the sales agreements. Sales are made with different payment terms according to the type of client (Home Centers, Construction Companies, Franchised Stores), without nature of financing, and are consistent with the market practice; thus, these sales are not discounted to present value.

b) Income from royalties

Income from royalties is recognized on accrual basis in conformity with the essence of applicable agreements.

c) Financial income

Financial income is recognized in accordance with the elapsed time using the effective interest rate method and it is recognized upon an expectation to realize.

3.21 Statement of added value

The Group prepared individual and consolidated statements of added value in accordance with the rules of technical pronouncement CPC 09 - Statement of Added Value, which are presented as an integral part of the financial statements under BRGAAP applicable to publicly-held companies, whereas under IFRS they represent additional financial information.

3.22 Financial expenses

Financial expenses comprise interest expenses on loans and financing, inflation adjustment in trade accounts payable, exchange-rate change in loans and financing, update of taxes payable in installments and discounts granted to clients. Borrowing costs which are not directly attributable to the acquisition, construction, or production of a qualifying asset are recognized in the income (loss) using the effective interest rate method.

3.23 New standards, and changes or interpretation of IFRS issued by IASB

Several new standards or changes in standards and interpretations will be effective for annual period starting on or after January 01, 2018. The Group did not adopt these amendments in the preparation of these financial statements and does not plan to adopt these standards in advance.
The following standards are expected to **not** have a significant impact on the financial statements of the Group in the period of first adoption.

a) Estimated impact of adopting CPC 47/ IFRS 15

CPC 47 / IFRS 15 is related to the Income from contract with client which introduces a comprehensive framework for determining whether and when income is recognized, and how income is measured. CPC 47 / IFRS 15 replaces current income recognition standards, including CPC 30 (IAS 18) Income, CPC 17 (IAS 11) Construction Contracts, and CPC 30 Interpretation A (IFRIC 13) Client Loyalty Programs.

The Company and its subsidiaries are required to adopt as of January 1, 2018. Based on the evaluations carried out up to the date of these financial statements, management does not expect any material impact on the shareholders' equity of the Company and its subsidiaries as of January 1, 2018.
The Company plans to adopt CPC 47 using the cumulative effect method, with first-time application of this standard on initial date, that is, January 1, 2018. Accordingly, the Company and its subsidiaries will not apply requirements of CPC 47 to presented comparative period.

b) Estimated impact of adopting CPC 48/ IFRS 9

CPC 48 / IFRS 9 Financial Instruments establish requirements to recognize and measure financial assets, financial liabilities and some contracts for the purchase or sale of non-financial items. This standard replaces CPC 38 / IAS 39 – Financial instruments: Recognition and measurement.

(i) Classification - Financial assets

CPC 48 / IFRS 9 contains three main classification categories for financial assets: Measured at amortized cost, at fair value through other comprehensive income (FVTOCI) and at fair value through profit or loss (FVTPL). The standard eliminates the categories existing in IAS 39 of held-to-maturity, loans and receivables, and available for sale.

Based on its valuation, the Management does consider that the new classification requirements will not have a significant impact on the accounting of its assets and liabilities.

(ii) Impairment - Financial and contractual assets

CPC 48 / IFRS 9 replaces the “incurred losses” model of CPC 38 (IAS 39) with a prospective “expected credit losses” model. This will require a relevant judgment as to how changes in economic factors affect the expected credit losses. The new model of expected losses will be applied to financial assets measured at amortized cost or VFTOCI, with the exception of investments in equity instruments and contractual assets.

Management believes that its current model for assessing the impairment of financial assets and contractual assets, even if it takes into account aspects that differ from the model proposed by CPC 48 / IFRS 9, is adequate to reflect expected losses in the realization of its assets.

Thus, based on the evaluations carried out up to the date of these financial statements, management does not expect any material impact on the shareholders’ equity of the Company and its subsidiaries as of January 1, 2018.

(ii) Classification - Financial assets

CPC 48 / IFRS 9 retains a large part of the requirements of IAS 39 for the classification of financial liabilities. However, according to IAS 39, all changes in fair value of the liabilities designated as FVTPL are recognized in statement of income, whereas, according to CPC 48 / IFRS 9, these changes in fair value are generally reported as follows:

- the amount of the change in fair value that is attributable to changes in the credit risk of the financial liability is presented in OCI; and

- the remaining amount of the change in fair value is presented in income (loss).

The Management does not intend to designate financial liabilities as FVTPL. The Management’s preliminary valuation did not indicate a material impact on classification of financial liabilities on January 1, 2018.

c) Standards in force as of January 1, 2019

(i) IFRS 16 Leases

IFRS 16 introduces a single model of accounting of leases in the balance sheet to lessees. A lessee recognizes an asset of right of use that represents its right to use the leased asset and a lease liability that represents its obligation to make the lease payments. Optional exemptions are available for short-term leases and low-value items. The lessor’s accounting remains similar to the current standard, that is, lessors continue to classify leases as financial or operating leases. IFRS 16 replaces the current lease standards, including CPC 06 (IAS 17) Commercial Lease Operations and ICPC 03 (IFRIC 4, SIC 15 and SIC 27) Complementary Aspects of Commercial Lease Operations. The standard is effective in years starting on or after January 1, 2019.

The Company is conducting an evaluation of the impacts resulting from the application of this standard and expects to disclose additional information prior to its effective adoption. The following changed standards and interpretations should not have a significant impact on Company's consolidated financial statements.
- Cycle of annual improvements for IFRS 2014-2016 – Amendments to IFRS 1 and IAS 28.
- Amendments to CPC 10 (IFRS 2) – Share-based payment in relation to the classification and measurement of certain share-based payment transactions.
- Transfers of Property for Investment (Amendments to CPC 28 / IAS 40).
- Amendments to CPC 36 Consolidated Statements (IFRS 10) and CPC 18 Investments in Associated Company (IAS 28) in relation to sales or contributions of assets between an investor and its associated company or joint venture.
- ICPC 21 / IFRIC 22 Foreign-currency transactions and advance.
- IFRIC 23 Uncertainty related to Income Tax Treatments.

The Accounting Pronouncements Committee has not yet issued any accounting pronouncement or amendments in current pronouncements corresponding to all IFRS new standards. Therefore, the early adoption of these IFRS is not permitted for entities that disclose their financial statements according to accounting practices adopted in Brazil.

4 Estimates and critical accounting judgments

4.1 Estimates

The Company and its subsidiaries make use of assumptions to establish estimates for the future. By definition, resulting accounting estimates are seldom equal to the respective actual incomes. The estimates and assumptions which present a significant risk, likelihood of causing an important adjustment to the book value of assets and liabilities for the coming fiscal year are shown below.

a) Review of the useful life and recovery of the assets

The recovery capacity of assets which are used in Company's operations is valued whenever events or changes in the circumstances indicate that the book value of an asset or group of assets may not be recoverable based on future cash flows. If the book value of those assets exceeds recoverable value, their net value is adjusted and their useful lives are changed to new levels.

b) Provisions for contingencies

The Company is not a party to labor, civil or tax lawsuits which are in many court levels. Reserves for contingencies, recorded to face potential losses arising from lawsuits in progress, are established and updated with basis on management's appraisals, grounded on the opinion of their legal advisors, and require a high degree of judgment on the involved matters.

c) Allowance for inventory losses

The inventory provision for potential losses is established when, with basis on Management's estimates, the items are defined as discontinued or low turnover or when the inventory items have a cost exceeding the net realizable value.

d) Deferred income and social contribution taxes

Deferred tax assets and liabilities are based on tax losses and temporary differences between the book value stated in the financial statements and the tax basis. If the Company and its subsidiaries start operating at a loss or become unable to generate future taxable income in a sufficient level, or if there is a significant change in the current tax rates or in the period of time over which underlying temporary differences become taxable or deductible, it may be necessary to make a reversal of a significant portion of deferred tax assets, possibly resulting in an increase in the effective tax rate.

e) Private pension plan

The current value of pension plan obligations depends on a series of factors that are determined with basis on actuarial calculations that use several assumptions. One of the assumptions used in the determination of pension plan net cost (income) is the discount rate. Any changes in these assumptions will affect the book value of pension plan obligations.
The appropriate discount rate is determined at the end of each year. That is the interest rate that should be used to determine the present value of estimated future cash outlays that should be necessary to settle pension plan obligations. When determining the appropriate discount rate, management considers the interest rates of prime private securities, maintained them in the currency in which the benefits will be paid and having terms similar to the related pension plan obligations.

Other major assumptions for pension plan obligations are partly based on current market conditions. Additional information is disclosed in Note 27.

4.2 Critical judgments in applying the Entity’s accounting policies

a) Receivables - Eletrobrás

The recognition of the receivables from Eletrobrás is based on the opinion of the company's legal counsel and is supported by the fact that the lawsuit is no longer appealable and is in the stage of payment. The amounts have been computed by the Federal Justice accounting department, taking into account the rules of the court decision and the limitations established by the judge.

b) Credits from other related companies with guarantees

The receivable from Refinadora Catarinense is recognized with basis on the value of the contract entered into with that party and the amounts of the provided guarantees. The credits that have been pledged have already been converted into bonds covering court-ordered payments (called “precatory bonds”). The related payments are already included in the federal government's budget. Refinadora Catarinense S/A is making payments as described in note 11.

c) Installment MP 470

The amount of the installments for Provisional Measure No. 470 is based on the assumption that the Company will obtain approval for its claim according to the opinion of its legal counsel.

The Company has already requested a court ruling to obtain judicial approval for the installment plan referred to in Provisional Measure No. 470. Said legal action – a writ of mandamus – is expected to be considered as valid by the court, in the opinions of the Company’s legal area, and of two highly specialized law firms (Demarest Almeida and Souza Cescon). As clarification, writ of mandamus filed to claim court homologation for payment in installments was rejected in the lower court. TRF of the 4th region partially approved the appeal. The Company maintains the proceeding of reversing remaining court dispute in the Higher Court of Justice.

d) ICMS Tax benefits

The Company has an ICMS (state VAT) tax incentive called Santa Catarina State Corporation Development Program (PRODEC), granted by the Santa Catarina state government as described in Note 21a). The Federal Supreme Court issued decisions for direct actions for unconstitutionality, which declared the unconstitutionality of several state laws that granted ICMS tax benefits without the prior agreement between the states. Although it does not have ICMS tax incentives judged by the Federal Supreme Court, the Company has been monitoring, together with its legal counsel, the progress of this matter in the courts to determine any impacts on its operations and consequent effects on financial statements.
In Alagoas State, the Company has a tax benefit denominated PRODESIN – Integrated Development Program. PRODESIN tax benefits are comprised of deferral of ICMS levied on assets acquired in Brazil and abroad and intended to be incorporated to fixed assets; deferral of ICMS levied on raw materials acquired in Brazil or abroad; deemed credit of 50% of ICMS related to products of the branch located in the State; deferral for 360 days of ICMS to be paid; financing of part of ICMS owed to the State in up to 84 monthly installments, with grace period of 24 months to pay first installment.

e) Tax assessment notice

In the years, 2014 and 2016, the Company was notified of Tax Assessment Notices that established IRPJ and CSLL credits (as well as money penalties and interest) for calendar years from 2009 to 2013. The Company presented its defense and is awaiting a decision on said impugnation, as detailed in note 26b).

5 Financial risk management

5.1 Financial risk factors

The activities of the Company and its subsidiaries expose it to various financial risks: market, risk and liquidity risk. The global risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the consolidated financial performance.
The management of risk is conducted by the Treasury and Financial Executive Board, under the policies approved by the Board of Directors. The Treasury and the Finance Division identify, evaluate and protect the Company and its subsidiaries against possible financial risks, in cooperation with the operating units. The Board of Directors establishes principles, for global risk management and for specific areas such as exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and cash surplus investment.

a) Market risk

i) Foreign exchange risk

The Company operates globally and is exposed to foreign exchange risk resulting from exposures to some currencies, mainly US dollar and Euro. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities and net investments in transactions abroad.

In thousands of reais, unless otherwise indicated

Shown below are the asset and liability balances exposed to change in exchange rate:

	In reais			
	Parent company		Consolidated	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Accounts receivable	52,785	43,969	52,785	43,969
Current account	3,806	1,186	3,806	1,186
Credits from subsidiaries	67,728	66,727	-	-
Exposed assets	124,319	111,882	56,591	45,155
Provision for loss in investments	(67,717)	(66,647)	-	-
Accounts payable, net of advances	(9,718)	(9,317)	(9,718)	(9,317)
Accounts payable from investment	(12,392)	-	(12,392)	-
Loans and financing	(42,303)	(77,402)	(42,303)	(77,402)
(-) Swap transaction	-	21,778	-	21,778
Exposed liabilities	(132,130)	(131,588)	(64,413)	(64,941)
Net exposure	(7,811)	(19,706)	(7,822)	(19,786)

	In Euros				In dollar			
	Parent company		Consolidated		Parent company		Consolidated	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Accounts receivable	317	367	317	367	12,659	9,887	12,659	9,887
Current account	-	-	-	-	1,150	364	1,150	364
Credits from subsidiaries	-	-	-	-	20,474	20,474	-	-
Provision for loss in investments	-	-	-	-	(20,471)	(20,448)	-	-
Accounts payable, net of advances	(541)	(282)	(541)	(282)	(2,288)	(2,567)	(2,288)	(2,567)
Accounts payable from investment	(3,122)	-	(3,122)	-	-	-	-	-
Loans and financing	-	-	-	-	(12,788)	(23,750)	(12,788)	(23,750)
(-) Swap transaction	-	-	-	-	-	19,624	-	19,624
	(3,346)	85	(3,346)	85	(1,264)	3,584	(1,267)	3,558

Although the net foreign exchange exposure is small, the Company maintains the strategy of maintaining its liability exchange rate exposure in an amount equivalent to up to one year of its exports.

ii) Cash flow or fair value risk associated to the interest rate

The interest rate risk arises from long-term loans and financing and is associated to floating-rate loans that exposed the Company and its subsidiaries to interest rate and cash flow risks. While loans issued at fixed rates expose the entities to fair value risk associated to interest rate.

The Company and its subsidiaries continuously monitor market interest rates in order to assess the possible need to contract new operations to protect against the risk of volatility in these rates.

Regarding financial investments, they are mostly made in investment funds as Note 6.

b) Credit risk

The Company and its subsidiaries maintain strict controls over credit granting to their clients and adjust the limits whenever a material change in risk is detected.

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c) Liquidity risk

It is the risk of the Company and its subsidiaries not having sufficient net funds to honor its financial commitments due to a time or volume mismatch between foreseen receipts and payments.

To manage cash liquidity in domestic and foreign currency, future disbursements and cash inflows assumptions are established and daily monitored by the Treasury and Financial Executive Board.

The chart below analyzes the non-derivative financial liabilities of the Parent Company and consolidated, by ranges of maturity, corresponding to the remaining period in the balance sheet up to the contractual date of maturity. Amounts disclosed in the table are contracted undiscounted cash flows.

	Parent company							
	December 31, 2017				December 31, 2016			
Years:	* Loans and debentures	Financial lease	Supplier and grant	Installment payment of tax obligations	* Loans and debentures	Financial lease	Supplier and grant	Installment payment of tax obligations
< 1	146,051	351	112,413	14,033	196,975	782	98,557	9,788
1–2	252,500	-	78,496	21,334	224,882	349	68,990	20,158
2–5	102,778	-	-	32,001	146,726	-	-	30,237
>5	14,836	-	-	8,891	25,134	-	-	18,479
	516,165	351	190,909	76,259	593,717	1,131	167,547	78,662

* Difference between total loans and debentures presented in this table and balance sheet derives from Prodec's AVP.

	Consolidated							
	December 31, 2017				December 31, 2016			
Years:	* Loans and debentures	Financial lease	Supplier and grant	Installment payment of tax obligations	* Loans and debentures	Financial lease	Supplier and grant	Installment payment of tax obligations
< 1	146,051	351	114,569	14,126	196,975	782	102,929	9,857
1–2	253,677	-	78,496	21,478	226,071	349	68,990	20,296
2–5	102,778	-	-	32,217	146,726	-	-	30,444
>5	14,836	-	-	8,953	25,134	-	-	18,602
	517,342	351	193,065	76,774	594,906	1,131	171,919	79,199

* Difference between total loans and debentures presented in this table and balance sheet derives from Prodec's AVP.

d) Sensitivity analysis

i) Sensitivity analysis of changes in the interest rates

In the quarter Income from short-term investments and financial expenses arising from the Company's loans and financing are impacted by changes in interest rates, such CDI and Selic.

On December 31, 2017, the Management considered the increase in CDI rate at 6.89% and Selic of 6.90% as the probable scenario. The probable rate was then adjusted at 25% and 50%, as parameter for possible and remote scenarios, respectively.

The scenarios below were estimated for the period of 1 year:

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	Consolidated in reais							
	December 31, 2017	Risk	Probable		Possible (25%)*		Remote (50%)*	
			%	R$	%	R$	%	R$
Investments (remunerated at 98.6% CDI)	78,962	CDI incr.	6.89%	5,364	5.17%	6,705	3.45%	8,046
Loans – Working capital	(1,177)	CDI incr.	6.89%	(81)	8.61%	(101)	10.34%	(122)
Loans – Export credit note	(123,232)	CDI incr.	6.89%	(8,491)	8.61%	(10,613)	10.34%	(12,736)
Debentures	(175,703)	CDI incr.	6.89%	(12,106)	8.61%	(15,132)	10.34%	(18,159)
	(221,150)			(15,314)		(19,141)		(22,971)
Installment payment of tax obligations	(76,774)	SELIC incr.	6.90%	(5,297)	8.63%	(6,622)	10.35%	(7,946)

*Possible and remote scenarios calculated based on probable rate.

ii) Sensitivity analysis of changes in the exchange rates

The Company has assets and liabilities linked to foreign currency in the balance sheet as of December 31, 2017 and adopted, for sensitivity analysis purposes, the future market rate in effect during the preparation of this quarterly information as the probable scenario. The probable rate was then adjusted at 25% and 50%, as parameter for possible and remote scenarios, respectively.

Thus, the table below simulates the exchange rate effect on the deferred income (loss):

	Consolidated in reais						
	December 31, 2017	Probable		Possible (25%)*		Remote (50%)*	
		US$ rate	Gain (loss)	US$ rate	Gain (loss)	US$ rate	Gain (loss)
Accounts receivable	52,785	3.250	(925)	4.063	13,196	4.875	26,393
Current account	3,806	3.250	(67)	4.063	952	4.875	1,903
Accounts payable, net of advances	(25,061)	3.250	439	4.063	(6,265)	4.875	(12,531)
Loans and financing	(42,303)	3.250	742	4.063	(10,576)	4.875	(21,152)
Net exposure	(10,773)	3.250	189	4.063	(2,693)	4.875	(5,387)

* Possible and remote scenarios calculated based on probable rate, based on the Central Bank of Brazil (BACEN) Focus Report on January 05, 2018.

5.2 Capital management

The Management's objectives in managing its capital are to safeguard its business continuity capacity of the Company and its subsidiaries to offer return to shareholders and benefits to the other stakeholders besides providing the best cash management, in order to obtain the lower funding cost in the combination of own capital or third-party's capital.

The capital is monitored based on the ratio of consolidated financial leverage. That index corresponds to the ratio divided between net debt and total capital. Net debt, in turn, corresponds to total loans and installment payment of tax liabilities less the amount of cash and cash equivalents, credits from other related parties and securities. The total capital is calculated through the sum of shareholders' equity, as shown in the consolidated balance sheet, with net debt.

In thousands of reais, unless otherwise indicated

The financial leverage ratios on December 31, 2017 can be summarized as follows:

	Parent company		Consolidated	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Loans and financing	512,384	585,472	513,561	586,661
Installment payment of tax obligations	76,259	78,662	76,774	79,199
Less: Cash and cash equivalents	(78,756)	(100,085)	(94,379)	(105,745)
Credits from other related parties	(94,651)	(89,423)	(94,651)	(89,423)
Interest earning bank deposits	(6,938)	(6,451)	(6,938)	(6,451)
Net debt	408,298	468,175	394,367	464,241
Total shareholders' equity	285,048	238,448	285,060	238,459
Total capital	693,346	706,623	679,427	702,700
financial leverage ratio (%)	59	66	58	66

5.3 Financial instruments by category

Shown below is the classification of financial instruments by category on the stated dates:

	Parent company		Consolidated	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Assets, loans and receivables				
Cash and cash equivalents	78,756	100,085	94,379	105,745
Trade accounts receivable	203,703	202,658	218,412	215,379
Credits from other related parties	94,651	89,423	94,651	89,423
Assets, valued at fair value through profit or loss				
Interest earning bank deposits	6,938	6,451	6,938	6,451
	384,048	398,617	414,380	416,998
Liabilities, other financial liabilities				
Suppliers and grant	147,540	120,079	149,696	124,451
Loans, financing and debentures	512,384	585,472	513,561	586,661
Installment payment of tax obligations	76,259	78,662	76,774	79,199
Derivatives	-	2,452	-	2,452
	736,183	786,665	740,031	792,763

The financial investment is a long-term investment fund and is tied to a reciprocity clause with no loan agreement with Banco do Nordeste.

6 Cash and cash equivalents

In thousands of reais, unless otherwise indicated

	Parent company		Consolidated	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Current account	12,801	6,211	15,417	11,172
Interest earning bank deposits	65,955	93,874	78,962	94,573
	78,756	100,085	94,379	105,745

Financial investments designated as cash equivalents are shares of investment funds. These funds' average yield in December 2017 was equivalent to 98.6% of the interbank deposit certificate (CDI) rate. The investment can be redeemed at any time without penalties.

7 Financial instruments

All derivative transactions were settled in 2017, and the Company no longer holds financial instruments linked to swap operations.
In addition, the Company does not carry out speculative financial transactions with derivatives or any other risk instrument.

8 Trade accounts receivable

	Parent company		Consolidated	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Accounts receivable from third parties;				
Domestic market	153,302	158,989	167,560	171,710
Foreign market	52,785	43,969	52,785	43,969
	206,087	202,958	220,345	215,679
Accounts receivable from related parties;				
Entities related to the Management	-	2,548	451	2,548
	-	2,548	451	2,548
Impairment of trade accounts receivable;				
Allowance for doubtful accounts	(2,384)	(2,848)	(2,384)	(2,848)
	(2,384)	(2,848)	(2,384)	(2,848)
	203,703	202,658	218,412	215,379

Management understands that allowance for doubtful accounts is sufficient to cover probable losses in the settlement of accounts receivable considering the situation of each client and respective guarantees offered. Its amount represents the estimate of risk of non-realization of overdue receivables under the analysis of the manager in charge.
The formation and write-off of the allowance to accounts receivable are recorded in income (loss) as business expenses.

a) Breakdown of accounts receivable by maturity age with provisioned and not provisioned classification

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	Parent company							
	December 31, 2017	Trade notes falling due not provisioned	Trade notes overdue not provisioned	Allowance for doubtful accounts	December 31, 2016	Trade notes falling due not provisioned	Trade notes overdue not provisioned	Allowance for doubtful accounts
Falling due:	166,563	166,563	-	-	191,258	191,258	-	-
Overdue - in days:								
up to 30	11,149	-	11,149	-	5,733	-	5,733	-
31–90	11,506	-	11,363	143	2,011	-	1,908	103
91–180	6,751	-	6,594	157	1,251	-	824	427
181–360	3,263	-	2,390	873	4,388		2,904	1,484
>360	6,855	-	5,644	1,211	865	-	31	834
	206,087	166,563	37,140	2,384	205,506	191,258	11,400	2,848

	Consolidated							
	December 31, 2017	Trade notes falling due not provisioned	Trade notes overdue not provisioned	Allowance for doubtful accounts	Decembe r 31, 2016	Trade notes falling due not provisioned	Trade notes overdue not provisioned	Allowance for doubtful accounts
Falling due	178,571	178,571	-	-	203,154	203,154	-	-
Overdue - in days:								
up to 30	11,262	-	11,262	-	6,144	-	6,144	-
31–90	11,905	-	11,762	143	2,191	-	2,088	103
91–180	7,629	-	7,472	157	1,298	-	871	427
181–360	4,387	-	3,514	873	4,570		3,086	1,484
>360	7,042	-	5,831	1,211	870	-	36	834
	220,796	178,571	39,841	2,384	218,227	203,154	12,225	2,848

The Company's receivables constitute a guarantee of some of the loans and financings obtained, as described in Note 21. Its sum is calculated based on a percentage of the residual balance of the debt. On December 31, 2017, the total amount of accounts receivable pledged as collateral was R$ 79,332 (R$ 83,642 on December 31, 2016).

9 Inventories

	Parent company		Consolidated	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Finished goods	144,331	152,789	144,488	153,064
Work in process	6,207	6,279	6,207	6,279
Raw materials and consumption materials	31,729	31,693	31,729	31,693
Provision for inventory appraisal at realizable value	(7,043)	(9,496)	(7,043)	(9,496)
Imports in transit	3,942	4,340	3,942	4,340
	179,166	185,605	179,323	185,880

Inventories of finished products goods were pledged as loans and financing, in the amount of R$ 11,016 (R$ 11,016 as of December 31, 2016).

The Company records a provision for inventory losses taking into account the net cost and the recoverable value, whichever is lower. The expense on the formation of the provision for inventory losses was recorded under "cost of products sold" caption in statement of income for the year. Whenever it is not expected to be recovered, the amounts credited in this caption are realized against the definite write-off of the inventory.

10 Recoverable taxes

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	Parent company		Consolidated	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Current				
ICMS	5,646	8,060	6,120	8,524
IPI (a)	3,051	1,948	3,399	2,295
IRRF/CSRF	1,612	-	1,635	-
IRPJ/CSLL	4,034	4,330	4,050	5,017
PIS/COFINS	-	-	421	427
INSS	-	2,496	-	2,496
Other	153	109	297	320
	14,496	16,943	15,922	19,079
Non-current*				
ICMS	2,728	3,051	2,728	3,051
PIS/COFINS	3,679	3,073	3,679	3,073
	6,407	6,124	6,407	6,124

* Taxes recoverable deriving from acquisitions of property, plant and equipment items.

a) Reduction in IPI (Excise Tax) rate percentages

The decrease in percentages of the rates of IPI (excise tax) levied on the products produced and traded by the Company is allowed by Decree 8950 dated December 29, 2016 which establishes zero rate for Excise Tax - IPI of the sector for an indefinite period. This measure originates credits that are used on a quarterly basis to offset federal taxes.

11 Credits from other related parties

Between 2001 and 2003, the Company acquired tax credits against the National Treasury from the related party Refinadora Catarinense S.A. ("Refinadora"). These credits result from a Writ of Mandamus claiming the right to reimbursement of IPI premium credit. The Company used such credited for the settlement of federal taxes. As provided for in the contract between the parties, in the event these credits are not validated by the National Treasury, “Refinadora” should refund the Company.

The Federal Supreme Court made a pronouncement in mid-2009 defining the nullifying milestone of this incentive on October 4, 1990, abolishing the pretensions of use of this credit. Given this fact the Company adhered to the payment scheduling provided for in Law 11941/09, then including the debt resulting from the use of the credit acquired from “Refinadora”.

It is emphasized that “Refinadora” had already entered into a contract with the Company guaranteeing the reimbursement of the amounts used. The aforesaid guarantee was provided with credits also originated on the ‘IPI premium credit’ tax benefit, of calculation period prior to October 4, 1990, running in the Federal Courts of the Federal District, with award calculation decision handed down and favorable to Refinadora.

At the time of adhesion to the payment scheduling of Law 11941/09, the Company and “Refinadora” signed an instrument confirming such credits as a guarantee, and as suitable to cover all the tax debts payable in installments. On December 31, 2017, these credits that also originate in proceeding 87.00.00967-9, represent R$ 94,651 (R$ 89,423 on December 31, 2016) and are restated by the SELIC rate, according to the contract.

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It should be mentioned that the pledged credits have already become court-ordered debt payments. In fact, the Company received four installments out of a total of 10 annual installments, as provided for in the contract. Receipts occurred in August 2011, March 2013, and April 2014 and December 2015, in the amounts of R$ 8,505, R$ 9,824, R$ 9,995 and R$ 10,000, respectively. Also, in September 2016, the amount of R$2,167 was received to supplement installment 4. Installments 05, 06 and 07 are already deposited to the Refining company, however, transfer depends on release permit, which is in progress.

Refinadora Catarinense S/A was a parent company of PBG S/A in the past and currently has shareholders in common, and remains financially liable for the performance of the obligation.

12 Judicial deposits

The Company and its subsidiaries are parties involved in tax, civil and labor lawsuits (see Note 25) and are discussing these issues in both the administrative and judicial scopes and, when applicable, said lawsuits are backed by judicial deposits. These are recorded at the original value restated by the indices relating to the basic remuneration of the savings account, TR (reference rate) + 0.5%.

The judicial deposits are presented according to the nature of the corresponding actions:

	Parent company		Consolidated	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Civil (a)	78,568	69,043	78,568	69,061
Labor	8,381	8,111	8,381	8,111
Tax	6,521	4,539	6,552	4,570
	93,470	81,693	93,501	81,742

a) The Company, as a result of an untimely and unilateral decision by supplier SC Gás of canceling discount on contracted gas monthly value, benefit called loyalty program, filed a lawsuit postulating maintenance of said benefit, and an injunction was authorized determining that amounts referring to the discount should be deposited in court.

13 Receivables - Eletrobrás

The Company filed a lawsuit against Centrais Elétricas Brasileira S/A - Eletrobras aiming at the reimbursement of the compulsory loan paid through the electricity bills between the years 1977 and 1993, based on Law 4156/62.

In 2005, this suit was held well-founded and, in February 2006, the Company filed a writ of execution and recognized the amount determined by judicial expert investigation, adjusting it on a monthly basis at INPC plus 12% p.a. After that period, calculation was submitted to reviews by Federal Court accountants.

In 2014, Eletrobras was convicted to pay R$35,395, calculated by experts considering base date August 2013. The Company challenged this decision and requested rectification of calculations and establishment of criteria adopted for quantification of conviction value, due to divergences between the parties. In view of this situation, in July 2014, the Company decided to interrupt asset adjustment until a new decision on value and criteria used in this process is issued, maintaining a book balance of R$ 48,621.

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After final decision on award calculation proceedings, occurred in August 2014, an accounting expert was hired by the Company in 2016 to quantify credit, which was the object of future execution of judgment proceedings. Expert report presented the amount of R$ 32,208.

On November 16, 2017, the Company filed a judgment enforcement action, in the total amount of R$ 12,821, calculated by the Federal Justice. This book balance was reviewed and written-off once again in 2017, and R$11,294 referred to operations (that were reversed against financial income), and R$8,092 were recognized in other operating expenses.

14 Income and social contribution taxes

a) Income and social contribution taxes on net income

Recoverable and payable deferred income and social contribution is broken down as follows:

	Current assets				Current liabilities			
	Parent company		Consolidated		Parent company		Consolidated	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Income tax	2,823	4,137	2,839	4,716	-	-	(1,284)	(227)
Social contribution	1,211	193	1,211	301	-	-	(474)	(84)
	4,034	4,330	4,050	5,017	-	-	(1,758)	(311)

Taxes are presented net, in assets or liabilities, in case there is a legal right to offset current tax assets and liabilities.

b) Deferred income and social contribution taxes

The amounts of deferred income and social contribution taxes for the parent company and consolidated are as follow:

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	Parent company		Consolidated	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Tax losses	15,288	7,393	15,288	11,741
Temporary credit differences	21,57	35,295	22,092	35,3
Exchange rate change at cash basis	2,873	6,207	2,873	6,207
Provision for adjustment to market value	1,841	2,494	1,841	2,494
Provision for contingencies	8,585	8,914	8,585	8,914
Provision for PIS and COFINS with a reduced basis for ICMS	-	7,969	-	7,969
Provision for profit sharing and long-term incentives	2,116	2,486	2,116	2,486
Other temporary difference - assets	6,155	7,225	6,677	7,23
Temporary liability differences	-51,044	-50,291	-51,044	-50,291
Portobello Private Pension	-1,957	-1,485	-1,957	-1,485
Realization of revaluation reserve	-18,481	-19,091	-18,481	-19,091
Receivables - Eletrobrás	-4,359	-10,951	-4,359	-10,951
Contingent assets - IPI premium credit - Phase I	-2,591	-2,342	-2,591	-2,342
Contingent assets - IPI premium credit - Phase II	-7,461	-6,747	-7,461	-6,747
Contingent assets - PIS Semi-annual payment	-3,025	-	-3,025	-
Contingent assets - Restatement of rural credit bills	-2,552	-	-2,552	-
Adjustment to present value	-1,405	-3,187	-1,405	-3,187
Adjustment of depreciation (for the useful life of assets)	-9,213	-6,488	-9,213	-6,488
Deferred income and social contribution taxes, net	-14,186	-7,603	-13,664	-3,25
Non-current assets	-	-	522	-
Non-current liabilities	-14,186	-7,603	-14,186	-3,25
Deferred income and social contribution taxes, net	-14,186	-7,603	-13,664	-3,25

The net changes in deferred income and social contribution taxes at December 31, 2017 are as follows:

	Parent company	Consolidated
December 31, 2016	(7,603)	(3,250)
Tax losses	7,895	3,547
Temporary credit differences	(13,725)	(13,730)
Temporary liability differences	(1,363)	(1,363)
Revaluation reserve	610	610
December 31, 2017	(14,186)	(14,186)

The changes in deferred income and social contribution tax assets and liability balances in the period, not considering the offsetting of balances for the parent company and consolidated is as follow:

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	Parent company	Consolidated
	December 31, 2017	December 31, 2017
Deferred tax asset charged to (recognized in) income		
Tax losses	7,895	3,547
Exchange rate change at cash basis	(3,334)	(3,334)
Provision for adjustment to market value	(653)	(653)
Provision for contingencies	(329)	(329)
Provision for PIS and COFINS with a reduced basis for ICMS	(7,969)	(7,969)
Provision for profit sharing and long-term incentives	(370)	(370)
Other temporary difference - assets	(1,070)	(1,075)
	(5,830)	(10,183)
Portobello Private Pension	(472)	(472)
Realization of revaluation reserve	610	610
Receivables - Eletrobrás	6,592	6,592
Contingent assets - IPI premium credit - Phase I	(249)	(249)
Contingent assets - IPI premium credit - Phase II	(714)	(714)
Contingent assets - PIS Semi-annual payment	(3,025)	(3,025)
Contingent assets - Restatement of rural credit bills	(2,552)	(2,552)
Adjustment to present value	1,782	1,782
Adjustment of depreciation (for the useful life of assets)	(2,725)	(2,725)
	(753)	(753)
	(6,583)	(10,936)

c) Income and social contribution taxes, income (loss)

Income and social contribution tax expenses are as follow:

	Parent company		Consolidated	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Income (loss) before taxes	70,719	(10,787)	80,992	(5,887)
Tax calculated based on nominal rate - 34%	(24,044)	3,668	(27,537)	2,002
Income (loss) of subsidiaries by the equity method	12,928	7,664	-	
Non-deductible expenses	4,533	1,748	4,533	1,748
Depreciation of revalued assets	(610)	(617)	(610)	(617)
Tax credits on tax losses and temporary differences	7,193	(12,463)	13,375	(12,369)
Current tax on income for the year	-	-	(10,239)	(9,236)
Formation of deferred income and social contribution taxes	(6,583)	12,912	(6,583)	17,265
Income and social contribution tax expense	(6,583)	12,912	(16,822)	8,029
Effective rate	9.3%	-	20.8%	-

15 Judicial assets

PBG SJV and subsidiaries

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Notes to financial statements for the year ended December 31, 2017
In thousands of reais, unless otherwise indicated

	Parent company		Consolidated	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Credit-IPI premium (a)				
Proceeding 1987.0000.645-9	21,945	19,843	21,945	19,843
Proceeding 1984.00.020114-0	7,621	6,892	7,621	6,892
PIS Semi-annual payment (b)	8,896	-	8,896	-
Restatement of rural credit bills	7,507	-	7,507	-
	45,969	26,735	45,969	26,735

a) Credit-IPI premium

The Company has a lawsuit claiming the recognition of tax benefits entitled ‘IPI premium credit’, in different calculation periods. Proceeding 1987.0000.645-9 referring to the period from April 1, 1981 to April 30, 1985, already having a decision in favor of the Company, is in the award calculation stage with the amounts already determined by the accounting unit of the federal courts, the amount recognized in November 2009, restated up to December 31, 2017 is R$ 21,945.

As regards lawsuit 1984.00.020114-0, referring to the period from December 7, 1979 to March 31, 1981, after final decision issued more than 10 years ago, stage for award calculation and execution of judgment started, and an expert report prepared by a court expert was presented. Parties were notified of the *'quantum'* calculated to respond about report acceptance or impugnation. The Company agreed with presented calculations. The Federal Government, represented by the National Treasury Attorney's Office, did not respond, leading to a tacit agreement and estoppels. Therefore, the suit is concluded for sentencing and no challenge is allowed. In 2015, the Company recognized amount determined by judicial expert, R$4,983, and, as the Company understands that success of said suit is practically certain, it recorded tax assets in June 2015, which, adjusted through December 31, 2017 is R$7,621.

b) PIS Semi-annual payment

In 2017, the Company recognized PIS Semi-annual payment assets, based on a final court decision in May, which resulted in a favorable decision by the Federal Supreme Court (STF) to recover PIS amounts paid in excess. In October, the request for authorization of the credit was entered and the Company is awaiting the return of the Brazilian Federal Revenue Service. It is currently in diligence confirming values.

c) Restatement of rural credit bills

In March 2017, based on a judicial decision handed down in the Public Civil Action filed by the Public Prosecutor's Office, in the face of the Federal Government, the Company filed an individual Action for Execution of Judgment, with the purpose of collecting the amount corresponding to the difference between monetary restatement indices in the operations applicable to rural credit bills, which occurred in March 1990. Up to December 31, 2017, the restated amount of the uncontroversial part is R$ 7,507. The amount recognized in the statement of income under "other operating income”, net of fees in 2107, totaled R$ 6,755.

16 Contingent assets

In thousands of reais, unless otherwise indicated

The contingent asset refers to lawsuit 1998.34.00.029022-4 and also involve the recognition of tax benefits entitled ‘IPI premium credit’, which received final decision in March 2015. The Company is already executing the judgment, and the judge of the case determined to the judicial department to decide on the correct application of the criteria defined in the sentence for later ratification of the amount due (*quantum).* The judicial department of the Federal Court pronounced itself to ratify the calculations presented by the Company, since "it is in conformity with the sentence". The amount was calculated at R$ 162,000, as of November 2017.

In December 2017, the Company issued a communication to the market disclosing the fact.

Management understands that the asset is likely, and thus maintained its disclosure in an explanatory note. The Company is waiting the next legal decisions to recognize the asset.

17 Investments

a) Interest in subsidiaries

The Company is the parent company of five businesses and investments are recorded in non-current assets under the heading “Equity in the income of subsidiaries and associated companies” and in liabilities as “Provision for loss on investments”.

	Organization Country	Ownership interest	Assets	Liabilities	Income	Income (loss)
December 31, 2016						
Portobello América Inc.	United States	100.00%	83	66,730	-	(161)
PBTech Ltda.	Brazil	99.94%	11,437	10,718	61,652	3,268
Portobello Shop S/A	Brazil	99.90%	22,546	22,066	64,165	15,893
Mineração Portobello Ltda.	Brazil	99.76%	1,958	1,713	8,764	547
Companhia Brasileira de Cerâmica S/A	Brazil	98.00%	1,654	9,801	(67)	2,994
December 31, 2017						
Portobello América Inc. and other	United States	100.00%	26	67,743	-	(67)
PBTech Ltda.	Brazil	99.94%	14,359	8,425	62,772	5,215
Portobello Shop S/A	Brazil	99.90%	40,380	39,900	63,510	32,528
Mineração Portobello Ltda.	Brazil	99.76%	2,079	1,495	9,336	339
Companhia Brasileira de Cerâmica S/A	Brazil	99.91%	2,121	(2)	-	8

The subsidiaries are closely-held companies, where the parent company’s stake in the assets, liabilities and Income (loss) for the period is as follows:

	Shareholders’ equity	Income (loss) for the period	Ownership interest	December 31, 2016	Exchange-rate changes	Paid-up capital	Equity income (loss)	Proposed dividends	Changes in ownership interest	December 31, 2017
Investments										
Portobello América Inc. and other	(67,717)	(67)	100%	(66,647)	(1,003)	-	(67)	-	-	(67,717)
PBTech Ltda.	5,938	5,218	99.94%	719	-	-	5,215	-	-	5,934
Portobello Shop S.A.	480	32,561	99.90%	480	-	-	32,528	(32,528)	-	480
Mineração Portobello Ltda.	585	340	99.76%	245	-	-	339	-	-	584
Companhia Brasileira de Cerâmica S/A	2,125	8	99.91%	(7,868)	-	10,145	8	-	(162)	2,123
Other	10	-	100%	10	-	-	-	-	-	10
Net total of investment in subsidiaries				(73,061)	(1,003)	10,145	38,023	(32,528)	(162)	(58,586)
Interest in subsidiaries				1,454						9,131
Provision for loss in investments				(74,515)						(67,717)

During the year 2017, the Company received the amount of R$ 15,892 in dividends proposed by its subsidiaries in 2016.

b) Advance for future capital increase

In thousands of reais, unless otherwise indicated

According to the Extraordinary Shareholders' Meeting held on June 23, 2017, PBG paid-in capital in the amount of R$ 10,145 to the subsidiary Companhia Brasileira de Cerâmica, amount from the existing advance for future capital increase balance. The remaining balance is R$3,831, was settled by means of credit granting of deferred tax credits.

18 Property, plant and equipment

a) Breakdown

	Parent company					Consolidated	
	December 31, 2017				December 31, 2016	December 31, 2017	December 31, 2016
	Annual average depreciation rate	Cost	Accumulated depreciation	Net value	Net value	Net value	Net value
Land		12,141	-	12,141	12,141	13,062	13,062
Buildings, civil works and improvements	3%	203,531	(42,190)	161,341	167,914	155,343	164,634
Machinery and equipment	15%	534,804	(304,536)	230,268	236,675	230,269	236,676
Furniture and fixtures	10%	9,456	(8,377)	1,079	1,261	1,092	1,277
Computers	20%	20,686	(16,365)	4,321	3,880	4,325	3,893
Other fixed assets	20%	209	(194)	15	22	14,084	10,353
Construction in process		21,957	-	21,957	3,363	22,420	3,453
		802,784	(371,662)	431,122	425,256	440,595	433,348

In 2010, upon the initial adoption of international CPC standards 37 and IFRS 1, as well as the adoption of CPC 43 and ICPC 10, the Company adopted the option to use the property, plant and equipment revaluation made in 2006 as deemed cost, understanding that the same represented substantially the fair value at the date of transition (Note 29.3).

As provided for in Technical Interpretation ICPC 10 of the Accounting Pronouncement Committee, approved by CVM Resolution 619/09 and effective as of 01/01/2009, the Company reviewed and altered the economic useful life of its fixed assets in 2008, based on the Technical Report issued by the Company’s engineers, and since then, annual reviews of rates are regularly performed and there was no relevant effect in useful life of fixed assets in 2017.

b) Changes in property, plant and equipment

	Parent company									
	December 31, 2015	Additions	Transfers	Depreciation	December 31, 2016	Additions	Transfers	Depreciation	Write-offs	December 31, 2017
Land	12,141	-	-	-	12,141	-	-	-	-	12,141
Buildings and improvements	164,853	-	10,050	(6,989)	167,914	-	412	(6,985)	-	161,341
Machinery and equipment	224,665	696	34,627	(23,313)	236,675	667	15,988	(23,018)	(44)	230,268
Furniture and fixtures	1,418	-	37	(194)	1,261	12	-	(194)	-	1,079
Computers	4,123	389	597	(1,229)	3,880	300	1,412	(1,271)	-	4,321
Other fixed assets	30	-	-	(8)	22	-	-	(7)	-	15
Construction in process	29,449	19,225	(45,311)	-	3,363	36,406	(17,812)	-	-	21,957
	436,679	20,310	-	(31,733)	425,256	37,385	-	(31,475)	(44)	431,122

PBG SJV and subsidiaries

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In thousands of reais, unless otherwise indicated

	Consolidated										
	December 31, 2015	Additions	Transfers	Depreciation	Write-offs	December 31, 2016	Additions	Transfers	Depreciation	Write-offs	December 31, 2017
Land	13,062	-	-	-	-	13,062	-	-	-	-	13,062
Buildings and improvements	163,773	-	10,050	(9,189)	-	164,634	-	412	(9,703)	-	155,343
Machinery and equipment	224,665	697	34,627	(23,313)	-	236,676	667	15,988	(23,018)	(44)	230,269
Furniture and fixtures	1,440	-	37	(197)	(3)	1,277	12	-	(197)	-	1,092
Computers	4,147	396	591	(1,241)	-	3,893	300	1,412	(1,280)	-	4,325
Other fixed assets	5,494	-	5,038	(8)	(171)	10,353	-	3,952	(7)	(214)	14,084
Construction in process	31,613	22,183	(50,343)	-	-	3,453	43,581	(24,614)	-	-	22,420
	444,194	23,276	-	(33,948)	(174)	433,348	44,560	(2,850)	(34,205)	(258)	440,595

The sums of depreciation were recorded as cost of products sold, business expenses and administrative expenses as follows:

	Parent company		Consolidated	
	Accumulated			
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Cost of products sold	28,352	28,603	28,352	28,603
Commercial expenses	2,116	2,115	4,835	4,320
Administrative expenses	1,007	1,015	1,018	1,025
	31,475	31,733	34,205	33,948

19 Intangible assets

a) Breakdown

		Parent company				Consolidated	
		December 31, 2017			December 31, 2016	December 31, 2017	December 31, 2016
	Annual average rate of amortization	Cost	Accumulated amortization	Net value	Net value	Net value	Net value
Trademarks and patents	-	150	-	150	150	150	150
Software	20%	21,379	(15,354)	6,025	6,598	6,025	6,598
Right to exploration of outcrops	20%	1,000	(1,000)	-	-	289	729
Goodwill	-	-	-	-	-	9,681	6,831
Software under development	-	1,398	-	1,398	653	1,504	653
Management system (a)	21%	18,886	(16,969)	1,917	5,592	1,917	5,592
		42,813	(33,323)	9,490	12,993	19,566	20,553

(a) Expenditures with acquisition and implementation of business management systems, represented by the Oracle, WMS and Demantra systems and Inventory Optimization and by the developments carried out in the value chain management process.

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b) Changes in intangible assets

	Parent company									
	December 31, 2015	Additions	Amortizations	Transfer	Write-offs	December 31, 2016	Additions	Amortizations	Transfer	December 31, 2017
Trademarks and patents	150	-	-	-	-	150	-	-	-	150
Software	2,032	548	(1,172)	5,190	-	6,598	329	(1,691)	789	6,025
Right to exploration of outcrops	773	-	(29)	-	(744)	-	-	-	-	-
Software under development	5,315	528	-	(5,190)	-	653	1,534	-	(789)	1,398
Management system	9,540	-	(3,948)	-	-	5,592	-	(3,675)	-	1,917
	17,810	1,076	(5,149)	-	(744)	12,993	1,863	(5,366)	-	9,490

	Consolidated									
	December 31, 2015	Additions	Amortizations	Transfer	Write-offs	December 31, 2016	Additions	Amortizations	Transfer	December 31, 2017
Trademarks and patents	150	-	-	-	-	150	-	-	-	150
Software	2,032	548	(1,172)	5,190	-	6,598	329	(1,691)	789	6,025
Right to exploration of outcrops	1,164	745	(436)	-	(744)	729	-	(440)	-	289
Goodwill	7,039	-	-	-	(208)	6,831	-	-	2,850	9,681
Software under development	5,315	528	-	(5,190)	-	653	1,639	-	(789)	1,504
Management system	9,540	-	(3,948)	-	-	5,592	-	(3,675)	-	1,917
	25,240	1,821	(5,556)	-	(952)	20,553	1,968	(5,806)	2,850	19,566

The amounts of amortization were recorded as cost of products sold, business expenses and administrative expenses as follows:

	Parent company		Consolidated	
	Accumulated			
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Cost of products sold	797	712	1,237	1,119
Commercial expenses	2,810	2,841	2,810	2,841
Administrative expenses	1,759	1,596	1,759	1,596
	5,366	5,149	5,806	5,556

c) Projection for the amortization of intangible assets - Consolidated:

	2018	2019	2020	2021	2022–2023	Total
Software	1,814	1,804	1,594	699	114	6,025
Right to exploration of outcrops	51	51	51	51	85	289
Management system	1,917	-	-	-	-	1,917
	3,782	1,855	1,645	750	199	8,231

The brands and patents, goodwill and software items under development in the total amount of R$ 11,335 did not undergo amortization due to their undefined useful life. However, they are subject to impairment, as described in main accounting policies disclosed in these financial statements for the year of the year.

In thousands of reais, unless otherwise indicated

20 Suppliers and credit granting

a) Suppliers

	Parent company		Consolidated	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Domestic market	99,741	89,220	101,897	93,592
Foreign market	12,672	9,337	12,672	9,337
Current	112,413	98,557	114,569	102,929
Domestic market (i)	78,496	68,990	78,496	68,990
Non-current	78,496	68,990	78,496	68,990
	190,909	167,547	193,065	171,919

(i) Provision for payment to gas supplier resulting from matter mentioned in note 12

b) Suppliers’ credit granting

The Company carried out suppliers’ credit granting transactions with prime financial institutions, in the amount of R$35,127 as of December 31, 2017 (R$21,522 as of December 31, 2016), for the purpose of providing its partner suppliers with more attractive credit facilities aiming at maintaining commercial relations.

In said transactions, there was no change in payment and price conditions negotiated with suppliers.

c) Accounts payable from investments

The Company has a balance of R$ 19,049 in the parent company and R$ 19,609 in the consolidated, recorded in current liabilities, which refer to constructions in progress to update the industrial facilities, investment in own stores and systems.

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21 Loans, financing and debentures

a) Loans and financing

	Currency	Maturities	Charges		Parent company December 31, 2017	Parent company December 31, 2016	Consolidated December 31, 2017	Consolidated December 31, 2016
Current								
Financial lease (a)	R$	May-18	11.48%	p.a.	351	782	351	782
Banco do Nordeste S.A. (b)	R$	Jun-25	3.00%	p.a.	9,798	9,801	9,798	9,801
Law 4131	R$	Dec-17	9.74%	p.a.	-	14,387	-	14,387
NCE (c)	R$	Nov-21	9.13%	a.a.1	37,954	88,543	37,954	88,543
Prepayment (d)	US$	May-18	6.09%	p.a.+FX	2,071	4,083	2,071	4,083
PRODEC (e)	R$	Nov-21	4.00%	a.a.1	20,489	10,897	20,489	10,897
FINEP (f)	R$	May/21	8.62%	a.a.1	17,133	10,161	17,133	10,161
DEG (g)	US$	Oct-21	6.64%	p.a.+FX	10,460	10,394	10,460	10,394
FINAtvIE (h)	R$	Aug-23	3.00%	a.a.1	422	422	422	422
NCE (c)	US$	Nov-17	8.87%	p.a.+FX	-	21,779	-	21,779
1st Series debentures (i)	R$	Nov-22	10.44%	p.a.	18,708	10,298	18,708	10,298
2nd Series debentures (i)	R$	Nov-20	10.04%	p.a.	29,016	15,457	29,016	15,457
Total current			8.06%	a.a.1	146,402	197,004	146,402	197,004
Total local currency					133,871	160,748	133,871	160,748
Total foreign currency					12,531	36,256	12,531	36,256
Non-current								
Working capital	R$				-	-	1,177	1,189
Financial lease (a)	R$	May-18	11.48%	p.a.	-	349	-	349
Banco do Nordeste S.A. (b)	R$	Jun-25	3.00%	p.a.	63,573	73,353	63,573	73,353
NCE (c)	R$	May-19	9.13%	a.a.1	85,278	42,221	85,278	42,221
Prepayment (d)	US$	May-18	6.09%	p.a.+FX	-	2,037	-	2,037
PRODEC (e)	R$	Nov-21	4.00%	a.a.1	25,848	34,386	25,848	34,386
FINEP (f)	R$	May/21	8.62%	a.a.1	31,721	20,739	31,721	20,739
DEG (g)	US$	Oct-21	6.64%	p.a.+FX	29,772	39,109	29,772	39,109
FINAtvIE (h)	R$	Aug-23	3.00%	a.a.1	1,811	2,230	1,811	2,230
1st Series debentures (i)	R$	Nov-22	10.44%	p.a.	71,782	89,619	71,782	89,619
2nd Series debentures (i)	R$	Nov-20	10.04%	p.a.	56,197	84,425	56,197	84,425
Total non-current			7.84%	a.a.1	365,982	388,468	367,159	389,657
Total local currency					336,210	347,322	337,387	348,511
Total foreign currency					29,772	41,146	29,772	41,146
Overall total			7.90%	a.a.1	512,384	585,472	513,561	586,661
Total local currency					470,081	508,070	471,258	509,259
Total foreign currency					42,303	77,402	42,303	77,402

[1] Weighted average rate foreign exchange rate - Foreign exchange

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b) Contract details

Note	Contract	Date		Funding	Term (months)	Amortization	Grace period (months)	Guarantees
		Disbursement	Maturity					
(a)	**Financial lease**	May-15	May-18	R$ 2,192	36	Monthly	-	Machinery and equipment
(b)	**Banco do Nordeste**	Aug-14	Jun-25	R$ 96,819	133	Monthly	24	Mortgage of properties and machinery and equipment
		Contract executed into in Jun 2013, in the amount of R$147,700. First tranche of financing was released by the Bank in Aug 2014 in the amount of R$29,221, 2nd tranche was released in Jan 2015 in the amount of R$45,765, 3rd tranche was released in Sep 2015 in the amount of R$14,700, 4th portion was released in Mar 2016 in the amount of R$4,713, and 5th tranche was released in Dec 2016 in the amount of R$ 2,418.						
(c)	**Export credit (NCE)**	Feb-15	Jan-18	R$ 50,000	36	Quarterly	9	Receivables in the amount of 15% of the debit balance of the contract
		May-16	May-18	R$ 50,000	24	Semi-annual	12	Receivables in the amount of 15% of the debit balance of the contract
		Jun-16	May-19	R$ 10,000	36	Quarterly	12	80% of trade notes + 20% interest earning bank deposit (*)
		Jun-16	May-19	R$ 20,000	36	Quarterly	12	80% of trade notes + 20% interest earning bank deposit (*)
		Nov-17	Nov-20	R$ 30,000	36	Quarterly	20	Receivables in the amount of 30% of the debit balance of the contract (*)
		Nov-17	Nov-21	R$ 50,000	48	Monthly	12	Receivables in the amount of 30% of the debit balance of the contract (*)
		(*) These contracts with indication have minimum covenants that were complied with.						
(d)	**Prepayment**	Jul-13	Mar-21	US$ 5,000	60	Quarterly	15	Commercial pledge
(e)	**PRODEC**	-	-	-	120	Bullet	48	-
	The *Program for the Development of Companies from Santa Catarina is a Santa Catarina State special regime obtained in July 2009. Balance is subject to adjustment to present value and rate used is current working capital average (9.80% p.a.). The deferred amount is 60% of the balance of the tax generated in the month that exceeds R$ 2,251 (average tax paid in the year 2015).*							
(f)	**Finep**	Jul-10	Sep-18	R$ 30,103	99	Monthly	24	Bank guarantee
		All five financing tranches were released by the Bank, as follows: 1st in the amount of R$ 5,000 in Jul/10, 2nd in the amount of R$ 5,100 in Aug/10, 3rd in the amount of R$ 3,146 in Sep/10, 4th in the amount of R$ 5,572 in Dec/12, and 5th in the amount of R$ 11,282 in Aug/13.						
		Jul-14	May-21	R$ 57,318	84	Monthly	24	Bank guarantee
		The first tranche of financing, in the amount of R$12,627, was released by the Bank in Jul/14. 2nd tranche was released in Jan 2016 in the amount of R$12,479. 3rd tranche was released in Jun 2017 in the amount of R$32,064.						
(g)	**DEG**	May-14	Oct-21	US$ 18,000	90	Semi-annual	23	Machinery and equipment and promissory notes
		This contract has minimum covenants that were renegotiated in December 2017 and were complied with.						
(h)	**Finame**	May-13	May-23	R$ 39	120	Monthly	25	Machinery and equipment
		May-13	Apr-23	R$ 601	120	Monthly	24	
		Jul-13	Jul-23	R$ 107	120	Monthly	25	
		Jul-13	Aug-23	R$ 1,890	120	Monthly	26	
		Jan-14	Jun-23	R$ 577	114	Monthly	18	
(i)	**Debentures**	Dec-15	Nov-22	R$ 100,000	83	Semi-annual	24	Actual and additional personal guarantee
		Dec-15	Nov-20	R$ 100,000	59	Semi-annual	24	Actual and additional personal guarantee
		For further details, see item (c) Debentures below						

For the other loans granted, restricted financial investments, real estate mortgages, equipment, receivables of the Parent company (Note 8) and of subsidiary (note 39), and sureties of the controlling shareholders and subsidiary were pledged in guarantee, inventory of finished products (Note 9).

The long-term loans have the following payment schedule:

	Parent company	Consolidated

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Maturity on January 1	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
2018	146,402	128,921	146,402	130,110
2019	125,477	91,419	126,654	91,419
2020	124,204	78,367	124,204	78,367
2021–2025	116,301	89,761	116,301	89,761
	512,384	388,468	513,561	389,657

The book values and the fair value of loans are presented Reais, segregated per type of currency:

	Parent company		Consolidated	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
BRL	470,081	508,070	471,258	509,259
USD	42,303	77,402	42,303	77,402
	512,384	585,472	513,561	586,661

Current loans' fair values do not present significant differences in relation to their book values, as book values are recorded at amortized cost and adjusted on a pro rata basis.

c) Debentures

On November 17, 2015, Portobello S.A Board of Directors approved 2nd issuance of simple debentures, not convertible into shares, of the species with real guarantee and additional fidejussory guarantee, in two series, for public distribution with restricted distribution efforts.

	December 31, 2017	December 31, 2016
Fund raising value		
1st series debentures	91,779	101,551
2nd series debentures	86,503	101,515
Gross balance	178,282	203,066
Funding costs	(2,579)	(3,267)
Net balance	175,703	199,799
Current	47,724	25,755
Non-current	127,979	174,044

Issuance features	
Issuance	2a
Fiduciary agent	PLANNER TRUSTEE DTVM LTDA.
Agent Bank	Itaú Unibanco S.A.
Coordinating leader	Banco Bradesco S.A.
Depository Bank	ITAU CV S/A
Trading	CETIP
Series number	2
Issuance Volume R$	200.000.000.00
Total number of debentures	2,000

Unit Par Value - R$	100,000.00

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Detailing of the operation per series		
Series	1a	
CVM Reg. No.	480/09	
Asset code	PTBL12	PTBL22
Issuing Date	11/26/2015	
Maturity	11/26/2022	11/26/2020
Volume (R$)	100,000,000.00	100,000,000.00
Number of debentures	1,000	1,000
Unit Par Value - R$	100,000.00	100,000.00
Method	Regulatory and registered	
Type	Actual and additional personal guarantee	
Convertibility	Non-convertible into Issuer's issuance shares.	
Restatement	Nominal Value will not be restated for inflation	
Remuneration	DI rate + 3.55% p.a. (year with basis 252 days)	DI rate + 3.15% p.a. (year with 252 days)
Remuneration Payment	Half-annual, with first remuneration on May 26, 2016	
Amortization	It will be amortized in 11 half-annual consecutive installments beginning as of the 24th month counted as of Issuance Date, with first payment on November 26, 2017.	It will be amortized in 7 half-annual consecutive installments beginning as of the 24th month counted as of Issuance Date, with first payment on November 26, 2017.
Corporate acts:	RCA at 17/11/2015	
Covenants	Division of Net Debt by EBITDA <= 3.35 times (year 2015), 3.00 times (Mar 2016 and Jun 2016), 4.50 times (Sep 2016 and Dec 2016), 4.25 times (Mar 2017), 4.00 times (Jun 2017), 3.75 times (Sep 2017), 3.50 times (Dec 2017), 3.25 times (Mar 2018 and Jun 2018), 3.00 times (Sep 2018 and Dec 2018), 2.50 times (years 2019, 2020, and 2021) and 3.00 times (beginning as of 2022). The covenants were fulfilled.	
	Division of Current Assets by Current Liabilities >= 1.15 times	

This contract has covenants that were complied with.

d) Movement

As of December 31, 2017, changes in debentures, loans and financing were as follows:

Parent company		Changes in cash			Changes not involving cash		
Description	December 31, 2016	New funding	Payment of principal	Interest payment	Interest expenses	Exchange-rate change and others	December 31, 2017
Debentures	199,799	-	(23,377)	(27,629)	26,910	-	175,703
Loans and financing	385,673	117,804	(170,860)	(24,032)	24,667	3,429	336,681
Total	585,472	117,804	(194,237)	(51,661)	51,577	3,429	512,384

Consolidated		Changes in cash			Changes not involving cash		
Description	December 31, 2016	New funding	Payment of principal	Interest payment	Interest expenses	Exchange-rate change and others	December 31, 2017
Debentures	199,799	-	(23,377)	(27,629)	26,910	-	175,703
Loans and financing	386,862	117,804	(170,883)	(24,032)	24,678	3,429	337,858
Total	586,661	117,804	(194,260)	(51,661)	51,588	3,429	513,561

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22 Installment payment of tax obligations

	Application for installment payments		Parent company		Consolidated	
Tax obligations	Date	Installments falling due	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
LAW 11941/09 (a)	Nov-09	82	72,602	78,662	73,097	79,199
LAW 13496/17 (b)	Aug-17	1	3,657	-	3,677	-
Total			76,259	78,662	76,774	79,199

The payment schedule is as follows:

	Parent company		Consolidated	
Maturity	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
2018	14,033	9,788	14,126	9,857
2019–2023 (*)	53,335	60,474	53,695	60,888
2024	8,891	8,400	8,953	8,454
	76,259	78,662	76,774	79,199
Current	14,033	9,788	14,126	9,857
Non-current	62,226	68,874	62,648	69,342

(*) The sum of annual installments totaling R$ 10,667 as of December 31, 2017 and R$ 10,079 as of December 31, 2016 to the Parent Company and R$ 10,739 and R$ 10,148 respectively to the Consolidated.

a) Law 11941/09 (REFIS - Tax Recovery Program)

In May 2011 and September 2011, the Company concluded the process of consolidation of installments established by Law 11941/09, which began with the participation in the Tax Recovery Program in November 2009.

Between such participation and the Consolidation, the Company made the payment of minimum installment of R$ 395 as allowed by law. During this period, more precisely in the consolidation, decisions were made that reflected a positive economic adjustment of R$ 3,013, including R$ 3,613 with impact on other operating income and R$ 600 in financial expense. The main reflection occurred due to the non-confirmation of migration of non-deferred debts in the installments of PM 470 to the installments of Law 11941/09 (see Note 23).

After consolidation, the Company undertakes to pay the monthly installments of R$ 818, restated at Selic rate, as well as withdrew from lawsuits and waive any claim of rights upon which such suits are based, under penalty of immediate termination of the installment, and consequent loss of the benefits introduced by Law 11941/09. These waivers of lawsuits against tax assessment notices do not affect the continuation of the ongoing processes in Court, referred to in Note 15 and 16.

b) Law 13496/17 (PERT - Tax Regularization Program)

In August 2017, the Company adhered to the tax installment payment plan established by Law 13.496/17. In November 2017, debt calculations were finalized and paid in installments through the Special Tax Regularization Program (PERT), in the amount of R$ 3,864, already considering the benefits provided by law. The impact on income from other operating expenses was R$ 3,193 and from financial expenses was R$ 672.

The consolidation and conclusion of this installment is under review and may change.

23 Tax debts - Law 12249/10 (PM 470 and PM 472)

In November 2009, the Company enrolled in the installment program established by Provisional Measure 470 (regarding the improper use of IRI premium credits) with the Federal Revenue Service (SRF) and the General Attorney's Office of the National Treasury (PGFN). In this participation, aside from the installments, there is a reduction of burdens and the Company can utilize tax credits arising from tax losses until 2008, for payment of debts.

Upon conversion of this Provisional Measure into Law (Law No. 12.249/10), in June 2010 the use of tax credits arising from tax losses existing as of December 31, 2009 was authorized. The Company used this benefit and recorded R$ 3,252 in 2010 considering the paid installments.

The National Treasury Attorney General's Office (PGFN) partially rejected the request in June 2010, claiming the need to withdraw from lawsuits challenging the credit, and exposed that the “undue use” had not been addressed. The Company has expressed its position in order to request the withdrawal/waiver only of lawsuits that challenged the tax assessment notices received from the SRF. However, the PGFN in Santa Catarina understood that such withdrawal/waiver should be extended to the declaratory actions aimed at recognizing the IPI Premium Credit, referred to in Notes 15 and 16. The Company's Legal Department is taking appropriate measures against the decision of the PGFN for the purpose of removing the demand of withdrawal/waiver of the aforementioned declaratory actions as the proof of “undue use”, manifestly recognized by the Federal Revenue Service of Brazil in the reporting unit. This procedure deliberated by Company Management is supported by an opinion issued by the office of Demarest Almeida, which argues that, for the debts included in the installments of Law 12.249/10, withdrawal from the aforementioned declaratory actions is not enforceable, unlike the provisions of Law 11941/09. Thus, it argues that it’s practically certain to reverse this situation by pursuing the various judicial instances to remove the grounds for rejection based on merit. As clarification, writ of mandamus filed to claim court homologation for payment in installments was rejected in the lower court. TRF of the 4th region partially approved the appeal. The Company maintains the proceeding of reversing remaining court dispute in the Higher Court of Justice.

In the remote event that PGFN's decision is maintained through the last legal level, the impact on the Company's results would be a loss of R$ 28,471 at December 31, 2017, based on legal advisors’ opinion, considering the non-acknowledgment of the debt, the loss of the benefits and the maintenance of the debits as contingent liabilities. This possible tax liability will be offset by the credits arising from lawsuit 1998.34.00.029022-4, as mentioned in Note 16.

24 Taxes, rates and contributions

As of December 31, 2017, taxes, rates and contributions recorded in current liabilities were stated as follows:

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	Parent company		Consolidated	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
IRRF	2,420	2,236	2,721	2,567
ICMS	6,304	9,910	6,325	9,933
PIS/COFINS	5,404	1,760	5,801	2,176
Other	302	233	426	344
	14,430	14,139	15,273	15,020

25 Provisions for contingencies

The Company and its subsidiaries are parties in lawsuits involving tax, civil and labor claims, and tax administrative proceedings. Supported by the opinion of its legal advisors, Company Management believes that the balance of reserves is sufficient to cover the spending required to settle the obligations.

The opening balance of the reserves can be presented as follows:

	Parent company		Consolidated	
Sum provisioned	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Civil	8,733	9,962	8,733	9,987
Labor	14,959	14,494	14,959	14,660
Tax	4,491	26,548	4,522	26,548
	28,183	51,004	28,214	51,195

The provisions are measured at the estimate of the expenditures that shall be necessary to settle the obligation. And the civil and labor-related lawsuits are assessed individually by the Company's legal advisors, who classify them according to the expectations of success of the suits. Statement of changes in provisions:

		Parent company		Total
	Civil	Labor	Tax	
December 31, 2016	9,962	14,494	26,548	51,004
Debited (credited) to the statement of income:	994	1,852	(21,455)	(18,609)
Additional provisions	4,872	2,471	3,365	10,708
Reversals for non-use	(2,037)	(1,269)	(22,163)	(25,469)
Inflation adjustment	1,099	2,408	724	4,231
Reversal of inflation adjustment	(2,940)	(1,758)	(3,381)	(8,079)
Reversals by realization	(2,223)	(1,387)	(602)	(4,212)
December 31, 2017	8,733	14,959	4,491	28,183

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	Consolidated			Total
	Civil	Labor	Tax	
December 31, 2016	9,987	14,660	26,548	51,195
Debited (credited) to the statement of income:	969	1,686	(21,424)	(18,769)
Additional provisions	4,872	2,471	3,396	10,739
Reversals for non-use	(2,062)	(1,435)	(22,163)	(25,660)
Inflation adjustment	1,099	2,408	724	4,231
Reversal of inflation adjustment	(2,940)	(1,758)	(3,381)	(8,079)
Reversals by realization	(2,223)	(1,387)	(602)	(4,212)
December 31, 2017	8,733	14,959	4,522	28,214

Comments on civil, labor and tax lawsuits:

Civil

The Company and its subsidiaries are defendants in 388 lawsuits (228 lawsuits on December 31, 2016), in the scope of the Common Courts and Special Civil Courts. Most of the lawsuits are filed by clients and are aimed at compensation for alleged moral and material damages. Judicial deposits were made when applicable (Note 12).

Labor

The Company and its subsidiary Portobello Shop S.A. are defendants in 324 labor claims (319 claims on December 31, 2016), filed by former employees and third parties. Other claims refer to the payment of severance pay, additional pay, overtime, salary equalization and compensation for moral and material damages arising from occupational accidents/diseases. Provisions are reviewed by company Management in accordance with the Company's legal consultants. Some lawsuits are supported by judicial deposits (Note 12).

Change in Criterion for Labor Debt Correction

Superior Labor Court (TST), in a decision published on August 7, 2015, changed labor debts' correction index, so as to replace Reference Rate (TR) by the Special Extended National Consumer Price Index (IPCA-E), with effects retroactive to June 30, 2009. The matter was referred to the Federal Supreme Court (STF) in Complaint No. 22012, and was denied, thus prevailing the monetary restatement of labor debts by the IPCA-E index. The Company will not immediately increase its labor provisions, awaiting further manifestation of the Superior Labor Court (TST) on the matter.
Change in criterion will impact the balance of labor provisions by approximately R$6,500.

Tax

a) Exclusion of ICMS rate excluded from calculation basis of PIS and COFINS

The Company filed a writ of mandamus for the purpose of altering PIS and COFINS calculation basis to purge ICMS. Santa Catarina State Federal Court expressed its opinion in a decision on merit in favor of purging ICMS from calculation basis under discussion. Said decision was confirmed by the Federal Regional Court of the 4th Region. The Federal Government, through the National Treasury Attorney's Office, appealed on this decision to Higher Courts (STF and STJ).

Based on a favorable decision granted by the STF on March 15, 2017, in a general repercussion, in the records of the proceeding 5032720-26.2014.404.7200, the Company reversed the amount provisioned, which at that time represented R$ 25,544. Thus, the Company understands that the chance of loss is remote. The effect of the elimination of the ICMS tax on the Company's income was a saving of R$ 9,461 for the year ended December 31, 2017.

In thousands of reais, unless otherwise indicated

The balances of provisions for tax contingencies are restated by the change in the SELIC rate in the period.

26 Lawsuits with significant possible and remote losses

a) Lawsuits with possible loss

It is understood that, in addition to provisions recognized in financial statements and classified as probable losses, there are other civil and labor lawsuits that were classified as possible losses. In accordance with evaluation of risks deriving from said lawsuits, the Company, based on its legal advisors' opinion, estimates contingent liability amounts as follows:

	Parent company		Consolidated	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Civil	3,764	2,232	3,773	2,308
Labor	7,278	6,778	7,366	6,788
	11,042	9,010	11,139	9,096

b) Remote lawsuit referring to Administrative Proceeding 10983.721445/2014-78

On December 8, 2014, the Company was notified of Tax Assessment Notices that established IRPJ and CSLL credits (as well as money penalties and interest) for calendar years from 2009 to 2013. As alleged by Tax Authorities, the Company would have committed the following infractions: (a) in 2009, would have: (a.1) taxable income deriving from tax benefits unduly excluded; (a.2) deducted unnecessary expenses related to main tax debts (IPI, PIS and COFINS) that were recorded in prior years' income; (a.3) non-deductible values related to IRPJ and CSLL excluded; (a.4) amounts referring to principal values of temporary additions that transited through prior years' income unduly excluded; and (a.5) non-deductible expenses related to ex-officio fines deducted; (b) in years 2010, 2011 and 2012, supposedly: (b.1) tax losses and CSLL negative bases offset at amounts higher than calculated; and (b.2) IRPJ and CSLL amounts determined by monthly estimate were not paid, which resulted in isolated fine; and (c) in 2013, supposedly offset CSLL negative bases at amounts higher than calculated. On January 06, 2015, the Company presented Impugnation against entries under discussion, rejecting all infractions ascribed to it, so that, since that date (January 06, 2015), it is awaiting a decision on said Impugnation, whose successful outcome, according to PBG S.A legal advisors, is practically certain and will result in cancellation of Tax Assessment Notice; in view of that, the Company understands that likelihood of loss is remote and opted not to record the amount of R$73,000 as possible liabilities.

On March 7, 2016, the Company was notified of Tax Assessment Notices referring to tax administrative proceedings 11516-720.299/2016-02 and 11516.7200300/2016-91, which established tax credits referring to undue IRPJ and CSLL offset. However, the Company defended that this discussion is already being made in proceeding 10983.721445/2014-78. Cancellation of challenged tax entry was requested for the amount of R$19,000, due to duplicity of tax authorities. In a decision in lower courts, the objections presented to recognize the duplicity of the entry and, consequently, to determine the extinction of the tax credit, were considered pertinent. Currently, fiscal administrative proceedings 11516-720.299/2016-02 and 11516.7200300/2016-91 were sent to the Administrative Council of Tax Appeals -(Carf) for judgment of the ex officio appeal.

27 Employee benefits

27.1 Private pension plan

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The Company and its subsidiaries, since 1997, have sponsored a benefit plan called Portobello Prev, administered by BB Previdência - Banco do Brasil Pension Fund, and has 29 participants. The plan has a defined contribution characteristic, but offers minimal retirement benefit for length of service or age.

Parent company and Consolidated		
Fair value of the plan assets		
December 31, 2016	60,290	50,355
Benefits paid in the year	(1,463)	(2,549)
Participant contributions in the year	1,199	1,129
Sponsor contributions in the year	649	924
Expected return on assets in the year	5,813	5,423
Assets - gain or (loss)	1,112	5,008
December 31, 2017	67,600	60,290

Parent company and Consolidated		
Defined benefit liability		
December 31, 2016	55,921	40,679
Gross cost of current service (with interest)	1,141	1,076
Interest on actuarial obligation	5,392	4,381
Benefits paid in the year	(1,463)	(2,549)
Liabilities - (gain) or loss	851	12,334
December 31, 2017	61,842	55,921

Changes to fair values of benefit plan assets and defined benefit obligation during the year are as follows:

	December 31, 2017	December 31, 2016
Fair value of the plan assets	67,600	60,290
Present value of the obligations financed	(61,842)	(55,921)
Net actuarial assets (liabilities)	5,758	4,369

	December 31, 2017	December 31, 2016
Gain (loss) in the actuarial obligations	(851)	(12,334)
Gain (loss) in the plan assets	1,112	5,008
Actuarial gain (loss)	261	(7,326)

A
mounts recognized in statements of income under caption "Other operating income (expenses)", referring to asset management yield are as follows:

	Parent company and Consolidated	
	December 31, 2017	December 31, 2016
Current service cost (with interest)	(1,140)	(1,076)
Interest on actuarial obligations	(5,392)	(4,381)
Expected return on plan assets	5,813	5,423
Participant contributions in the year	1,199	1,129
Actuarial gain (loss)	480	1,095

As of December 31, 2017, the Company also recognized income of R$924 (R$924 as of December 31, 2016) referring to payments made by the sponsor during the year, with asset effect for employee benefit plan (see note 32).

The main actuarial assumptions used:

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	Parent company and Consolidated	
Economic and financial	December 31, 2017	December 31, 2016
Annual interest rate	9.64% p.a. nominal (inflation + 4.92% p.a. real)	10.77% p.a. nominal (inflation + 6.00% p.a. real)
Long-term return on assets	9.64% p.a. nominal (inflation + 4.92% p.a. real)	10.77% p.a. nominal (inflation + 6.00% p.a. real)
Long term inflation		
Projected salary increases	5.15% p.a. (inflation+0.62% p.a. real)	5.15% p.a. (inflation+0.62% p.a. real)
Projected growth of the plan benefits	0.00% p.a.	0.00% p.a.
Factor for determining real value over time (salaries)	0.98	0.98
Factor for determining real value over time (benefits)	0.98	0.98
Biometric and demographic		
- Hypothesis about turnover:	21%	21%
General mortality table	AT-2000	AT-2000
Mortality table of individuals with permanent disability	EXP. IAPC	EXP. IAPC
Table of new disability benefit vested	TAS A 1927	TAS A 1927
Retirement	100% at 1st eligibility	100% at 1st eligibility
Family composition before retirement	Not applicable	Not applicable
Family composition after retirement:	Actual Family	Actual Family

27.2 Employee benefit expenses

	Parent company		Consolidated	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Remuneration	137,906	138,611	152,345	152,552
Benefits				
Pension plan	907	1,029	922	1,030
FGTS	11,483	12,900	12,969	14,432
Other	19,003	20,114	20,363	21,261
Total	169,299	172,654	186,599	189,275

28 Long-term incentive

In 2012, the Company implemented the long-term benefit program (ILP). The purpose of this program is to attract, retain and acknowledge performance of key professionals.

Officers, superintendents and managers are eligible to ILP and, by entering into a subscription contract, may become members of the program. Each member holds a number of securities that are figuratively called “reference shares”. They are not traded over-the-counter and its "appreciation" is calculated annually by the performance of EBITDA and the ratio between EBITDA and net debt.

Payment is expected in three annual installments with deferral of two years in the beginning of the period. Settlement will be made with amounts proportional to gains determined by the plan's metrics.

The first group of members joined the plan in 2012. Currently, there are two effective plans. The present value of the obligation on December 31, 2017 is R$ 1,935 at the parent company and consolidated (R$ 7,312 at the parent company and at the consolidated on December 31, 2016).

29 Shareholders' equity

29.1 Capital

After decisions of the Annual Shareholders' Meeting held on April 28, 2017, the Company increased its capital by R$ 10,435, fully realized through capitalization of income, exclusively for the Company's capitalization, with no change in total number of shares, as provided for in article 169, §1, Law 6404/76. Thus, on December 31, 2017, the Company has a capital subscribed and paid in the amount of R$ 130,000 (R$ 119,565 on December 31, 2016) comprising 158,488,517 common shares, nominative and with no par value.

On December 31, 2017 there were 72,982,224 outstanding shares, equivalent to 46.05% of total shares issued (compared to 72,849,374 on December 31, 2016, equivalent to 45.97% of the total). The balance of outstanding shares is comprised of all securities available for trading on the market, excluding those held by controlling shareholders, members of the Board of Directors and Executive Board.

29.2 Profit reserve

The profit reserve is comprised of three reserves: the legal reserve, the profit retention reserve and the profit reserve to be allocated, as follows:

The legal reserve is formed annually by the allocation of 5% of net income for the year, and may not exceed 20% of the Company's capital. The purpose of the legal reserve is to guarantee that the capital stock is paid up and it is used solely to offset accumulated losses and increase capital As of December 31, 2017, legal reserve balance is R$ 18,416 (R$ 15,219 as of December 31, 2016), as provided for in Article 193 of the Brazilian Corporate Law.

The amount of R$ 95,400 refers to profit retention reserve, based on business growth project established in the Company's investment plan, approved in the Annual Shareholders' Meeting on April 28, 2017, and in accordance with according to capital budget proposal, in conformity with Article 196 of the Brazilian Corporate Law.

The profit reserves to be allocated aim to demonstrate the portion of profits whose allocation will be decided by the Annual General Meeting. In December 2017, the balance of this reserve amounts to R$ 30,162 (R$ 2,713 on December 31, 2016).

29.3 Equity valuation adjustment

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	Equity valuation adjustments			
Parent company and Consolidated	Deemed cost	Accumulated translation adjustments	Other comprehensive income	Total
December 31, 2016	37,060	(28,520)	(10,786)	(2,246)
Realization of revaluation reserve	(1,184)	-	-	(1,184)
Actuarial gain (loss)	-	-	261	261
Exchange rate change in foreign subsidiary	-	(1,003)	-	(1,003)
December 31, 2017	35,876	(29,523)	(10,525)	(4,172)

a) Deemed cost

In 2010, upon the initial adoption of international CPC standards 37 and IFRS 1, as well as the adoption of CPC 43 and ICPC 10, the Company adopted the option to use the property, plant and equipment revaluation made in 2006 as deemed cost, understanding that the same represented substantially the fair value at the date of transition. It was established as a result of land, buildings and improvements reevaluations, supported by appraisal report prepared by an independent appraising company. It is being realized according to the depreciation of re-appraised buildings and improvements recorded against retained earnings. The same effect of realization of the equity valuation adjustment is reflected in income for the period, by the depreciation of the re-appraised assets.

b) Accumulated translation adjustments

The change in assets and liabilities in foreign currency (US dollar) arising from the exchange rate fluctuation, and the changes between the daily rates and the closing rate of the changes of the subsidiary's income headquartered abroad are recognized in accumulated translation adjustments. During 2017, the amount was R$ 1,003 (see Note 017.a).

c) Other comprehensive income

This caption considers the gains and losses of the private pension plan. During the year 2017, the actuarial valuation recorded a gain of R$ 261 (see note 27.1).

30 Income

The reconciliation of gross income to net income, presented in the statement of income for the year ended December 31, 2017, is as follows.

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	Parent company		Consolidated	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Gross income from sales	1,172,405	1,195,182	1,277,945	1,301,050
Deductions from gross income	(242,587)	(269,106)	(254,008)	(284,650)
Sales tax	(216,792)	(236,908)	(226,509)	(250,264)
Returns	(25,795)	(32,198)	(27,499)	(34,386)
Net sales	929,818	926,076	1,023,937	1,016,400
Domestic market	746,880	798,220	840,999	864,858
Foreign market	182,938	127,856	182,938	151,542

31 Expenses per type

The cost of products sold, selling expenses and administrative expenses for the year ended December 31, 2017 are as follows:

	Parent company		Consolidated	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Cost and expenses				
Cost of Goods and/or Services Sold	(603,886)	(649,256)	(606,917)	(653,198)
With sales	(204,156)	(202,719)	(246,510)	(250,744)
General and administrative	(35,251)	(29,839)	(35,877)	(37,155)
	(843,293)	(881,814)	(889,304)	(941,097)
Breakdown of expenses by type				
Direct production costs (raw materials and inputs)	326,320	348,674	316,962	341,377
Salaries, charges and benefits to employees	207,862	212,131	229,333	232,685
Third-party labor and services	63,712	69,694	65,167	72,397
Cost of goods resold	48,461	74,350	59,624	84,253
General production expenses (including maintenance)	44,473	42,524	44,473	42,523
Amortization and depreciation	36,841	36,882	40,011	39,504
Other commercial expenses	29,447	29,173	37,539	38,791
Sales commissions	27,122	26,736	29,603	28,430
Marketing and advertising expenses	24,471	13,787	28,070	23,389
Transportation of goods sold	16,368	10,606	16,368	10,611
Rentals and operating leases	11,153	11,212	14,741	14,493
Other administrative expenses	5,463	4,282	5,751	6,120
Changes in inventories of finished products and work in process (a)	1,600	6,243	1,662	6,524
Reimbursement of contract with subsidiary	-	(4,480)	-	-
Total	843,293	881,814	889,304	941,097

32 Other operating income and (expenses), net

Other individual and consolidated operating income and expenses for the year ended December 31, 2017 are as follow:

PBG SJV and subsidiaries
Notes to the financial statements
Notes to financial statements for the year ended December 31, 2017
In thousands of reais, unless otherwise indicated

	Parent company		Consolidated	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Other operating income				
Income from services	647	2,210	647	510
Judicial asset - Credit-IPI premium (note 15 a)	-	673	-	673
Judicial asset - PIS six-monthly payments (a)	8,735	-	8,735	-
Judicial asset - Restatement of rural credit bills (Note 15 c)	7,507	-	7,507	-
Reversal of provision for contingency (b)	20,247	-	20,247	-
Extempore tax credits	1,146	14,135	1,146	14,135
Actuarial adjustment (note 27.1)	1,128	2,019	1,128	2,019
Other income	1,587	43	2,546	53
Total	40,997	19,080	41,956	17,390
Other operating expenses				
Provision for contingencies	(2,131)	(412)	(1,991)	(485)
Provision for long-term incentive	5,377	1,396	5,377	2,023
Provision for profit sharing (c)	(10,191)	1,176	(10,500)	1,599
Adhesion to the tax installment payment plan of Law 13496 (PERT)	(3,193)	-	(3,193)	-
Review of Eletrobras compulsory loan balance (Note 13)	(8,092)	(6,851)	(8,092)	(6,851)
Idle capacity cost (d)	(8,579)	(11,070)	(8,579)	(11,070)
Other expenses	(206)	(740)	(605)	(2,101)
Total	(27,015)	(16,501)	(27,583)	(16,885)
Net total	13,982	2,579	14,373	505

(a) Judicial asset, net of fees (note 15 b).
(b) Reversal of the provision for contingencies related to ICMS on the calculation basis of PIS and COFINS, net of fees.
(c) Recognition of provision for profit sharing, to be paid to the employees after the end of the year.
(d) Expenses to make production equipment suitable for production to supply Northeast market demand.

33 Financial income (loss)

The individual and consolidated financial income (loss) for the year ended December 31, 2017 is as follows:

PBG SJV and subsidiaries

Notes to the financial statements

Notes to financial statements for the year ended December 31, 2017

In thousands of reais, unless otherwise indicated

	Parent company		Consolidated	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Financial income				
Interest	8,116	19,068	8,807	19,719
Restatement of assets	8,532	10,802	8,532	10,802
Inflation adjustment of contingency (a)	6,320	-	6,320	-
Other	1,217	465	1,233	572
Total	24,185	30,335	24,892	31,093
Financial expenses				
Interest	(30,375)	(38,221)	(30,423)	(38,515)
Financial charges on taxes	(4,903)	(6,992)	(4,546)	(7,040)
Restatement of provisions for contingencies	(2,310)	(1,445)	(2,320)	(1,450)
Commissions and service fees	(5,306)	(5,050)	(6,073)	(6,180)
Bank expenses	(587)	(579)	(588)	(585)
Review of Eletrobras compulsory loan balance	(11,294)	(9,562)	(11,294)	(9,562)
Reversal of financial gain with taxes	(4,730)	-	(4,730)	-
Adhesion to the tax installment payment plan of Law 13496 (PERT)	(672)	-	(1,074)	-
Income (loss) from swap operation	(2,697)	(15,641)	(2,699)	(15,641)
Interest on debentures	(26,909)	(34,391)	(26,909)	(34,391)
Other	(2,193)	(2,930)	(2,240)	(3,504)
Total	(91,976)	(114,811)	(92,896)	(116,868)
Net exchange rate change				
Clients and suppliers	(439)	(17,056)	(429)	(17,283)
Loans and financing	419	21,363	419	21,363
Total	(20)	4,307	(10)	4,080
Net total	(67,811)	(80,169)	(68,014)	(81,695)

(a) Reversal of restatements of provision for contingencies related to civil and taxes proceeding.

34 Earnings per share

a) Basic

In accordance with the CPC 41 (Earnings per share), the basic earning (loss) per share is calculated by dividing the profit attributable to the Company's shareholders by the weighted average number of common shares issued in the period, excluding common shares purchased by the Company and maintained as treasury shares.

	Parent company and Consolidated	
	December 31, 2017	December 31, 2016
Income (loss) attributable to Company's shareholders	64,136	2,125
Weighted average number of common shares	158,489	158,489
Basic earnings (losses) per share	0.40467	0.01341

In thousands of reais, unless otherwise indicated

The consolidated income (loss) attributable to shareholders does not include the non-controlling interest in subsidiaries.

b) Diluted

Diluted earnings (losses) per share is equal to basic, as the Company's common shares have no diluting factors.

35 Dividends and interest on own capital

The minimum dividends for the year 2017, which represent 25% of the Company's profit, totaled R$ 15,232. Of these, R$ 9,614 (net of taxes) were paid in advance in the form of interest on own capital as of August 18, 2017. The remaining amount to be paid to shareholders as profit distribution is R$ 5,618, whose payment date will be decided at the Annual General Meeting.

Additionally, management will propose the distribution of additional dividends in the amount of R$ 15,232, which will be decided at the Annual Shareholders' Meeting.

	December 31, 2017	December 31, 2016
Net income for the year	64,136	2,125
Formation of legal reserve (5%)	(3,207)	(106)
Net income for the year adjusted for dividends purposes	60,929	2,019
Proposed dividends / interest on own capital		
Interest on own capital, net of IRRF	9,614	-
Minimum compulsory dividends	5,618	505
Additional dividends proposed	15,232	-
Total annual dividends	30,464	505

36 Information per business segment

Management defined the operating areas based on reports employed to make strategic decisions, reviewed by Executive Board.

The Executive Board carries out its business analysis, segmenting it from the perspective of the markets in which it operates: Domestic (Domestic market - Brazil) and Exports (Foreign market- Other countries).

The income generated by the operating segments is derived exclusively from the manufacture and sale of ceramic tiles used in the construction industry.

The Executive Board assesses the performance of the operational segments based on the measurement of operating income (income before net interest and income taxes - EBIT) and does not take into account the assets for analysis of the performance of the segments, since the Company's assets are not segregated.

Information per business segment, reviewed by the Executive Board:

PBG SJV and subsidiaries
Notes to the financial statements
Notes to financial statements for the year ended December 31, 2017
In thousands of reais, unless otherwise indicated

	December 31, 2017			December 31, 2016		
Continued operations	Brazil	Other countries	Total	Brazil	Other countries	Total
Income	840,999	182,938	1,023,937	864,858	151,542	1,016,400
Cost of products sold	(492,335)	(114,582)	(606,917)	(583,925)	(69,273)	(653,198)
Gross operating income	348,664	68,356	417,020	280,933	82,269	363,202
Operating income (expenses), net	(231,810)	(36,204)	(268,014)	(260,157)	(27,237)	(287,394)
Sales, general and administrative	(246,183)	(36,204)	(282,387)	(260,674)	(27,225)	(287,899)
Other operating income (expenses), net	14,373	-	14,373	517	(12)	505
Operating income (loss) before financial income (loss)	116,854	32,152	149,006	20,776	55,032	75,808
% on ROL	14%	18%	15%	2%	36%	7%

The Company has no clients that individually represent more than 10% of net sales. And it exports to 78 countries, with more emphasis for Argentina and Paraguay.

37 Commitments

a) Commitments for the acquisition of assets

Expenditures contracted on the balance sheet date but not yet incurred referring to PP&E on December 31, 2017 totaled R$ 16,012, related to modernization of manufacturing equipment, according to Company's investment plan.

b) Commitment with operational lease

Operational leases refer to acquisition of vehicles. Non-cancellable future minimum payments, on December 31, 2017 and December 31, 2016, amount to R$ 965 and R$ 820, respectively, for less than one year. For more than one year and less than five years, R$ 1,058 and R$ 274, respectively.

38 Insurance coverage

Current insurance coverage is considered sufficient by Management to cover possible claims. On December 31, 2017, coverage for fire, ray and explosion of any nature was R$ 95,000, for windstorm and smoke with impact of vehicles, R$3,000, for loss of profits, R$35,000, and for electric damage, riots and civil liabilities, R$3,600. Policy is valid from June 13, 2017 to June 13, 2018.

The Company also has Civil Liability Insurance for Management (D&O), contracted from XL Seguradora S.A to cover losses and damages to third parties resulting from actions related to the exercise of their functions and attributions, up to the amount of R$ 10.000, with validity from August 27, 2017 to August 27, 2018.

In addition, the Company contracted a policy from Fairfax Brasil to guarantee labor claim 0234100-60.1998.5.05.0015 totaling R$ 28,000, effective from August 18, 2016 to August 18, 2020.

39 Related companies and parties

Products and raw materials purchase and sale and service contracting transactions, as well as loans and fund raising financial transactions between the Parent company and subsidiaries were realized as detailed below.

PBG SJV and subsidiaries
Notes to the financial statements
Notes to financial statements for the year ended December 31, 2017
In thousands of reais, unless otherwise indicated

Nature	Company	December 31, 2017	December 31, 2016
Dividends receivable	Portobello Shop S.A.	32,529	15,893
Amounts receivable	Portobello Shop S.A.	127	95
Accounts receivable	Portobello América, Inc.	67,728	66,727
Accounts receivable	PBTech Com. Serv. Cer. Ltda.	6	2,228
Advance from clients	PBTech Com. Serv. Cer. Ltda.	(2,777)	-
Advance to suppliers	Mineração Portobello Ltda.	449	558
Net assets from liabilities with subsidiaries		98,062	85,501
Credits from other related parties	Refinadora Catarinense S.A.	94,651	89,423
Accounts receivable - net of advance	Solução Cerâmica Com. Ltda.	(238)	442
Accounts receivable - net of advance	Flooring Revest. Cer. Ltda.	(456)	(157)
Accounts payable	Gomes Part. Societárias Ltda.	-	34
Accounts payable	Elog Logística Sul Ltda	1,054	1,007
Net assets from liabilities with other related parties		360	1,326

		Accumulated	
Nature	Company	December 31, 2017	December 31, 2016
Income			
Rendering of services	Portobello Shop S.A.	-	7,623
Sale of products	Solução Cerâmica Com. Ltda.	22,984	24,698
Sale of products	Flooring Revest. Cer. Ltda.	10,282	9,289
Sale of products	PBTech Com. Serv. Cer. Ltda.	24,094	19,475
Expenses			
Cost of services rendered	Portobello Shop S.A.	-	(5,925)
Purchase of products	Mineração Portobello Ltda.	(9,359)	(7,296)
Rent	Gomes Participações Societárias Ltda.	(432)	(546)
Freight services	Elog (Multilog) Logística Sul Ltda.	(5,407)	(1,424)
Cutting service	Flooring Revest. Cer. Ltda.	(3,913)	-
		38,249	45,894

The subsidiary Portobello Shop is guarantor of the Company in certain financing operations (see Note 21).

Related party transactions

Portobello Shop presents accounts receivable and income from services related to royalties of two related parties. One subsidiary of the Company and two of its related companies comprise the network of franchises. Transactions:

PBG SJV and subsidiaries
Notes to the financial statements
Notes to financial statements for the year ended December 31, 2017
In thousands of reais, unless otherwise indicated

Transactions with subsidiaries and associated companies	Nature	December 31, 2017	December 31, 2016	Nature	Accumulated December 31, 2017	Accumulated December 31, 2016
	Assets			Income		
Solução Cerâmica Com. Ltda.	Accounts receivable	380	1,099	Royalties	4,566	6,173
Flooring Revest. Cer. Ltda.	Accounts receivable	286	253	Royalties	2,020	2,341
		666	1,352		6,586	8,514

Remuneration of key management personnel

The expenses with remuneration of the key management personnel, comprising members of the Executive Board, Board of Directors, Tax Council and Management in the quarter ended December 31, 2017 are:

	Parent company December 31, 2017	Parent company December 31, 2016	Consolidated December 31, 2017	Consolidated December 31, 2016
Fixed Compensation				
Salaries	12,122	13,557	13,811	14,969
Fees	5,522	4,816	5,522	4,816
Variable compensation	5,092	3,909	5,449	4,313
Direct and indirect short-term benefits			-	
Pension plan	739	895	749	895
Other	1,916	2,910	2,107	3,110
	25,391	26,087	27,638	28,103

40 Supplementary information to the cash flow

During 2017, we carried out the following transactions not involving cash and cash equivalents:

	Parent company	Consolidated
Capital increase (a)	(10,435)	(10,435)
Settlement of AFAC of CBC subsidiary (b)	13,976	-
Capital increase (b)	10,145	-
Deferred tax credit granting (b)	3,831	-
Acquisition of property, plant and equipment (c)	19,049	19,049

a) Capital increase in financing activity, for further details, see note 29.1;
b) Settlement of AFAC (future capital increase) in investment activities, for further details, see note 17b);
c) Acquisition of property, plant and equipment in investment activity;

Capital budget proposal

In thousands of reais, unless otherwise indicated

CAPITAL BUDGET TO ESTABLISH PROFIT RESERVE FOR EXPANSION

Management will propose to the Annual Shareholders' Meeting that part of net income for 2017 be retained for expansion of activities, as provided for in Article 196 of Law no. 6,404/76.

Investment plan for 2018 and 2019 is demonstrated below.

Investment plan	
Sources	**185,643**
Profit retention	114,938
Operating flows net of disbursements expected in transactions	70,705
Investments	**185,653**
Investments 2018	83,680
Investments 2019	101,963

The Company intends to invest R$ 84 million throughout 2018 for the purpose of continuing its expansion strategy.

Of amount intended to be invested in 2018, around 34% is destined to the expansion and modernization project of manufacturing plant in Tijucas, Santa Catarina State (SC); according to such project, approximately R$ 14,4 million will be reserved to acquired new machinery and equipment, R$ 7,2 to improve plant, and R$ 1,8 to update plant safety. In addition, 24% will be destined to Shop Business, 13% for new business and 11% for commercial initiatives and logistics.

In 2019, investments will be destined to new business to Company.

Sources of financial disbursements for investments will be the proposed 2017 profit retention reserve and generation of cash through operations.

The capital budget presented was approved by the Tax Council on February 20, 2018 and by the Board of Directors in a meeting held on February 22, 2018.

Tijucas, February 22, 2018.

Opinions and Statements / Independent auditors' report - Unqualified

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Independent Auditor's Report in the Individual and Consolidated Financial Statements

(A free translation of the original report in Portuguese)

To the Shareholders, Board Members and Directors of
PBG S.A.
Tijucas - Santa Catarina

Opinion
We have audited the individual and consolidated financial statements of PBG S.A. ("the Company"), respectively referred to as Parent Company and Consolidated, which comprise the statement of financial position as at December 31, 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

Opinion on the individual financial statements
In our opinion, the accompanying individual financial statements present fairly, in all material respects, the financial position of the PBG S.A. ("the Company") as December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with Accounting Practices Adopted in Brazil.

Opinion on the consolidated financial statements
In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the PBG S.A. as at December 31, 2017, and of its consolidated financial performance and its cash flows for the year then ended in accordance with Accounting Practices Adopted in Brazil and with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

Basis for Opinion
We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Individual and Consolidated Financial Statements section of our report. We are independent of the Company and its subsidiaries in accordance with the relevant ethical requirements included in the Accountant Professional Code of Ethics ("Código de Ética Profissional do Contador") and in the professional standards issued by the Brazilian Federal Accounting Council ("Conselho Federal de Contabilidade") and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the individual and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Provisions, contingent liabilities and contingent assets
See notes 3.15, 13, 15, 16, 23 and 25 of the individual and consolidated financial statements

Key audit matter	How the matter was addressed in our audit
The Company is plaintiff and defendant in ongoing legal and administrative proceedings in courts and government agencies, involving tax, civil and labor issues. This matter required significant judgment by the Company and its legal advisors to determine estimates related to value and likelihood of financial disbursement, and disclosure of amounts involved. As a result of complexity of matters, specially the tax environment in Brazil, changes in assumptions used by the Company or in external conditions, including position of tax, labor and civil authorities, may relevant impact amounts recognized and/or disclosed in financial statements.	Our audit procedures included evaluation of accounting policies applied by the Company for recognition and measurement of provisions, contingent liabilities and assets, including evaluation of most significant judgments made by the Company. We also analyzed the recognized provisions and the amounts of contingent liabilities and assets disclosed in the financial statements, by analyzing the criteria and assumptions used to measure the amounts provisioned and/or disclosed and taking into account legal opinions prepared by the Company's internal and external legal advisors, and obtaining external confirmations from the Company's advisors on the current stage and risk classification involving the most important cases, as well as the comparison with existing case law. We also evaluated whether the disclosures made in the financial statements are in accordance with the applicable rules and provide information on the nature, exposure and amounts of provisions or disclosures. Based on the procedures performed and on the results obtained, we consider that the amount of provisions, contingent assets and liabilities and the related disclosures in the context of the individual and consolidated financial statements taken as a whole are acceptable.

Other matters

Statements of value added

The individual and consolidated statements of value added (DVA) for the year ended December 31, 2017, prepared under the responsibility of the Company's management, and presented herein as supplementary information for IFRS purposes, have been subject to audit procedures jointly performed with the audit of the Company's financial statements. In order to form our opinion, we assessed whether those statements are reconciled with the financial statements and accounting records, as applicable, and whether their format and contents are in accordance with criteria determined in the Technical Pronouncement 09 (CPC 09) - Statement of Value Added issued by the Committee for Accounting Pronouncements (CPC). In our opinion, the statements of value added have been fairly prepared, in all material respects, in accordance with the criteria determined by the aforementioned Technical Pronouncement, and are consistent with the overall individual and consolidated financial statements.

Other information accompanying the individual and consolidated financial statements and the auditor's report

Management is responsible for the other information comprising the management report.

Our opinion on the individual and consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the individual and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the individual and consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of Management and Those Charged with Governance for the Individual and Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with Accounting Practices Adopted in Brazil and with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the individual and consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and subsidiaries financial reporting process.

Auditors' Responsibilities for the Audit of the Individual and Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the individual and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and international standards on auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian and international standards on auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its subsidiaries internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and its subsidiaries ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company and subsidiaries to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the individual and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Florianópolis, February 22, 2018

KPMG Auditores Independentes
CRC SC-000071/F-8
Original report in Portuguese signed by
Claudio Henrique Damasceno Reis
Accountant CRC SC-024494/O-1

Opinions and Statements / Tax Council opinion or equivalent body

PBG S.A. Tax Council, in compliance with provisions of the Law and the Bylaws, reviewed Financial Statements for fiscal year ended December 31, 2017, including: balance sheet, statements of income for the year, of changes in shareholders' equity, of comprehensive income, of cash flows, of added value, notes, and Management Report and Independent Auditors' Report. Consolidated statements were also reviewed. After reviews and Management clarifications, Tax Council, also considering unqualified opinion of auditors of KPMG Auditores Independentes issued in February 2018 that these financial statements fairly reflect, in all main respects, equity and financial situation of PBG S.A. and its operations income, considers that they can be submitted to Shareholders for appreciation and decision. In addition, Management proposals related to change in capital, capital budgets and dividend distribution were analyzed, and they may also be submitted to Shareholders for appreciation and decision in an Annual Shareholders' Meeting.

Tijucas, February 23, 2018.

Opinions and Statements / Statement of the Executive Officers on the Financial Statements

Statement of the Directors on the Financial Statements and Independent Auditors’ Report

Pursuant to CVM Instruction No. 480/09, item I of Article 28, in compliance with items V and VI of Article 25 of this Instruction, the executive board of PBG S.A. declares that:

(i) reviewed, discussed and agreed with the Company's financial statements for the year ended December 31, 2017; and

(ii) reviewed, discussed and agreed with the opinions expressed in the KPMG Independent Auditors’ Report relating to the Company’s Financial Statements for the year ended December 31, 2017.

Members of the Executive Board

Cesar Gomes Júnior - CEO

Cláudio Ávila da Silva – Director Vice-presidente

John Shojiro Suzuki - CEO and Investor Relations Officer

Mauro do Valle Pereira – Director

Tijucas, February 23, 2018.

Opinions and Statements / Statement of the Executive Officers on the Independent auditors' report

Statement of the Directors on the Financial Statements and Independent Auditors' Report

Pursuant to CVM Instruction No. 480/09, item I of Article 28, in compliance with items V and VI of Article 25 of this Instruction, the executive board of PBG S.A. declares that:

(i) reviewed, discussed and agreed with the Company's financial statements for the year ended December 31, 2017; and

(ii) reviewed, discussed and agreed with the opinions expressed in the KPMG Independent Auditors' Report relating to the Company's Financial Statements for the year ended December 31, 2017.

Members of the Executive Board

Cesar Gomes Júnior - CEO

Cláudio Ávila da Silva – Director Vice-presidente

John Shojiro Suzuki - CEO and Investor Relations Officer

Mauro do Valle Pereira – Director

Tijucas, February 23, 2018.