Portobello

(A free translation of the original in Portuguese)

Portobello S.A.

Independent auditor's report on the financial statements at December 31, 2012

(A free translation of the original in Portuguese)

Independent Auditor's Report

To the Board of Directors and Stockholders
Portobello S.A.

We have audited the accompanying financial statements of Portobello S.A. ("Company" or "Parent Company"), which comprise the balance sheet as at December 31, 2012 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

We have also audited the accompanying consolidated financial statements of Portobello S.A. and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2012 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the parent company financial statements in accordance with accounting practices adopted in Brazil, and for the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and accounting practices adopted in Brazil, 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements 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 internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the parent company financial statements

In our opinion, the parent company financial statements referred to above present fairly, in all material respects, the financial position of Portobello S.A. as at December 31, 2012, and its financial performance and cash flows for the year then ended, in accordance with accounting practices adopted in Brazil.

Opinion the consolidated financial statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Portobello S.A. and its subsidiaries as at December 31, 2012, and their financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and accounting practices adopted in Brazil.

Emphasis of matter

As discussed in Note 2.1 to these financial statements, the parent company financial statements have been prepared in accordance with accounting practices adopted in Brazil. In the case of Portobello S.A., these practices differ from IFRS applicable to separate financial statements only in relation to the measurement of investments in subsidiaries, associates and jointly-controlled entities based on the equity accounting method, whereas IFRS requires measurement based on cost or fair value. Our opinion is not qualified in respect of this matter.

Other matters

Supplementary information - statements of value added

We have also audited the parent company and consolidated statements of value added for the year ended December 31, 2012, the presentation of which is required by the Brazilian corporate legislation for listed companies, but is considered supplementary information for IFRS, which do not require the presentation of the statement of value added.

Portobello S.A.

These statements were subject to the same audit procedures described above and, in our opinion, are fairly presented, in all material respects, in relation to the financial statements taken as a whole.

Florianópolis, March 26, 2013

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5 "F" SC

Mario Miguel Tomaz Tannhauser Junior
Contador CRC 1SP217245/O-8 "S" SC

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Company information / Capital composition

Number of shares (In thousands)	Last financial year 12/31/2012
Paid-up capital	
Common shares	159,009
Preferred shares	0
Total	159,009
Treasury shares	
Common shares	0
Preferred shares	0
Total	0

Parent company financial statements / balance sheet - assets

(R$ thousand)

1 - Code	2 - Description	Last year 12/31/2012	Penultimate year 12/31/2011	Antepenultimate year 12/31/2010
1	Total assets	735,162	586,185	574,683
1.01	Current assets	363,766	249,105	248,768
1.01.01	Cash and cash equivalents	56,576	8,091	8,719
1.01.02	Financial investments	0	0	1,120
1.01.02.02	Financial investments measured at amortized cost	0	0	1,120
1.01.02.02.01	Held-to-maturity securities	0	0	1,120
1.01.03	Trade receivables	137,626	104,303	96,353
1.01.03.01	Customers	137,626	104,303	96,353
1.01.04	Inventories	119,932	90,553	93,276
1.01.06	Taxes recoverable	1,450	2,081	1,362
1.01.06.01	Current taxes recoverable	1,450	2,081	1,362
1.01.06.01.01	Income tax and social contribution recoverable	0	699	0
1.01.06.01.02	Other current taxes recoverable	1,450	1,382	1,362
1.01.07	Prepaid expenses	354	399	127
1.01.08	Other current assets	47,828	43,678	47,811
1.01.08.03	Other	47,828	43,678	47,811
1.01.08.03.01	Dividends receivable	2,073	477	10,567
1.01.08.03.02	Receivables from subsidiaries	41,839	38,405	33,784
1.01.08.03.03	Advances to suppliers	2,156	2,894	1,758
1.01.08.03.04	Other	1,760	1,902	1,702
1.02	Non-current assets	371,396	337,080	325,915
1.02.01	Long-term receivables	169,757	154,432	146,341
1.02.01.08	Receivables from related parties	105,767	97,508	98,333
1.02.01.08.02	Receivables from subsidiaries	5,369	3,728	3,666
1.02.01.08.04	Receivables from other related parties	100,398	93,780	94,667
1.02.01.09	Other non-current assets	63,990	56,924	48,008
1.02.01.09.03	Judicial deposits	8,457	7,924	8,011
1.02.01.09.04	Receivables from Eletrobras	36,819	31,059	26,131
1.02.01.09.05	Taxes recoverable	1,682	1,762	1,455
1.02.01.09.06	Tax assets	12,872	11,823	10,590
1.02.01.09.07	Actuarial assets	3,641	3,837	1,764
1.02.01.09.08	Other	519	519	57
1.02.02	Investments	678	678	678
1.02.02.01	Equity investments	678	678	678
1.02.02.01.02	Investments in subsidiaries	480	480	480
1.02.02.01.04	Other investments	198	198	198
1.02.03	Property, plant and equipment	185,841	177,312	177,459
1.02.04	Intangible assets	15,120	4,658	1,437

Parent company financial statements / balance sheet - liabilities and equity

(R$ thousand)

1 - Code	2 - Description	Last year 12/31/2012	Penultimate year 12/31/2011	Antepenultimate year 12/31/2010
2	Total liabilities and equity	735,162	586,185	574,683
2.01	Current liabilities	331,645	279,357	278,627
2.01.01	Social and labor obligations	17,581	15,868	14,498
2.01.02	Trade payables	120,122	97,488	86,777
2.01.03	Tax obligations	32,062	24,555	18,399
2.01.03.01	Federal tax obligations	32,062	24,555	18,399
2.01.03.01.01	Income tax and social contribution payable	3,488	63	590
2.01.03.01.02	Tax liabilities payable in installments	22,029	20,731	15,739
2.01.03.01.03	Taxes and contributions	6,545	3,761	2,070
2.01.04	Borrowings	75,584	79,600	97,584
2.01.04.01	Borrowings	75,584	79,600	97,584
2.01.05	Other liabilities	38,292	22,276	18,526
2.01.05.02	Other	38,292	22,276	18,526
2.01.05.02.04	Advances from customers	20,636	17,245	14,189
2.01.05.02.06	Dividends payable	8,799	0	0
2.01.05.02.07	Other	8,857	5,031	4,337
2.01.06	Provisions	48,004	39,570	42,843
2.01.06.02	Other provisions	48,004	39,570	42,843
2.01.06.02.04	Provision for loss on investment	41,496	38,582	33,738
2.01.06.02.05	Provision for contingencies	1,288	988	6,322
2.01.06.02.06	Provision for profit sharing	5,220	0	2,783
2.02	Non-current liabilities	276,398	225,038	235,192
2.02.01	Borrowings	90,016	39,354	44,434
2.02.01.01	Borrowings	90,016	39,354	44,434
2.02.02	Other liabilities	112,479	126,354	146,015
2.02.02.02	Other	112,479	126,354	146,015
2.02.02.02.03	Payables to related parties	0	0	8,484
2.02.02.02.04	Private pension plan	2,918	3,118	3,469
2.02.02.02.05	Tax liabilities payable in installments	109,561	123,236	134,062
2.02.03	Deferred taxes	16,309	15,693	14,994
2.02.03.01	Deferred income tax and social contribution	16,309	15,693	14,994
2.02.04	Provisions	57,594	43,637	29,749
2.02.04.02	Other provisions	57,594	43,637	29,749
2.02.04.02.04	Provision for loss on investment	5,834	4,620	4,256
2.02.04.02.05	Provision for contingencies	49,584	39,017	25,493
2.02.04.02.06	Provision for long-term incentive	2,176	0	0
2.03	Equity	127,119	81,790	60,864
2.03.01	Paid-up capital	40,798	112,957	112,957
2.03.02	Capital reserves	267	267	267
2.03.04	Revenue reserves	50,069	0	0
2.03.04.01	Legal reserve	3,283	0	0
2.03.04.10	Distributable profits reserve	46,786	0	0
2.03.05	Accumulated deficit	0	-73,738	-99,661
2.03.08	Other comprehensive income	35,985	42,304	47,301

Parent company financial statements / statement of income

(R$ thousand, unless otherwise stated)

1 - Code	2 - Description	Last year 1/1/2012 to 12/31/2012	Penultimate year 1/1/2011 to 12/31/2012	Antepenultimate year 1/1/2010 to 12/31/2012
3.01	Sales and/or services revenue	659,489	547,960	481,288
3.02	Cost of sales and/or services	-456,861	-401,156	-355,081
3.03	Gross profit	202,628	146,804	126,207
3.04	Operating expenses/income	-91,826	-86,718	-70,990
3.04.01	Selling expenses	-87,264	-82,496	-61,409
3.04.02	General and administrative expenses	-18,331	-14,205	-12,480
3.04.04	Other operating income	15,024	14,526	18,478
3.04.04.01	Other operating income	11,682	9,896	18,478
3.04.04.02	Other gains, net	3,342	4,630	0
3.04.05	Other operating expenses	-11,641	-14,571	-16,483
3.04.05.01	Other operating expenses	-11,641	-14,571	-15,125
3.04.05.02	Other losses, net	0	0	-1,358
3.04.06	Equity in the results of investees	10,386	10,028	904
3.05	Profit before finance result and taxes	110,802	60,086	55,217
3.06	Finance result	-21,431	-29,292	-26,137
3.06.01	Finance income	15,924	17,760	14,959
3.06.01.01	Finance income	15,924	17,760	13,071
3.06.01.02	Foreign exchange variations, net	0	0	1,888
3.06.02	Finance costs	-37,355	-47,052	-41,096
3.06.02.01	Finance costs	-33,720	-41,275	-41,096
3.06.02.02	Foreign exchange variations, net	-3,635	-5,777	0
3.07	Profit before taxation	89,371	30,794	29,080
3.08	Income tax and social contribution on net income	-23,707	-6,451	3,024
3.08.01	Current	-23,091	-5,752	-4,376
3.08.02	Deferred	-616	-699	7,400
3.09	Profit from continuing operations	65,664	24,343	32,104
3.11	Profit for the year	65,664	24,343	32,104
3.99	Earnings per share - (Reais / share)			
3.99.01	Basic earnings per share			
3.99.01.01	Common share	0.41000	0.15000	0.20000
3.99.02	Diluted earnings per share			
3.99.02.01	Common share	0.41000	0.15000	0.20000

Parent company financial statements / statement of comprehensive income

(R$ thousand)

1 - Code	2 - Description	Last year 1/1/2012 to 12/31/2012	Penultimate year 1/1/2011 to 12/31/2011	Antepenultimate year 1/1/2010 to 12/31/2010
4.01	Profit for the period	65,664	24,343	32,104
4.02	Other comprehensive loss	-6,319	-4,997	-274
4.02.01	Realization of revaluation reserve	-1,579	-1,580	-1,857
4.02.02	Actuarial liability	-1,299	0	0
4.02.03	Actuarial gain	0	879	168
4.02.04	Exchange variation of subsidiary located abroad	-3,441	-4,296	1,415
4.03	Total comprehensive income for the period	59,345	19,346	31,830

Parent company financial statements / statement of cash flows - indirect method

(R$ thousand)

1 - Code	2 - Description	Last year 1/1/2012 to 12/31/2012	Penultimate year 1/1/2011 to 12/31/2011	Antepenultimate year 1/1/2010 to 12/31/2010
6.01	Net cash provided by operating activities	34,235	31,643	-11,678
6.01.01	Cash provided by operating activities	119,561	49,172	71,164
6.01.01.01	Profit for the period before taxation	89,371	30,794	29,080
6.01.01.02	Depreciation and amortization	15,689	15,855	16,405
6.01.01.03	Equity in the results of investees	-10,386	-10,028	-904
6.01.01.04	Unrealized foreign exchange variations	920	1,309	108
6.01.01.05	Provision for reduction of inventories to market value	-2,390	-2,546	2,326
6.01.01.06	Provision for impairment of trade receivables	-1,846	351	-31
6.01.01.07	Provision for contingencies	6,558	6,329	8,226
6.01.01.08	Provision for labor liabilities	1,008	750	2,135
6.01.01.09	Provision for profit sharing	9,233	-2,783	2,783
6.01.01.10	Other provisions	3,850	361	225
6.01.01.11	Other operating expenses, net	-1,669	-4,667	-8,520
6.01.01.12	Restatement of Eletrobras compulsory loan	-5,760	-4,928	-3,137
6.01.01.13	Restatement of tax assets	-1,049	-1,233	-929
6.01.01.14	Restatement of receivables from other related parties	-6,604	-9,189	-7,886
6.01.01.15	Restatement of finance charges on tax liabilities payable in installments	9,371	14,924	13,362
6.01.01.16	Restatement of discount of provision for contingencies	4,309	1,861	1,051
6.01.01.17	Finance charges on tax liabilities payable in installments	0	600	0
6.01.01.18	Provision for interest on borrowings	7,824	12,539	18,303
6.01.01.19	Discount on credits received from related parties	0	1,592	0
6.01.01.20	Other	1,132	-2,719	-1,433
6.01.02	Changes in assets and liabilities	-58,663	1,852	-62,873
6.01.02.01	(Increase) in trade receivables	-29,897	-7,441	-31,533
6.01.02.02	Increase/(decrease) in advances from customers	4,231	3,057	-4,484
6.01.02.03	Decrease in marketable securities	0	1,120	3,159
6.01.02.04	(Increase)/decrease in inventories	-26,989	5,269	-27,378
6.01.02.05	(Increase)/decrease in other assets	-244	-491	1,753
6.01.02.06	(Increase) in judicial deposits	-604	-259	-5,770
6.01.02.07	Decrease in receivables from related parties	0	8,505	0
6.01.02.08	(Increase) in non-current assets	-1,591	-537	295
6.01.02.09	Increase in trade payables	22,347	10,968	20,868
6.01.02.10	(Increase)/decrease in advances to suppliers	738	-1,136	362
6.01.02.11	(Decrease) in tax liabilities payable in installments	-21,748	-17,745	-15,697
6.01.02.12	Increase in tax liabilities	1,687	1,234	1,084
6.01.02.13	Increase in labor liabilities	788	620	1,659
6.01.02.14	Increase/(decrease) in other payables	-2,128	333	208
6.01.02.15	(Decrease) in other non-current payables	-5,253	-1,645	-7,399
6.01.03	Other	-26,663	-19,381	-19,969
6.01.03.01	Interest paid	-8,794	-12,860	-16,985
6.01.03.02	Income tax and social contribution paid	-17,869	-6,521	-2,984

Parent company financial statements / statement of cash flows - indirect method

(R$ thousand)

1 - Code	2 - Description	Last year 1/1/2012 to 12/31/2012	Penultimate year 1/1/2011 to 12/31/2011	Antepenultimate year 1/1/2010 to 12/31/2010
6.02	Net cash provided by (used in) investing activities	-28,739	3,083	-10,286
6.02.01	Purchases of property, plant and equipment	-19,142	-14,030	-12,972
6.02.02	Purchases of intangible assets	-10,814	-3,611	-5
6.02.03	Dividends received	2,680	21,030	5,909
6.02.04	Proceeds on sale of property, plant and equipment	68	0	600
6.02.05	(Concession) of credits to related parties	-1,531	-306	-3,818
6.03	Net cash provided by (used in) financing activities	42,989	-35,354	23,669
6.03.01	New borrowings	153,060	114,878	264,151
6.03.02	Repayments of borrowings	-110,067	-141,602	-240,559
6.03.03	Received from (payment to) related companies	-4	-8,630	77
6.05	Increase (decrease) in cash and cash equivalents	48,485	-628	1,705
6.05.01	Opening balance of cash and cash equivalents	8,091	8,719	7,014
6.05.02	Closing balance of cash and cash equivalents	56,576	8,091	8,719

Parent company financial statements / statement of changes in equity - 1/1/2012 to 12/31/2012

(R$ thousand)

1 - Code	2 - Description	Paid-up share capital	Capital reserves, stock options and treasury shares	Revenue reserves	Retained earnings (accumulated deficit)	Other comprehensive income	Equity
5.01	Opening balance	112,957	267	0	-73,738	42,304	81,790
5.03	Adjusted opening balance	112,957	267	0	-73,738	42,304	81,790
5.04	Capital transactions with equity holders	0	0	0	-15,595	0	-15,595
5.04.06	Dividends	0	0	0	-13,742	0	-13,742
5.04.07	Interest on capital	0	0	0	-1,853	0	-1,853
5.05	Total comprehensive income (loss)	0	0	0	67,243	-6,319	60,924
5.05.01	Profit for the period	0	0	0	65,664	0	65,664
5.05.02	Other comprehensive income (loss)	0	0	0	1,579	-6,319	-4,740
5.05.02.06	Actuarial loss	0	0	0	0	-1,299	-1,299
5.05.02.07	Exchange variation of subsidiary located abroad	0	0	0	0	-3,441	-3,441
5.05.02.08	Realization of revaluation reserve	0	0	0	1,579	-1,579	0
5.06	Internal changes in equity	-72,159	0	50,069	22,090	0	0
5.06.01	Constitution of reserves	0	0	50,069	-50,069	0	0
5.06.04	Capital reduction	-72,159	0	0	72,159	0	0
5.07	Closing balance	40,798	267	50,069	0	35,985	127,119

Parent company financial statements / statement of changes in equity - 1/1/2011 to 12/31/2011

(R$ thousand)

1 - Code	2 - Description	Paid-up share capital	Capital reserves, stock options and treasury shares	Revenue reserves	Retained earnings (accumulated deficit)	Other comprehensive income	Equity
5.01	Opening balance	112,957	267	0	-99,661	47,301	60,864
5.03	Adjusted opening balance	112,957	267	0	-99,661	47,301	60,864
5.05	Total comprehensive income (loss)	0	0	0	25,923	-4,997	20,926
5.05.01	Profit for the period	0	0	0	24,343	0	24,343
5.05.02	Other comprehensive income (loss)	0	0	0	1,580	-4,997	-3,417
5.05.02.06	Realization of revaluation reserve	0	0	0	1,580	-1,580	0
5.05.02.07	Actuarial gain	0	0	0	0	879	879
5.05.02.08	Exchange variation of subsidiary located abroad	0	0	0	0	-4,296	-4,296
5.07	Closing balance	112,957	267	0	-73,738	42,304	81,790

Parent company financial statements / statement of changes in equity - 1/1/2010 to 12/31/2010

(R$ thousand)

1 - Code	2 - Description	Paid-up share capital	Capital reserves, stock options and treasury shares	Revenue reserves	Retained earnings (accumulated deficit)	Other comprehensive income	Equity
5.01	Opening balance	112,957	267	0	-133,622	47,575	27,177
5.03	Adjusted opening balance	112,957	267	0	-133,622	47,575	27,177
5.05	Total comprehensive income (loss)	0	0	0	33,961	-274	33,687
5.05.01	Profit for the period	0	0	0	32,104	0	32,104
5.05.02	Other comprehensive income (loss)	0	0	0	1,857	-274	1,583
5.05.02.06	Realization of revaluation reserve	0	0	0	1,857	-1,857	0
5.05.02.07	Actuarial gain	0	0	0	0	168	168
5.05.02.08	Exchange variation of subsidiary located abroad	0	0	0	0	1,415	1,415
5.07	Closing balance	112,957	267	0	-99,661	47,301	60,864

Parent company financial statements / statement of value added

(R$ thousand)

1 - Code	2 - Description	Last year 1/1/2012 to 12/31/2012	Penultimate year 1/1/2011 to 12/31/2011	Antepenultimate year 1/1/2010 to 12/31/2010
7.01	Revenue	833,711	693,437	621,755
7.01.01	Sale of products and services	816,052	684,164	599,245
7.01.02	Other income	15,813	9,624	22,479
7.01.04	Change in the provision for impairment of trade receivables	1,846	-351	31
7.02	Inputs acquired from third parties	-425,950	-370,502	-327,056
7.02.01	Cost of sales and services	-340,430	-293,940	-243,875
7.02.02	Materials, energy, outsourced services and other	-86,227	-76,607	-83,121
7.02.03	Impairment/recovery of assets	707	45	-60
7.03	Gross value added	407,761	322,935	294,699
7.04	Retentions	-15,689	-15,855	-16,405
7.04.01	Depreciation, amortization and depletion	-15,689	-15,855	-16,405
7.05	Net value added generated	392,072	307,080	278,294
7.06	Value added received through transfer	45,265	33,955	27,820
7.06.01	Equity in the results of investees	10,386	10,028	904
7.06.02	Finance income	34,879	23,927	26,916
7.07	Total value added to distribute	437,337	341,035	306,114
7.08	Distribution of value added	437,337	341,035	306,114
7.08.01	Personnel	107,682	97,210	81,474
7.08.01.01	Direct remuneration	92,182	82,626	69,665
7.08.01.02	Benefits	8,618	8,312	6,943
7.08.01.03	Government Severance Indemnity Fund for Employees (FGTS)	6,882	6,272	4,866
7.08.02	Taxes and contributions	203,188	164,257	132,738
7.08.02.01	Federal	115,903	86,243	65,078
7.08.02.02	State	87,089	77,756	67,485
7.08.02.03	Municipal	196	258	175
7.08.03	Remuneration of third party capital	60,803	55,225	59,798
7.08.03.01	Interest	52,969	48,590	54,992
7.08.03.02	Rentals	7,834	6,635	4,806
7.08.04	Remuneration of own capital	65,664	24,343	32,104
7.08.04.03	Profits reinvested	65,664	24,343	32,104

Consolidated financial statements / balance sheet - assets

(R$ thousand)

1 - Code	2 - Description	Last year 12/31/2012	Penultimate year 12/31/2011	Antepenultimate year 12/31/2010
1	Total assets	695,321	550,222	538,113
1.01	Current assets	328,230	215,923	214,884
1.01.01	Cash and cash equivalents	58,870	10,065	12,802
1.01.02	Financial investments	0	0	1,120
1.01.02.02	Financial investments measured at amortized cost	0	0	1,120
1.01.02.02.01	Held-to-maturity securities	0	0	1,120
1.01.03	Trade receivables	142,678	107,867	101,848
1.01.03.01	Customers	142,678	107,867	101,848
1.01.04	Inventories	120,045	90,553	93,745
1.01.06	Taxes recoverable	2,064	2,682	2,154
1.01.06.01	Current taxes recoverable	2,064	2,682	2,154
1.01.06.01.01	Income tax and social contribution recoverable	459	1,152	215
1.01.06.01.02	Other current taxes recoverable	1,605	1,530	1,939
1.01.07	Prepaid expenses	815	491	193
1.01.08	Other current assets	3,758	4,265	3,022
1.01.08.03	Other	3,758	4,265	3,022
1.01.08.03.03	Advances to suppliers	954	1,685	747
1.01.08.03.04	Other	2,804	2,580	2,275
1.02	Non-current assets	367,091	334,299	323,229
1.02.01	Long-term receivables	164,501	151,283	143,233
1.02.01.08	Receivables from related parties	100,398	93,780	94,667
1.02.01.08.04	Receivables from other related parties	100,398	93,780	94,667
1.02.01.09	Other non-current assets	64,103	57,503	48,566
1.02.01.09.03	Judicial deposits	8,494	7,961	8,043
1.02.01.09.04	Receivables from Eletrobras	36,819	31,059	26,131
1.02.01.09.05	Taxes recoverable	1,682	1,762	1,455
1.02.01.09.06	Tax assets	12,872	11,823	10,590
1.02.01.09.07	Actuarial assets	3,641	3,837	1,764
1.02.01.09.08	Other	595	1,061	583
1.02.02	Investments	215	215	226
1.02.02.01	Equity investments	215	215	226
1.02.02.01.04	Other investments	215	215	226
1.02.03	Property, plant and equipment	187,056	178,052	178,226
1.02.04	Intangible assets	15,319	4,749	1,544

Consolidated financial statements / balance sheet - liabilities and equity

(R$ thousand)

1 - Code	2 - Description	Last year 12/31/2012	Penultimate year 12/31/2011	Antepenultimate year 12/31/2010
2	Total liabilities and equity	695,321	550,222	538,113
2.01	Current liabilities	295,375	245,403	251,275
2.01.01	Social and labor obligations	18,459	16,780	15,334
2.01.02	Trade payables	121,113	97,980	87,689
2.01.03	Tax obligations	34,348	26,627	20,283
2.01.03.01	Federal tax obligations	34,348	26,627	20,283
2.01.03.01.01	Income tax and social contribution payable	4,142	541	1,049
2.01.03.01.02	Tax liabilities payable in installments	22,961	21,773	16,552
2.01.03.01.03	Taxes and contributions	7,245	4,313	2,682
2.01.04	Borrowings	75,584	79,600	97,584
2.01.04.01	Borrowings	75,584	79,600	97,584
2.01.05	Other liabilities	38,707	23,401	20,885
2.01.05.02	Other	38,707	23,401	20,885
2.01.05.02.04	Advances from customers	20,813	17,325	14,659
2.01.05.02.06	Dividends payable	8,810	11	11
2.01.05.02.07	Other	9,084	6,065	6,215
2.01.06	Provisions	7,164	1,015	9,500
2.01.06.02	Other provisions	7,164	1,015	9,500
2.01.06.02.05	Provision for contingencies	1,322	1,015	6,345
2.01.06.02.06	Provision for profit sharing	5,842	0	3,155
2.02	Non-current liabilities	272,819	223,021	226,002
2.02.01	Borrowings	90,931	40,210	45,242
2.02.01.01	Borrowings	90,931	40,210	45,242
2.02.02	Other liabilities	113,364	128,056	140,267
2.02.02.02	Other	113,364	128,056	140,267
2.02.02.02.04	Private pension plan	2,918	3,118	3,469
2.02.02.02.05	Tax liabilities payable in installments	110,446	124,938	136,657
2.02.02.02.07	Other	0	0	141
2.02.03	Deferred taxes	16,309	15,693	14,994
2.02.03.01	Deferred income tax and social contribution	16,309	15,693	14,994
2.02.04	Provisions	52,215	39,062	25,499
2.02.04.02	Other provisions	52,215	39,062	25,499
2.02.04.02.05	Provision for contingencies	49,592	39,062	25,499
2.02.04.02.06	Provision for long-term incentive	2,623	0	0
2.03	Consolidated equity	127,127	81,798	60,836
2.03.01	Paid-up capital	40,798	112,957	112,957
2.03.02	Capital reserves	267	267	267
2.03.04	Revenue reserves	50,069	0	0
2.03.04.01	Legal reserve	3,283	0	0
2.03.04.10	Distributable profits reserve	46,786	0	0
2.03.05	Accumulated deficit	0	-73,738	-99,699
2.03.08	Other comprehensive income	35,985	42,304	47,301
2.03.09	Non-controlling interests	8	8	10

Consolidated financial statements / statement of income

(R$ thousand, unless otherwise stated)

1 - Code	2 - Description	Last year 1/1/2012 to 12/31/2012	Penultimate year 1/1/2011 to 12/31/2011	Antepenultimate year 1/1/2010 to 12/31/2010
3.01	Sales and/or services revenue	706,471	586,806	511,415
3.02	Cost of sales and/or services	-456,052	-400,653	-347,971
3.03	Gross profit	250,419	186,153	163,444
3.04	Operating expenses	-133,557	-119,804	-94,055
3.04.01	Selling expenses	-103,996	-97,452	-75,754
3.04.02	General and administrative expenses	-23,495	-18,675	-16,985
3.04.04	Other operating income	12,349	11,354	15,245
3.04.04.01	Other operating income	9,007	6,724	15,245
3.04.04.02	Other gains, net	3,342	4,630	0
3.04.05	Other operating expenses	-18,415	-15,031	-16,561
3.04.05.01	Other operating expenses	-18,415	-15,031	-15,203
3.04.05.02	Other losses, net	0	0	-1,358
3.05	Profit before finance result and taxes	116,862	66,349	69,389
3.06	Finance result	-21,690	-29,247	-25,991
3.06.01	Finance income	16,140	18,369	15,706
3.06.01.01	Finance income	16,140	18,369	13,818
3.06.01.02	Foreign exchange variations, net	0	0	1,888
3.06.02	Finance costs	-37,830	-47,616	-41,697
3.06.02.01	Finance costs	-34,195	-41,839	0
3.06.02.02	Foreign exchange variations, net	-3,635	-5,777	0
3.07	Profit before taxation	95,172	37,102	43,398
3.08	Income tax and social contribution on net income	-30,024	-12,164	-2,669
3.08.01	Current	-29,408	-11,465	-10,069
3.08.02	Deferred	-616	-699	7,400
3.09	Profit for the period from continuing operations	65,148	24,938	40,729
3.10	Profit (loss) for the period from discontinued operations	527	-548	-8,425
3.11	Consolidated profit for the period	65,675	24,390	32,304
3.11.01	Attributable to owners of the Company	65,664	24,381	32,295
3.11.02	Attributable to non-controlling interests	11	9	9
3.99	Earnings per share - (Reais/share)			
3.99.01	Basic earnings per share			
3.99.01.01	Common share	0.41000	0.15000	0.20000
3.99.02	Diluted earnings per share			
3.99.02.01	Common share	0.41000	0.15000	0.20000

Consolidated financial statements / statement of comprehensive income

(R$ thousand)

1 - Code	2 - Description	Last year 1/1/2012 to 12/31/2012	Penultimate year 1/1/2011 to 12/31/2011	Antepenultimate year 1/1/2010 to 12/31/2010
4.01	Consolidated profit for the period	65,675	24,390	32,304
4.02	Other comprehensive loss	-6,319	-4,997	-274
4.02.01	Realization of revaluation reserve	-1,579	-1,580	-1,857
4.02.02	Actuarial liability	-1,299	0	0
4.02.03	Actuarial gain	0	879	168
4.02.04	Exchange variation of subsidiary located abroad	-3,441	-4,296	1,415
4.03	Total consolidated comprehensive income for the period	59,356	19,393	32,030
4.03.01	Attributable to owners of the Company	59,345	19,384	32,021
4.03.02	Attributable to non-controlling interests	11	9	9

Consolidated financial statements / statement of cash flows - indirect method

(R$ thousand)

1 - Code	2 - Description	Last year 1/1/2012 to 12/31/2012	Penultimate year 1/1/2011 to 12/31/2011	Antepenultimate year 1/1/2010 to 12/31/2010
6.01	Net cash provided by operating activities	36,803	41,503	-6,849
6.01.01	Cash provided by operating activities	136,228	72,586	88,865
6.01.01.01	Profit for the period before taxation	95,172	37,102	43,398
6.01.01.02	Depreciation and amortization	15,733	15,918	16,762
6.01.01.04	Unrealized foreign exchange variations	1,036	7,641	587
6.01.01.05	Provision for reduction of inventories to market value	-3,522	-2,381	3,008
6.01.01.06	Provision for impairment of trade receivables	-2,928	646	550
6.01.01.07	Provision for contingencies	6,523	6,372	8,237
6.01.01.08	Provision for labor liabilities	950	871	2,105
6.01.01.09	Profit sharing	10,990	-3,155	3,155
6.01.01.10	Other provisions	3,850	361	228
6.01.01.11	Other operating expenses, net	-1,667	-4,442	-8,519
6.01.01.12	Restatement of Eletrobras compulsory loan	-5,760	-4,928	-3,137
6.01.01.13	Restatement of tax assets	-1,049	-1,233	-929
6.01.01.14	Restatement of receivables from other related parties	-6,604	-9,189	-7,886
6.01.01.15	Restatement of finance charges on tax liabilities payable in installments	9,528	15,224	13,674
6.01.01.16	Restatement of discount of provision for contingencies	4,315	1,861	1,051
6.01.01.17	Finance charges on tax liabilities payable in installments	0	475	0
6.01.01.18	Provision for interest on borrowings	8,057	12,575	17,787
6.01.01.19	Discount on credits received from related parties	0	1,592	0
6.01.01.20	Other	1,604	-2,724	-1,206
6.01.02	Changes in assets and liabilities	-68,413	-5,975	-70,575
6.01.02.01	(Increase) in trade receivables	-30,298	-5,839	-31,578
6.01.02.02	Increase/(decrease) in advances from customers	4,328	2,666	-5,594
6.01.02.03	Decrease in marketable securities	0	1,120	3,159
6.01.02.04	(Increase)/decrease in inventories	-25,970	5,577	-25,761
6.01.02.05	(Increase)/decrease in other assets	-987	-194	1,428
6.01.02.06	(Increase) in judicial deposits	-604	-264	-5,607
6.01.02.07	Decrease in receivables from related parties	0	8,505	0
6.01.02.08	(Increase)/decrease in non-current assets	-1,119	-546	356
6.01.02.09	Increase in trade payables	22,842	10,533	19,694
6.01.02.10	(Increase)/decrease in advances to suppliers	731	-938	1,374
6.01.02.11	Increase in tax liabilities payable in installments	-22,832	-18,708	-16,421
6.01.02.12	Increase in tax liabilities	19	951	1,242
6.01.02.13	Increase in labor liabilities	809	473	1,621
6.01.02.14	(Decrease) in other payables	-10,079	-1,270	-6,920
6.01.02.15	(Decrease) in other non-current payables	-5,253	-8,041	-7,568
6.01.03	Other	-31,012	-25,108	-25,139
6.01.03.01	Interest paid	-8,812	-12,878	-16,985
6.01.03.02	Income tax and social contribution paid	-22,200	-12,230	-8,154
6.02	Net cash used in investing activities	-31,037	-17,700	-12,645
6.02.01	Purchases of property, plant and equipment	-20,081	-14,089	-13,227

Consolidated financial statements / statement of cash flows - indirect method

(R$ thousand)

1 - Code	2 - Description	Last year 1/1/2012 to 12/31/2012	Penultimate year 1/1/2011 to 12/31/2011	Antepenultimate year 1/1/2010 to 12/31/2010
6.02.02	Purchases of intangible assets	-11,024	-3,611	-18
6.02.04	Proceeds on sale of property, plant and equipment	68	0	600
6.03	Net cash provided by (used in) financing activities	42,993	-26,711	23,649
6.03.01	New borrowings	153,060	114,891	264,208
6.03.02	Repayments of borrowings	-110,067	-141,602	-240,559
6.04	Exchange variation on cash and cash equivalents	46	171	29
6.05	Increase (decrease) in cash and cash equivalents	48,805	-2,737	4,184
6.05.01	Opening balance of cash and cash equivalents	10,065	12,802	8,618
6.05.02	Closing balance of cash and cash equivalents	58,870	10,065	12,802

Consolidated financial statements / statement of changes in equity - 1/1/2012 to 12/31/2012

(R$ thousand)

1 - Code	2 - Description	Paid-up share capital	Capital reserves, stock options and treasury shares	Revenue reserves	Retained earnings (accumulated deficit)	Other comprehensive income	Equity	Non-controlling interests	Consolidated equity
5.01	Opening balance	112,957	267	0	-73,738	42,304	81,790	8	81,798
5.03	Adjusted opening balance	112,957	267	0	-73,738	42,304	81,790	8	81,798
5.04	Capital transactions with equity holders	0	0	0	-15,595	0	-15,595	-11	-15,606
5.04.06	Dividends	0	0	0	-13,742	0	-13,742	-11	-13,753
5.04.07	Interest on capital	0	0	0	-1,853	0	-1,853	0	-1,853
5.05	Total comprehensive income (loss)	0	0	0	67,243	-6,319	60,924	11	60,935
5.05.01	Profit for the period	0	0	0	65,664	0	65,664	11	65,675
5.05.02	Other comprehensive income (loss)	0	0	0	1,579	-6,319	-4,740	0	-4,740
5.05.02.06	Actuarial loss	0	0	0	0	-1,299	0	0	-1,299
5.05.02.07	Exchange variation of subsidiary located abroad	0	0	0	0	-3,441	0	0	-3,441
5.05.02.08	Realization of revaluation reserve	0	0	0	1,579	-1,579	0	0	0
5.06	Internal changes in equity	-72,159	0	50,069	22,090	0	0	0	0
5.06.01	Constitution of reserves	0	0	50,069	-50,069	0	0	0	0
5.06.04	Capital reduction	-72,159	0	0	72,159	0	0	0	0
5.07	Closing balance	40,798	267	50,069	0	35,985	127,119	8	127,127

Consolidated financial statements / statement of changes in equity - 1/1/2011 to 12/31/2011

(R$ thousand)

1 - Code	2 - Description	Paid-up share capital	Capital reserves, stock options and treasury shares	Revenue reserves	Retained earnings (accumulated deficit)	Other comprehensive income	Equity	Non-controlling interests	Consolidated equity
5.01	Opening balance	112,957	267	0	-99,699	47,301	60,826	10	60,836
5.03	Adjusted opening balance	112,957	267	0	-99,699	47,301	60,826	10	60,836
5.04	Capital transactions with equity holders	0	0	0	0	0	0	-11	-11
5.04.06	Dividends	0	0	0	0	0	0	-11	-11
5.05	Total comprehensive income (loss)	0	0	0	25,961	-4,997	20,964	9	20,973
5.05.01	Profit for the period	0	0	0	24,381	0	24,381	9	24,390
5.05.02	Other comprehensive income (loss)	0	0	0	1,580	-4,997	-3,417	0	-3,417
5.05.02.06	Realization of revaluation reserve	0	0	0	1,580	-1,580	0	0	0
5.05.02.07	Actuarial gain	0	0	0	0	879	879	0	879
5.05.02.08	Exchange variation of subsidiary located abroad	0	0	0	0	-4,296	-4,296	0	-4,296
5.07	Closing balance	112,957	267	0	-73,738	42,304	81,790	8	81,798

Consolidated financial statements / statement of changes in equity - 1/1/2010 to 12/31/2010

(R$ thousand)

1 - Code	2 - Description	Paid-up share capital	Capital reserves, stock options and treasury shares	Revenue reserves	Retained earnings (accumulated deficit)	Other comprehensive income	Equity	Non-controlling interests	Consolidated equity
5.01	Opening balance	112,957	267	0	-133,851	47,575	26,948	1	26,949
5.03	Adjusted opening balance	112,957	267	0	-133,851	47,575	26,948	1	26,949
5.05	Total comprehensive income (loss)	0	0	0	34,152	-274	33,878	9	33,887
5.05.01	Profit for the period	0	0	0	32,295	0	32,295	9	32,304
5.05.02	Other comprehensive income (loss)	0	0	0	1,857	-274	1,583	0	1,583
5.05.02.06	Realization of revaluation reserve	0	0	0	1,857	-1,857	0	0	0
5.05.02.07	Actuarial gain	0	0	0	0	168	168	0	168
5.05.02.08	Exchange variation of subsidiary located abroad	0	0	0	0	1,415	1,415	0	1,415
5.07	Closing balance	112,957	267	0	-99,699	47,301	60,826	10	60,836

Consolidated financial statements / statement of value added

(R$ thousand)

1 - Code	2 - Description	Last year 1/1/2012 to 12/31/2012	Penultimate year 1/1/2011 to 12/31/2011	Antepenultimate year 1/1/2010 to 12/31/2010
7.01	Revenue	881,013	729,881	648,896
7.01.01	Sales of products and services	870,089	728,884	634,768
7.01.02	Other income	7,996	1,643	14,678
7.01.04	Changes in the provision for impairment of trade receivables	2,928	-646	-550
7.02	Inputs acquired from third parties	-443,307	-379,729	-332,479
7.02.01	Cost of sales and services	-339,743	-292,832	-226,627
7.02.02	Materials, energy, outsourced services and other	-104,319	-86,185	-96,497
7.02.03	Impairment/recovery of assets	228	-164	-930
7.02.04	Other	527	-548	-8,425
7.02.04.01	Loss from discontinued operations	527	-548	-8,425
7.03	Gross value added	437,706	350,152	316,417
7.04	Retentions	-15,733	-15,918	-16,762
7.04.01	Depreciation, amortization and depletion	-15,733	-15,918	-16,762
7.05	Net value added generated	421,973	334,234	299,655
7.06	Value added received through transfer	35,096	24,537	27,668
7.06.02	Finance income	35,096	24,537	27,668
7.07	Total value added to distribute	457,069	358,771	327,323
7.08	Distribution of value added	457,069	358,771	327,323
7.08.01	Personnel	113,982	103,421	88,874
7.08.01.01	Direct remuneration	97,628	87,966	76,048
7.08.01.02	Benefits	9,163	8,812	7,600
7.08.01.03	Government Severance Indemnity Fund for Employees (FGTS)	7,191	6,643	5,226
7.08.02	Taxes and contributions	215,707	175,230	143,885
7.08.02.01	Federal	128,372	97,187	76,074
7.08.02.02	State	87,102	77,756	67,594
7.08.02.03	Municipal	233	287	217
7.08.03	Remuneration of third party capital	61,705	55,730	62,260
7.08.03.01	Interest	53,455	49,198	55,708
7.08.03.02	Rentals	8,250	6,532	6,552
7.08.04	Remuneration of own capital	65,675	24,390	32,304
7.08.04.03	Profits reinvested	65,664	24,381	32,295
7.08.04.04	Non-controlling interests in profits reinvested	11	9	9

Management report

(All amounts in thousands of reais unless otherwise stated)

COMMENTS ON THE CONSOLIDATED PERFORMANCE IN 2012

Portobello S.A. (São Paulo Commodities, Futures and Securities Exchange (BM&FBOVESPA) - code: PTBL3), the largest company in the ceramic tile sector in Latin America, listed in the BOVESPA since 1991 and in the New Market since 2008, presents its results of operations for the year ended December 31, 2012. The Company's financial and operating information below is presented on a consolidated basis and in reais, unless otherwise stated, in accordance with accounting practices adopted in Brazil, including the standards issued by the Brazilian Accounting Pronouncements Committee (CPCs) and the International Financial Reporting Standards (IFRS). The comparisons made herein refer to the years 2011 and 2010.

HIGHLIGHTS

- Gross revenue attained R$ 883 million in 2012, 18% higher than the previous year.
- Net operating revenue was R$ 706 million, 20% higher than in 2011.
- Sales revenue in the domestic market increased 20% when compared to the previous year, with a performance 15% higher than the industry index (Brazilian Association of the Construction Material Industry - ABRAMAT);
- Gross profit grew 35%, attaining R$ 250 million with a gain of 3 p.p. in the gross margin over 2011.
- The operating profit (EBITD) grew 84%, attaining R$ 114 million with a margin of 16%, 5 p.p. over 2011.
- EBITDA reached R$ 129 million, with a margin of 18% and an increase of 66% when compared to 2011.
- Profit amounted to R$ 66 million, with a margin of 9%, and increased by 169% when compared to 2011.

Message from management

The year 2012 represented an important step of Portobello S/A towards the consolidation of a new operating level.

Portobello's performance this year consolidated the results obtained in the prior years that were positively impacted by the current moment of Brazilian civil construction, aligned with our ability to capture and leverage these opportunities, but with constant improvements and rationalizations that are part of our internal culture. The excellent result achieved this year is evidenced when compared to the data disclosed by the Brazilian Association of the Construction Material Industry (ABRAMAT).

With the opportunities provided by the market, the Company's management maintained its focus on the domestic market, while increasing sales abroad. Production was concentrated on higher value added products and the adoption of a hybrid production model, which combined the Company's own production capacity and outsourced resources permitted the Company to meet, with flexibility and agility, the demand for commercial products, principally in the segment of civil construction and real estate development companies.

Management report

(All amounts in thousands of reais unless otherwise stated)

The maturity of the products launched, allied to aggression in sales operations contributed to an increased margin and growth above that of the market, since the increase in our domestic sales exceeded that of the sector as a whole.

The internal rationalization measures aiming at improving productivity and quality and reducing costs continued during the year. On the other hand, there were certain adjustments in the price of some inputs which partially reduced the gains obtained in the production process.

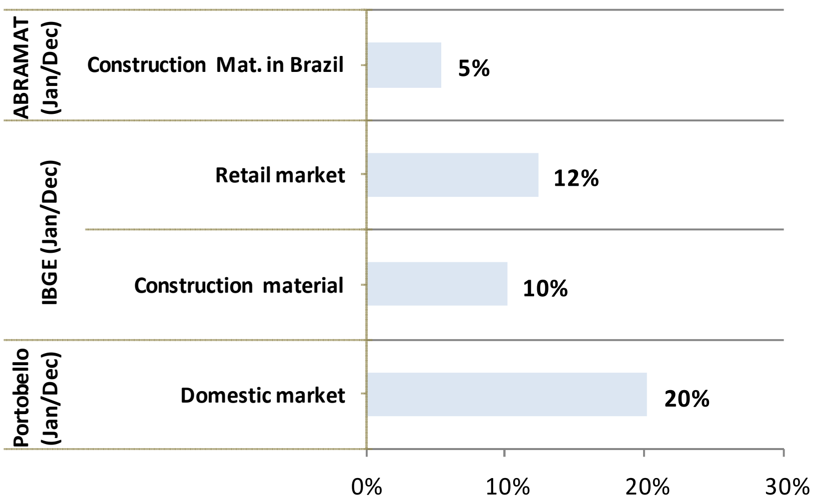
The meritocracy processes, based on targets, assessments and variable remuneration, have contributed significantly to our result improvement process.

The excellent result for the year, together with the optimization of working capital management, made it possible to realize investments in the improvement of the manufacturing facilities, improve the logistics model and reduce indebtedness by R$ 15 million in the past 12 months.

Increased profitability, market share gains and the reduction in indebtedness were the striking features in the year 2012. During the year, the Company also started to focus on the review of its strategic and expansion plans, the latter of which already started in the fourth quarter with the expansion and modernization of the Tijucas plant.

The efforts were worthwhile. We closed 2012 optimistic about the prospects for the Company and convinced that the Company has attained a new maturity level. The future points towards the maintenance of the growth of our market and invites us to exercise innovation and creativeness, without losing the pulse of the firm management of costs, a key element for a perennial business.

Net Revenue Performance – 12/31/2012 x 12/31/2011



Outlook

- Although the Brazilian economy presented signs of a slowdown in 2012, the Company estimates the maintenance of the growth levels of domestic sales, as mentioned before. This expectation is based on the real estate developments launched and the perceived demand in the retail market.

- The Company expects the continuity of the strong demand for construction materials, as well as for finishing materials with higher aggregated value, the segment in which it is inserted, also influenced by the extension of the exemption from Excise Tax (IPI) of ceramics products up to the end of 2013. For this, we will increase the offer with more products acquired from third parties and the implementation of a new line for the production of large formats in June 2013.

- The Company believes in, and has been directing efforts to, the domestic market, either increasing its range of services and products for the real estate and commercial markets of large construction companies or increasing investments in marketing and higher value added products to meet the demand of retail chains and the main Brazilian home centers. We therefore expect to maintain the pace of growth of the last years.

- In the segment of specialized stores, our network of franchises - Portobello Shop - has scheduled the opening of new stores in a number of States, such as Rio de Janeiro, Bahia, Pará, Paraíba, Acre, Amapá, Rio Grande do Sul and São Paulo.

- The export market has shown growth potential, considering that this sales channel is the most profitable for the Company at the current level of the exchange rate. The increasing demand for products with higher aggregated value makes it possible for Portobello to attend this market, thereby optimizing the Company's profitability.

- The sales of products of our new collections launched at "Revestir 2012", which is the most important fair in our sector, have exceeded the initial expectations so far, which confirms that the policies adopted will continue to improve the sales profitability.

- Continuity in productivity gains, with the resulting reductions in production costs and gains in quality, and the investments in logistics and our meritocracy process, indicate that the profitability levels achieved during 2012 will be maintained or increased.

- The Company has been facing inflationary pressures in the costs of inputs, mainly electric energy and labor, which will have to be neutralized by the constant search for productivity gains. There is a risk of an increase in the price of natural gas, which could affect the competitiveness of Portobello and the ceramic tile industry of the State of Santa Catarina.

- Portobello believes that the measures under analysis by government agencies to revise the import tax for technical porcelain are important to promote the competitiveness of the Brazilian industry in this specific segment of products.

- In 2013, the ceramic industry will benefit from the reductions in payroll charges, which will improve the competitiveness of the Brazilian ceramic industry.

Distribution

The Company distributes its products through four distinct channels, with specific characteristics of product portfolios, teams of specialized professionals, services, logistics and commercial policy.

Domestic market

The three distribution channels are:

Multi-brand Resale - Responsible for attending resellers of construction materials, who distribute the Company's products in the retail market, either to the end consumer or small building entities.

Engineering - Commercial structure and specialized teams that serve civil construction companies (builders or developers), for commercial or public residential projects.

Portobello Shop – Network of shops specialized in Portobello products that serve customers in the retail market through franchised stores under the Portobello Shop and Empório Portobello banners, focused on more demanding customers as regards quality and service. With 110 stores established throughout Brazil, Portobello Shop became a successful venture, thereby permitting the development of new business formats, such as the Empório model, which was adapted to different city styles, seeking expansion in regions which do not support a traditional unit.

Foreign market

Portobello is an internationally known brand, whose products are sold in 60 countries through its own teams or independent representatives. In 2012, products were exported mainly to Argentina, Paraguay, Chile, Uruguay, United Kingdom, Peru, South Africa, Mexico, Bolivia and Belgium.

The Company's exports are limited to more profitable markets, which represented 8% of net revenue. Assuming that the foreign exchange rates remain at the same levels, the Company believes that its exports to these markets, focused on products with higher aggregated value, will continue to contribute significantly to its results.

The profitability provided by exports confirms the Company’s progress in search of international competitiveness, which ensures more equilibrium in sales if difficulties affect the domestic market.

Management report

(All amounts in thousands of reais unless otherwise stated)

Economic and financial performance

Consolidated results of operations	4Q10	4Q11	4Q12	Variation % 4Q12 x 4Q11
Gross operating revenue	**183,420**	**193,644**	**238,853**	**23%**
Net operating revenue	**144,632**	**150,635**	**192,182**	**28%**
Gross profit	**48,333**	**47,859**	**69,056**	**44%**
Gross margin	*33%*	*32%*	*36%*	*4 p.p.*
Selling expenses	(21,578)	(25,445)	(28,894)	14%
General and administrative expenses	(4,161)	(5,061)	(5,424)	7%
Other operating income (expenses)	(4,334)	301	(2,902)	-1064%
EBIT	**18,260**	**17,654**	**31,836**	**80%**
EBIT margin	*13%*	*12%*	*17%*	*5 p.p.*
Finance income (costs) and other gains (losses), net	(5,698)	(4,934)	(3,997)	-19%
Operating profit	**12,562**	**12,720**	**27,839**	**119%**
Income tax and social contribution	(2,487)	(4,455)	(7,739)	74%
Profit from continuing operations	10,075	8,265	20,100	143%
Profit (loss) from discontinued operations (*)	(6,921)	(157)	77	-149%
Profit for the quarter	**3,154**	**8,108**	**20,177**	**149%**
Net margin	*2%*	*5%*	*10%*	*5 p.p.*
EBITDA	**22,308**	**21,678**	**35,343**	**63%**
EBITDA margin	*15%*	*14%*	*18%*	*4 p.p.*

(*) The operations of the subsidiary Portobello América, Inc. were discontinued on 12/31/2010 and the data related to this discontinued operation is being presented in the statement of income as one item, according to CPC/IFRS. The comments herein follow the same classification.

Management report

(All amounts in thousands of reais unless otherwise stated)

Consolidated results of operations	2010	2011	2012	Variation % 2012 x 2011
Gross operating revenue	**648,582**	**745,384**	**882,769**	**18%**
Net operating revenue	**511,415**	**586,806**	**706,471**	**20%**
Gross profit	**163,444**	**186,153**	**250,419**	**35%**
Gross margin	*32%*	*32%*	*35%*	*3 p.p.*
Selling expenses	(75,754)	(97,452)	(103,996)	7%
General and administrative expenses	(16,985)	(18,675)	(23,495)	26%
Other operating income (expenses)	42	(8,307)	(9,408)	13%
EBIT	**70,747**	**61,719**	**113,520**	**84%**
EBIT margin	*14%*	*11%*	*16%*	*5 p.p.*
Finance income (costs) and other gains (losses), net	(27,349)	(24,617)	(18,348)	-25%
Operating profit	**43,398**	**37,102**	**95,172**	**157%**
Income tax and social contribution	(2,669)	(12,164)	(30,024)	147%
Profit from continuing operations	40,729	24,938	65,148	161%
Profit (loss) from discontinued operations (*)	(8,425)	(548)	527	-196%
Accumulated profit	**32,304**	**24,390**	**65,675**	**169%**
Net margin	*6%*	*4%*	*9%*	*5 p.p.*
EBITDA	**87,509**	**77,637**	**129,253**	**66%**
EBITDA margin	*17%*	*13%*	*18%*	*5 p.p.*

(*) The operations of the subsidiary Portobello América, Inc. were discontinued on 12/31/2010 and the data related to this discontinued operation is being presented in the statement of income as one item, according to CPC/IFRS. The comments herein follow the same classification.

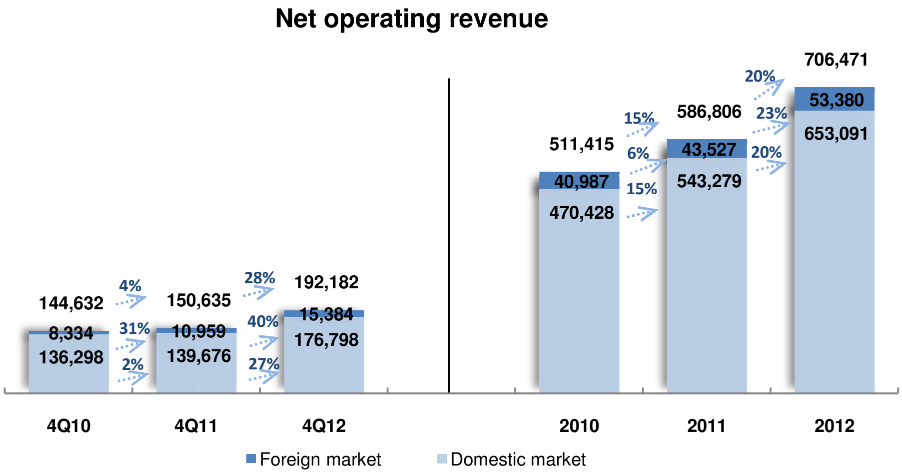
Net revenue

Consolidated net revenue attained R$ 706 million in 2012, 20% higher than the R$ 587 million in 2011, 92% of which was obtained in the domestic market. The revenue was 20% higher than that in 2011, with a similar growth in the Engineering, Multi-brand Resale and Portobello Shop channels. The export market increased by 23% in the year, when compared to 2011, due to the foreign exchange rate and the focus on products with higher aggregated value added for this market.

Management report

(All amounts in thousands of reais unless otherwise stated)

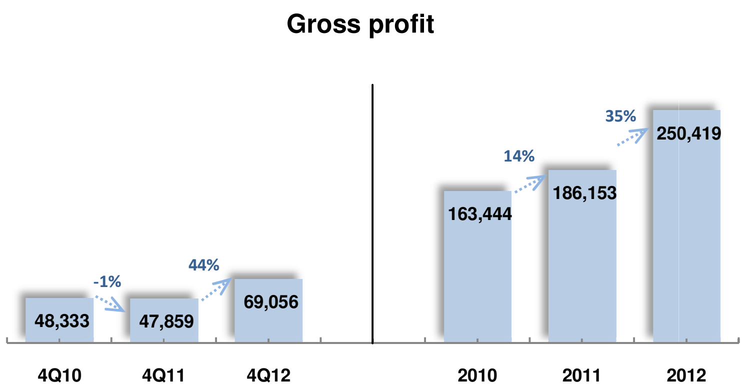
The excellent performance of the net revenue was due to a mix of products with higher aggregated value and the increase in products acquired from third parties.



Gross profit

The gross profit amounted to R$ 250 million in 2012, an increase of 35% over the R$ 186 million in 2011.

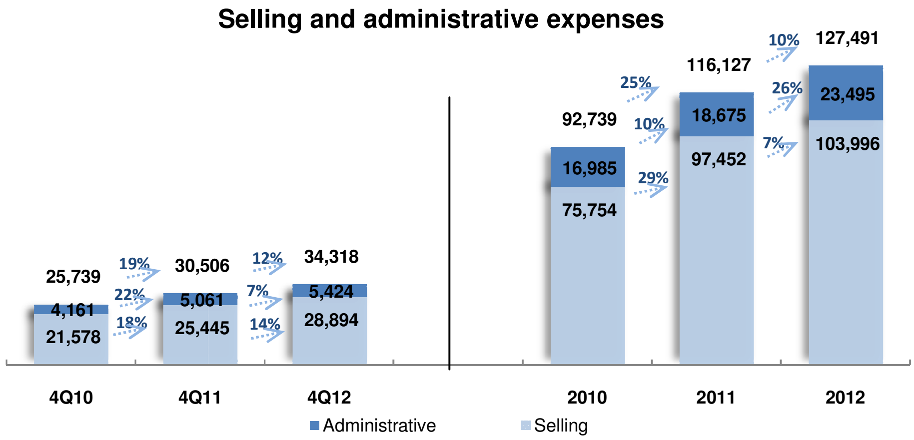
This performance was attributable not only to the sales mix of products with greater profitability per unit, but also to actions and measures focused on productivity and quality gains, cost reductions and the continuous improvement in industrial and logistics processes. Consequently, the gross margin of 35% increased 3 p.p. when compared to 2011, consolidating the gross profitability at a new level of approximately 35%.



Operating result

The selling expenses totaled R$ 104 million in 2012, corresponding to an increase of 7% as compared with 2011, and represented 15% of the net revenue, against 17% in 2011, because of economies of scale. The increase in selling expenses principally reflects the initiatives taken to increase sales.

The administrative expenses totaled R$ 23 million in 2012 and increased 26% when compared with 2011, influenced by expenditures with consulting services, due diligence and studies related to alternatives for expansion, but maintained the same proportion of the revenue.



Other operating expenses, which amounted to R$ 9 million in the year, mainly referred to the provision for profit sharing, to be paid after the end of the year and for the long-term incentive program (ILP 2012) which is to be completely settled five years after the initial recognition and project consulting expenditures.

The operating profit before the finance result (EBIT) attained R$ 114 million in 2012, an increase of 84% when compared to 2011. The ratio of EBIT to net revenue presented a margin of 16% in 2012, 5 p.p. above 2011.

Finance result

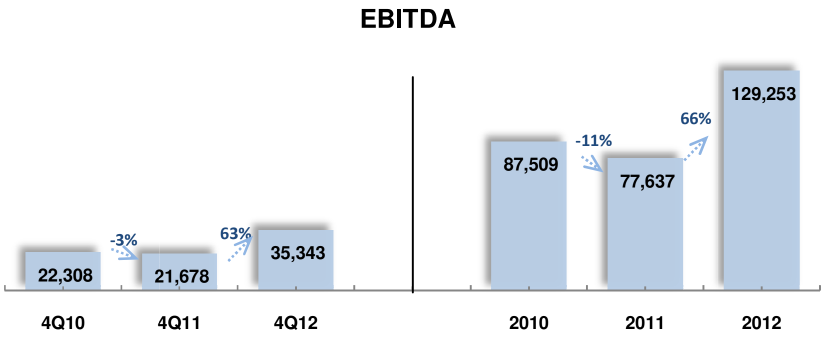
The finance result in 2012 presented net finance costs of R$ 18 million, against R$ 25 million in 2011, a decrease of 25%. This gain was attributable to the lower indebtedness and market interest rates, as well as better financing conditions obtained due to the Company's operating performance.

EBITDA

As a result of the previously presented effects, the EBITDA, earnings before interest, taxes, depreciation and amortization, totaled R$ 129 million in 2012, representing a growth of 66% in comparison with 2011. The EBITDA margin was 18%, 5 p.p. above the EBITDA margin of the prior year. We highlight that this was the first year in which the EBITDA exceeded the mark of R$ 100 million.

Management report

(All amounts in thousands of reais unless otherwise stated)



EBITDA	4Q10	4Q11	4Q12	Variation % 4Q12 x 4Q11
Profit for the year	3,152	8,105	20,174	149%
Finance income (costs) and other gains (losses), net	5,698	4,934	3,997	-19%
Depreciation and amortization	4,048	4,024	3,507	-13%
Income tax and social contribution	2,487	4,455	7,739	74%
Non-controlling interests/discontinued operations	6,923	160	(74)	-146%
(=) EBITDA from continuing operations (*)	22,308	21,678	35,343	63%
% of net revenues	15%	14%	18%	4 p.p.

(*) According to CPC/IFRS, discontinued operations do not form part of the operating result.

EBITDA	2010	2011	2012	Variation % 2012 x 2011
Profit for the year	32,295	24,381	65,664	169%
Finance income (costs) and other gains (losses), net	27,349	24,617	18,348	-25%
Depreciation and amortization	16,762	15,918	15,733	-1%
Income tax and social contribution	2,669	12,164	30,024	147%
Non-controlling interests/discontinued operations	8,434	557	(516)	-193%
(=) EBITDA from continuing operations (*)	87,509	77,637	129,253	66%
% of net revenues	17%	13%	18%	5 p.p.

(*) According to CPC/IFRS, discontinued operations do not form part of the operating result.

Profit for the year

As a consequence of the previously mentioned effects, the profit for 2012 attained R$ 66 million, an increase of 169% when compared to 2011.

The result for 2012, as well as those obtained in the last years, and the Company's decision to reduce its capital, assured to stockholders a mandatory minimum dividend of 25%, as established in the bylaws.

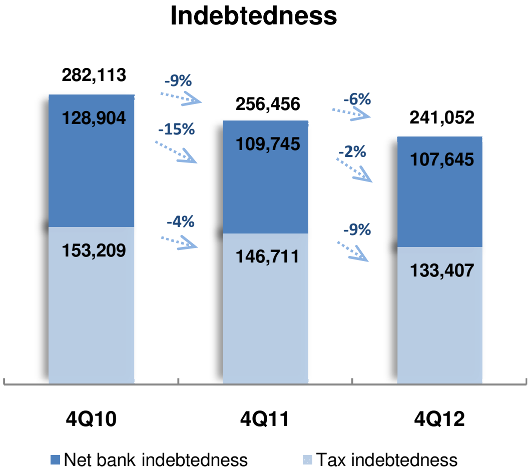
Management report

(All amounts in thousands of reais unless otherwise stated)

Indebtedness / Capital Structure

The cash generation arising from the excellent operating performance was utilized to reduce indebtedness by R$ 15 million. The net bank indebtedness was R$ 108 million at December 31, 2012, against R$ 110 million at the end of 2011, and the tax indebtedness decreased by 9% due to the payment of installments due.

Accordingly, the Company has been continuously improving its indebtedness profile through: (i) cost reductions; (ii) extended debt terms, since 55% of the debt refers to taxes payable in installments in up to 15 years; and (iii) reduction of the leverage level to 1.9 times of the EBITDA, against 3.3 times in 2011.



Net bank indebtedness	2010	2011	2012
Current	97,584	79,600	75,584
Non-current	45,242	40,210	90,931
(=) Total bank indebtedness	142,826	119,810	166,515
Cash and cash equivalents and marketable securities	13,922	10,065	58,870
(=) Net bank indebtedness	128,904	109,745	107,645

Financial leverage	2010	2011	2012
Net bank indebtedness	128,904	109,745	107,645
Tax indebtedness	153,209	146,711	133,407
EBITDA (last 12 months)	87,509	77,637	129,253
(=) Net bank indebtedness / EBITDA	1.5	1.4	0.8
(=) Net bank and tax indebtedness / EBITDA	3.2	3.3	1.9

Management report

(All amounts in thousands of reais unless otherwise stated)

As mentioned in Note 12 to the financial statements, the Company has receivables, backed by contract, from the related party Refinadora Catarinense S.A., arising from the favorable outcome on the lawsuit filed against the National Treasury (Excise Tax (IPI) credit premium). These receivables are guaranteed by a final and unappealable decision and have already been converted into bonds to pay court-ordered debts, which are to be paid annually for a period of 10 years. The first of the ten installments, in the amount of R$ 10,097, was received by Portobello in August 2011 and, as permitted by the contract, with the application of a discount totaling R$ 1,592. These receivables amounted to R$ 100,398 at December 31, 2012 and, when deducted from total indebtedness, resulted in a net indebtedness is R$ 140,654, or a Net Debt (bank and tax) / EBITDA ratio of 1.08.

The second installment of R$ 11,254 was received by Portobello in March 2013, with the application of a discount totaling R$ 1,430.

Investments

The investments in property, plant and equipment in 2012 were maintained at the levels planned by the Company's management, amounting to R$ 36 million, principally focused on improvements in the manufacturing process aimed at higher productivity and investments in the logistics model, both related to storage and to the implementation of the logistics chain management systems. Additionally, the Company initiated investments in the expansion and modernization of the Tijucas plant with the introduction of a new production line that will focus on enameled porcelain of large formats.

Corporate aspects

Share capital

The Company reduced the capital by R$ 72,159 in November 2012 through the absorption of the accumulated deficit. The voluntary reduction was approved by the Extraordinary General Meeting of November 22, 2012 and did not result in any change in the total number of shares.

The Company's capital was R$ 40,798 at December 31, 2012, comprising 159,009 thousand registered common shares without par value.

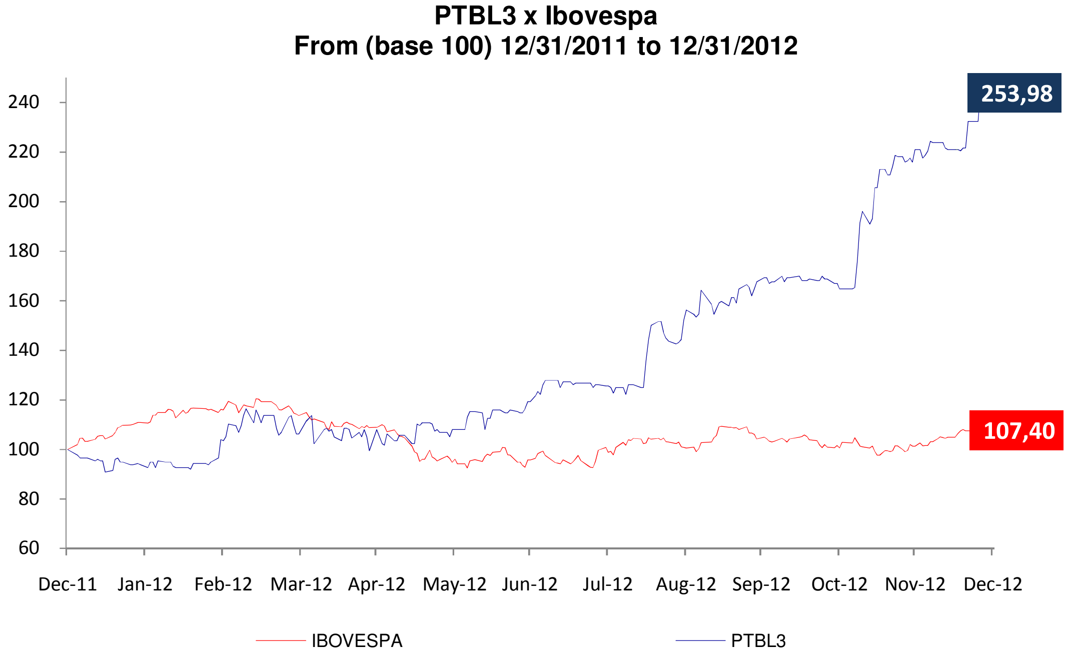
Dividends/interest on capital

On December 18, 2012, the Company's Board of Directors approved, for payment in 2012, the total amount of R$ 5,104 as advance dividends and R$ 2,099 as interest on capital. With this decision, R$ 7,203 was paid on December 28, 2012 (R$ 6,958, net of income tax). The total amount distributed was equivalent to 11% of the Company's profit for 2012 and represented a yield (dividend per share divided by the final quotation of the share) of 1.01%.

The payment of R$ 8,638 as mandatory minimum dividends related to 2012 is expected. The amount is net of the payments made on December 28, 2012.

Performance of Portobello shares on the BM&FBovespa

The market value of Portobello was R$ 711 million at the end of 2012 (R$ 280 million at December 31, 2011), based on the final quotation of R$ 4.47 for its shares. The Company's share value increased by 154% in the last twelve months, whereas the Ibovespa index increased by 7%



Human resources

Consolidated personnel at December 31, 2012 comprised 2,407 staff, 2,188 of whom were own personnel, 167 outsourced, 22 interns and 30 temporary workers. In 2011, consolidated personnel comprised 2,284 staff, 2,122 of whom were own personnel, 122 outsourced, 12 interns and 28 temporary workers.

The Company has a complete and formal Code of Ethics that is shared with all employees, seeking an environment of respect and harmony. The transparence in the management goes through the democratization of information and open dialogue with stockholders, suppliers, employees and the community. In addition, monthly events are held by the leaders of the Industrial Area to inform employees on the results for the prior month and future challenges. Believing in the development of its employees, the Company invests in training in the safety, technical qualification and interpersonal relationship areas and on courses focused on accessibility.

Sustainability

As one of the important values of its brand, Sustainability for the Company, is an ongoing commitment to the future in the environmental, social and economic areas through the adoption of practices that ensure the longevity of the environment, society and the business.

Management report

(All amounts in thousands of reais unless otherwise stated)

The Company has a Management System in the environmental area that permits the alignment of the production and administration with the legal requirements, the prevention of pollution and continuous improvement. The Natural Gas utilized in 100% of the production, the recycling, reutilization or renovation of all solid residues and the closed water circuit utilized in the production process are examples of this practice. In 2012, more than R$ 3 million was invested in actions with the environment, such as the conducting of environmental investigation studies and the monitoring of effluents and air emissions.

In the social area, we can highlight the publication of the 2nd issue of the book Brazilian Architecture in 2012, which promotes the production of the Brazilian architects, the program Athlete of the Future that covers more than 300 children of the community, the Internship and Trainee Program that develops future professionals and the management of social responsibility, which is assigned to a Council formed by employees.

Awards in 2012

- XV Award "Automation + Innovation" – granted by GS1 Brasil – Incentive to suppliers in the utilization of the GS1 system.
- "Top of Marketing 2012" – granted by the Association of Sales and Marketing Directors of Santa Catarina (ADVB-SC) – Case: The formula that led Portobello to absolute leadership.
- Award "Top of Mind" - granted by Amanhã publication - The 100 largest companies of Santa Catarina and 145 of the Southern Region of the country.
- Award "Top of Mind" - granted by Casa & Mercado and Data Folha - The most remembered brand in the category of ceramic floors and tiles. Portobello Shop was awarded under the "Stores" category.
- Human Being/SC 2010 award - granted by the Brazilian Association for Human Resources (ABRH). The Anjos Luz Portobello Choir Project was the winner under the "Social and Environmental Projects" category and in the "People Management" with the "Social Inclusion Program".
- Top Anamaco 2012 - granted by Anamaco - Case: Portobello presents an innovative Digital Marketing strategy.
- Best Franchises of Brazil 2012 – 9th Edition – Category "Home, decoration and gifts", granted by Pequenas Empresas & Grandes Negócios magazine, of Editora Globo. Portobello Shop was the vice champion, being one of the companies that stood out in the industry.
- Excellence in Franchising 2012 – Category Master – granted by ABF (Brazilian Association of Franchising). Portobello Shop, the only franchised network of the ceramic tiles area, received the Seal of Excellence in Franchising for the 7th consecutive year. A recognition of the quality and excellence of the franchiser's work.
- "Top of Mind" – granted by A Notícia newspaper of the RBS/SC Group – Most remembered brand in the category Ceramic Floors and Tiles.
- "Citizen Company ADVB" – granted by the Association of Sales and Marketing Directors of Santa Catarina (ADVB-SC). Award granted for the case: "Portobello presents the largest and best collection of porcelain wood in the market".

- "The Most Important Retail Companies" – granted by Accenture and NOVAREJO magazine. Portobello was contemplated in the category “Revelation of the Year”.

Independent audit

In compliance with CVM Instruction 381/2003, we inform that in the year ended December 31, 2012 we did not engage our independent accountants for other services not related to the external audit.

However, the Company contracted the auditors for additional audit services in order to conduct the due diligence related to the merger which was not realized. The fees for this work totaled R$ 647.

Change of independent auditors

The Company will carry out the rotation of its auditors in 2013 and has contracted KPMG Auditores Independentes, headquartered in Florianópolis, SC, Avenida Rio Branco, nº 404 – Torre 1 1203, to replace PricewaterhouseCoopers - Auditores Independentes.

Portobello’s management composition

Executive Board

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

Board of Directors

Name	Position	Observation
Cesar Bastos Gomes	Chairman	
Cesar Gomes Júnior	Vice-Chairman	Chief Executive Officer
Cláudio Ávila da Silva	Member	Vice-President
Plínio Villares Musetti	Member	Independent
Francisco Amaury Olsen	Member	Independent
Glauco José Côrte	Member	Independent
Mário José Gonzaga Petrelli	Member	Independent
Maurício Levi	Member	Independent
Rami Naum Goldfajn	Member	Independent

Visit the Investor Relations Site: *www.portobello.com.br/ri*

Portobello S.A and subsidiaries

Notes to the financial statements
at December 31, 2012 and 2011
(All amounts in thousands of reais unless otherwise stated)

1. General information

Portobello S.A., also herein referred to as "Company" or "Parent company", is a listed corporation whose shares are traded on the São Paulo Futures, Commodities and Securities Exchange (BM&FBOVESPA S.A.) New Market segment, under the code PTBL3. The Company is controlled by a group of stockholders, formalized in the agreement entered into on April 15, 2011, which held 60.97% of the Company's shares at December 31, 2012. The remaining 39.03% of the shares is widely held.

With headquarters in Tijucas, State of Santa Catarina, the Company was formed in 1977 with the main objective of manufacturing and selling ceramic and porcelain products in general, such as floors, technical and enameled porcelain, decorated and special objects, mosaics, products for the lining of interior walls, external façades, as well as providing supplementary services for the civil construction industry in Brazil and abroad.

The Company also holds investments in the following subsidiaries: (i) Portobello América, which was established to sell Portobello products in the North American market, and which was classified as a discontinued operation at December 31, 2012, as described in Note 36; (ii) Mineração Portobello, which supplies about 50% of the raw materials utilized in the production of ceramic tiles; (iii) PBTech, which is responsible for managing the own Portobello Shop stores, which currently manages one store in Belo Horizonte; and (iv) Portobello Shop, which manages Portobello Shop and Empório Portobello franchised stores specialized in ceramic tiles, being the only franchised ceramic tile chain in Brazil, with 110 stores.

2. Summary of significant accounting policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements were prepared under the historical cost convention, as modified by the revaluation of land, buildings and improvements in 2006. Financial assets and liabilities are measured at amortized cost against the profit or loss for the year.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

(All amounts in thousands of reais unless otherwise stated)

a) Consolidated financial statements

The consolidated financial statements were prepared and are presented in accordance with accounting practices adopted in Brazil, including the pronouncements issued by the Brazilian Accounting Pronouncements Committee (CPCs).
The consolidated financial statements were also prepared and are presented in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

b) Parent company financial statements

The parent company's financial statements were prepared in accordance with accounting practices adopted in Brazil, issued by the Brazilian Accounting Pronouncements Committee (CPCs), and are disclosed together with the consolidated financial statements.

2.2 Consolidation

2.2.1 Consolidated financial statements

a) Subsidiaries

Subsidiaries are all entities over which the Company has the power to determine the financial and operating policies, generally accompanying an interest of more than one half of the voting rights. The existence and effect of possible voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

The Company's ownership interest percentage in its subsidiaries is as follows:

	Percentage of voting capital	
	December 31, 2012	December 31, 2011
Portobello América, Inc.	100.00	100.00
PBTech Com. Serv. Revest. Cer. Ltda.	99.94	99.94
Portobello Shop S.A.	99.90	99.90
Mineração Portobello Ltda.	99.76	99.76

Transactions between the Company and its subsidiaries, as well as unrealized balances, gains and losses, are eliminated on consolidation.

Portobello S.A and subsidiaries

Notes to the financial statements
at December 31, 2012 and 2011
(All amounts in thousands of reais unless otherwise stated)

The reconciliation between the equity and the profit for the years presented in the Parent Company and Consolidated financial statements is as follows:

	Equity		Profit	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Parent company	127,119	81,790	65,664	24,343
Reversal of unrealized profit	-	-	-	38
Consolidated, excluding non-controlling interests	127,119	81,790	65,664	24,381

The accounting policies of subsidiaries are altered, where necessary, to ensure consistency with the policies adopted by the Company.

b) Transactions with and participation of non-controlling interests

The Company and its subsidiaries treat transactions with non-controlling interests as transactions with equity owners. For purchases from non-controlling interests, the difference between any consideration paid and the portion acquired of the carrying amount of the net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Company ceases to have control, any retained interest in the entity is remeasured to its fair value, with the change in the carrying amount recognized in the results. Any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Company had directly disposed of the related assets or liabilities and the amounts previously recognized in other comprehensive income are reclassified to the results.

2.2.2 Parent company financial statements

In the parent company financial statements, subsidiaries are recorded on the equity method of accounting. In accordance with this method, an investment is initially recognized at cost and subsequently adjusted to recognize the interest of the Company in changes in the investee's net assets. Adjustments to the investment's carrying amount are also necessary to recognize the Company's proportionate interest in the changes in the investee's carrying value adjustments, recorded directly in equity. These changes are also recognized directly in the parent company's equity as carrying value adjustments.

Under the equity method of accounting, the Company's share of dividends declared by subsidiaries is recognized as dividends receivable, in current assets. Accordingly, the investment is stated net of dividends proposed by the subsidiary. The dividends are not recognized in the statement of income.

2.3 Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, responsible for allocating resources and assessing the performance of the operating segments, is the Executive Board that makes the strategic decisions of the Company and its subsidiaries.

2.4 Foreign currency translation

a) Functional currency and presentation currency

The items included in the financial statements of the Company and its subsidiaries are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Brazilian reais, which is the Company's functional currency, and also the presentation currency of the consolidated financial information.

b) Transactions and balances

Foreign currency transactions are translated into Brazilian reais using the exchange rates prevailing at the dates of the transactions, or the dates of valuation when items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income as other gains and losses, except for financing transactions, which are recognized in finance income or costs.

c) Subsidiaries

The assets and liabilities recorded in U.S. dollars by the foreign subsidiary were translated to reais at the exchange rate ruling on the balance sheet date and the results of operations at the monthly average exchange rates. The exchange variation on the foreign investment was recorded as a cumulative translation adjustment in equity under "Carrying value adjustments".

2.5 Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits and other short-term, highly liquid investments with original maturities of three months or less, which are readily convertible into known amounts of cash and subject to immaterial risk of change in value.

2.6 Financial assets

2.6.1 Classification

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

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. The loans and receivables of the Company and its subsidiaries comprise "trade receivables" and “cash and cash equivalents”.

b) Financial assets held to maturity

These are basically financial assets that cannot be classified as loans and receivables because they are quoted in an active market. These financial assets are acquired with the purpose and financial ability of being held up to their maturity.

c) Financial assets measured at fair value through profit or loss (held for trading)

These are financial assets held for active and frequent trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Gains or losses arising from changes in fair value of financial assets measured at fair value through profit or loss are recorded in the statement of income in "Finance income (costs)" in the period in which they occur.

d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of them within 12 months of the balance sheet date.

2.6.2 Recognition and measurement

Purchases and sales of financial assets are recognized on the trade-date - the date on which the Company and its subsidiaries commit to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not measured at fair value through profit or loss. Financial assets measured at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the statement of income. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company and its subsidiaries have transferred substantially all the risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. After initial recognition, loans and receivables and investments held to maturity are measured at amortized cost using the effective interest method, less any impairment loss.

2.6.3 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legal right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.7 Derivative financial instruments and hedging activities

The Company had a derivative transaction in the modality Law 4,131 Trade Exporter with Swap, which was classified in non-current liabilities, linked to borrowings, as mentioned in Notes 8 and 22.

2.8 Impairment of financial assets

The Company and its subsidiaries assess at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Company and its subsidiaries utilize to determine whether there is objective evidence of an impairment loss include:

i) significant financial difficulty of the issuer or debtor;
ii) a breach of contract, such as a default or delinquency in interest or principal payments;
iii) it becomes probable that the debtor will enter bankruptcy or other financial reorganization;
iv) the disappearance of an active market for that financial asset because of financial difficulties; or

v) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

- adverse changes in the payment status of debtors in the portfolio; and
- national or local economic conditions that correlate with defaults on the assets in the portfolio.

2.9 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services provided in the ordinary course of the business of the Company and its subsidiaries. They are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less a provision for impairment of trade receivables. Usually, in practice, they are recognized at the amount billed, adjusted by the provision for impairment, when necessary. If collection is expected in one year or less (or in the normal operating cycle of the business of the Company and its subsidiaries, if longer), they are classified as current assets. Otherwise, they are classified as non-current assets.

The provision for impairment of trade receivables is established when there is objective evidence that the Company or its subsidiaries will not be able to realize the amounts due under the original terms of the trade receivables, and is calculated based on the estimated amount believed to be sufficient to cover losses on the realization of the accounts receivable, taking into account each customer's situation and the guarantees obtained.

2.10 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted moving average method. The costs of finished products and work in process comprise raw materials, direct labor, other direct costs and related general production expenses (based on the normal operating capacity), except for borrowing costs. Net realizable value is the sales price estimated for the normal course of the business, net of execution costs and selling expenses.

2.11 Judicial deposits

Judicial deposits are monetarily restated at the savings account rate and recorded as non-current assets, in long-term receivables.

2.12 Receivables from Eletrobrás

Receivables from The Brazilian Electricity Company (Eletrobrás) arise from the undisputed amount involved in an ongoing lawsuit and are recognized based on calculations of the Federal Court’s accounting department, restated by the inflation index plus 12% p.a.

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2.13 Investments

In the parent company financial statements, investments in subsidiaries are recorded on the equity method of accounting and the equity in the earnings or loss of subsidiaries is recognized in the statement of income as operating income or expenses. In the case of the investment in the subsidiary Portobello America Inc., the changes in the book value of the investment arising exclusively from exchange variations are recorded in the account "Carrying value adjustments", in the Company's equity, and will be taken to the statement of income only when the investment is sold or written down as a loss.

A provision for loss on investments is recorded when there are losses on investments in subsidiaries that exceed their carrying amount. The Company classifies the provision in non-current liabilities, under "Provision for loss on investments", with a corresponding entry in the statement of income, as "Equity in the loss of subsidiaries". The provision for loss on the investment in the subsidiary Portobello América, which is being wound-up, is classified in current liabilities.
Other investments are recognized at historical cost and adjusted by a provision for impairment, if there is indication of any loss (Note 18).

2.14 Property, plant and equipment

Property, plant and equipment are stated at the revalued amounts (deemed cost), less accumulated depreciation. The corresponding entries to the revaluations are recorded in a specific account in equity and in deferred taxes under non-current liabilities. As permitted by CPC Pronouncement 13 - First-time adoption of Law 11,638/07, the Company opted to maintain the revaluation reserve up to its total realization.

Subsequent costs are included in an asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company or its subsidiaries and the cost of the item can be measured reliably. The carrying amount of the replaced item or part is derecognized. All other repairs and maintenance are charged to production cost, as incurred.

Land is not depreciated. The depreciation of the other assets is calculated on the straight-line method to reduce their cost to their residual values over their estimated useful lives, as follows:

	Years
Buildings, constructions and improvements	33
Machinery and equipment	14
Furniture and fixtures	10
Computers	5

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Based on the reviews to date, there was no need to record provisions for any permanent impairment.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 19).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amounts and are recognized within "Other operating income (expenses), net" in the statement of income.

2.15 Intangible assets

Intangible assets relate to trademarks and patents, expenses with the implementation of the management system and software, rights to explore mineral resources and goodwill. Intangible assets are stated at acquisition or formation cost, net of accumulated amortization and impairment losses, when applicable. The amortization is calculated utilizing annual rates applied on the straight-line method, disclosed in Note 20, based on the defined useful lives for the assets, as follows:

	Years
Software	5
Right to explore mineral resources	5
Trademarks and patents	Indefinite
Goodwill	Indefinite
Management system	(a)

(a) Intangible asset under development and with useful life still to be defined.

The Company and its subsidiaries assigned indefinite useful lives to trademarks and patents and goodwill, based on an analysis of all relevant factors, since there is no limitation to the period during which these assets are expected to generate net cash inflows to the entities.

The Company and its subsidiaries test an intangible asset with an indefinite useful life for impairment, by comparing its recoverable amount with the corresponding carrying amount, on an annual basis or whenever there is an indication that the intangible asset may be losing its economic substance, as determined by CPC 01 - Impairment of Assets. The carrying amounts at December 31, 2012 were understood to approximate their fair values.

2.16 Leases

Leases of property, plant and equipment in which the Company and its subsidiaries assume all ownership risks and benefits are classified as finance leases under "Borrowings". These finance leases are recorded as a financed purchase, recognizing at the beginning of the lease a property, plant and equipment item and a financing liability (lease) at fair value and subsequently at amortized cost. Property, plant and equipment acquired in finance leases are depreciated at the rates disclosed in Note 19.

A lease in which the Company and its subsidiaries assume only part of the ownership risks and benefits is classified as an operating lease. Operating lease payments are charged to the statement of income on the straight-line basis over the term of the lease.

2.17 Impairment of non-financial assets

Assets that are subject to depreciation or amortization are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets are subsequently reviewed for possible reversal of the impairment at each reporting date.

2.18 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

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

2.19 Borrowings

Borrowings are initially recognized at fair value, on the receipt of funds, net of transaction costs, and are, subsequently, presented at amortized cost, that is, plus charges and interest proportional to the period elapsed ("pro rata temporis").

Borrowings are classified as current liabilities unless the Company and its subsidiaries have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2.20 Provisions for contingencies, contingent assets and liabilities

Provisions for contingencies are recognized when the Company has a legal or informal present obligation as a result of past events, it is probable that assets will be surrendered to settle the obligation, and a reliable estimate of the amount can be made. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation and are evaluated individually by the Company's legal counsel, which classifies them in accordance with the expectations of the outcomes. The increase in the provision due to the passage of time is recognized as finance costs.

Contingent liabilities classified as possible losses are not provided for but are disclosed in the financial statements, and those classified as remote losses are not accrued or disclosed.

Contingent assets are not recognized, except when the Company considers the gain to be practically certain or when there are real guarantees or unappealable favorable judicial decisions.

2.21 Current and deferred income tax and social contribution

The current income tax and social contribution expenses are calculated based on the rates of 25% for income tax and 9% for social contribution as enacted under the current tax legislation. The offset of income tax and social contribution losses is limited to 30% of taxable income of each year.

Deferred tax assets relate to accumulated income tax and social contribution losses and temporary differences between the tax and accounting bases for assets and liabilities and deferred tax liabilities relate to revaluations of property, plant and equipment and also to temporary differences. The recognition of deferred tax assets takes into consideration the expectation of future taxable income and they are calculated based on the rates established by current tax legislation. The amount recorded is considered realizable based on estimates prepared by the Company.

Deferred tax assets and liabilities are offset whenever there is a legal right to offset current tax liabilities and assets, and they are related to income tax charged by the same tax authority to the same entity subject to taxation.

2.22 Employee benefits

a) Private pension plan

The Company sponsors a benefit plan with characteristics of a defined contribution plan; however, it offers a minimum retirement benefit for length of service or age (defined benefit components). A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The

Company has no legal or constructive obligations to pay further contributions if the fund does not have sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is different from a defined contribution plan, because defined benefit plans typically define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates compatible with market remuneration, that is denominated in the currency in which the benefits will be paid, and which have terms to maturity approximating the terms of the related pension obligation. The liability recognized in the balance sheet is the present value of the defined benefit obligations at the end of the reporting period less the fair value of the plan assets, together with adjustments for unrecognized past services. When the calculation results in a benefit to the Company, the asset to be recognized is limited to the total of any unrecognized past-service costs and the present value of economic benefits available in the form of future reimbursements from the plan or decreases in future contributions to the plan.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recorded as other comprehensive results in equity, under "Carrying value adjustments".

Past-service costs are recognized immediately in the results, unless changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

For defined contribution plans, the Company has no further obligation once the contributions have been paid. The contributions are recognized as employee benefit expenses when they become due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

b) Profit-sharing plan

Profit sharing and bonuses, where applicable, are recognized at the end of the year, when the amount can be accurately calculated by the Company. The Company recognizes profit sharing in current liabilities, under "Other", and in the statement of income, under "Other operating expenses", based on a formula that takes into consideration the achievement of 80% of the budgeted profit before interest and taxes.

c) Long-term incentive (ILP)

The Company has a long-term incentive plan under which the entity receives services from employees as consideration for the Company's cash or shares. The fair value of the employee services received in exchange for the options (cash or share-based payment) is recognized as an expense. The total amount to be recognized as an obligation is determined annually considering the main aspects: the EBITDA growth and an EBITDA/net debt ratio (Note 29). The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be complied with. At the balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions and recognizes the impact of the revision to original estimates, if any, in the statement of income, with a corresponding adjustment to equity.

2.23 Share capital

The Company's capital is exclusively represented by common shares and is classified in equity, as disclosed in Note 30.

2.24 Share issue costs

Share issue costs are recognized in the Company's equity, deducted from the proceeds from the shares issued.

2.25 Distribution of dividends and interest on capital

The distribution of dividends to the stockholders is recognized as a liability in the financial statements at year-end based on the Company's bylaws. Any amount that exceeds the minimum required is only provided on the date it is approved by the stockholders in General Meeting.

The tax benefit of interest on capital is recognized in the statement of income.

2.26 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of products and services in the ordinary course of the activities of the Company and its subsidiaries, and is shown net of value-added tax, returns, rebates and discounts and after eliminating sales between the Company and its subsidiaries.

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Sales revenue is recognized at the time the products or services are delivered, on the transfer of ownership and when all the following conditions are fulfilled: a) the customer assumes all significant risks and benefits of ownership; b) the amount of the revenue can be reliably determined; c) the receipt of the trade receivable is probable; and d) the costs incurred or to be incurred related to the transaction can be reliably determined.

a) Sales of products - wholesale

The Company manufactures and sells a range of ceramic tiles in the wholesale market. Sales of products are recognized when the Company has delivered products to the wholesaler, who has full discretion over the channel and price to resell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. 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 wholesaler (iii) the wholesaler has accepted the products in accordance with the sales contract; and (iv) the acceptance provisions have lapsed or the Company has objective evidence that all criteria for acceptance have been satisfied.

The ceramic tiles are occasionally sold with volume discounts and customers have the right to return defective products purchased in the wholesale market. Sales are recorded based on prices established in the sales contracts. No element of financing is considered to be present as the sales are realized with a credit term which varies in accordance with the type of customer (home centers, real estate development companies, franchised stores), which is consistent with market practice. Sales are therefore not discounted to present value.

b) Royalty income

Royalty income is recognized on the accrual basis in accordance with the substance of the respective agreements.

c) Interest income

Interest income is recognized on the accrual basis, using the effective interest method, to the extent that it is expected to be realized.

2.27 Result from discontinued operations

The result from discontinued operations is presented as a separate amount in the statement of income, comprising the total result after income tax of these operations, less any impairment loss, as disclosed in Note 36.

2.28 Standards, amendments and interpretations to existing standards that are not yet effective

a) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company and its subsidiaries

The following standards and amendments to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after January 1, 2013 or later periods but the Company and its subsidiaries have not adopted them early.

- IAS 1 - "Presentation of financial statements". The main change is a requirement for entities to group items presented in "other comprehensive income" on the basis of whether they will be reclassified to profit or loss or remain in equity.

- IFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and liabilities. IFRS 9 was issued in November 2009 and October 2010 and supersedes the parts of IAS 39 related to the classification and measurement of financial instruments. IFRS 9 requires the classification of financial assets into two categories: measured at fair value and those measured at amortized cost. Classification is determined at initial recognition. The classification basis is dependent on the entity's business model and on the contractual characteristics of the financial instruments' cash flows. Regarding financial liabilities, the standard maintains most of the requirements established by IAS 39. The main change is that when the fair value option is adopted for financial liabilities, the portion of change in the fair value due to the entity's credit risk is recorded in other comprehensive income or loss and not in the statement of income, unless it results in an accounting mismatch.

- IFRS 10 - "Consolidated financial statements", is supported by already existing principles, identifying the control concept as the preponderant factor in determining whether or not an entity should be included in a parent company's consolidated financial statements. The standard provides additional guidance to establish control.

- IFRS 11 - "Joint arrangements", was issued in May 2011. The standard provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangements: (i) joint operations - which occurs when an operator has rights on the contractual assets and obligations and as a result will account for its portion of the assets, liabilities, revenues and expenses; and (ii) shared control - when an operator has rights on the contract's net assets and accounts for the investment on the equity method. The proportional consolidation method is no longer allowed in situations of joint control.

- IFRS 12 - "Disclosures of interests in other entities", addresses disclosure requirements for all types of interests in other entities, including joint arrangements, associates, special purpose entities and other off-balance sheet interests.

- IFRS 13 - "Fair value measurement", issued in May 2011. The objective of IFRS 13 is to enhance fair value measurement consistency and reduce its complexity, providing a more precise definition and a single fair value measurement source and disclosure requirements for use in IFRS. The requirements, which are substantially aligned between IFRS and US GAAP, do not increase the use of fair value accounting, but provide guidance as how to apply it when its use is required or allowed by other IFRS or US GAAP standards.

Management is still to assess the full impact of these standards and amendments to standards, but no impacts on the parent company or consolidated financial statements are expected.

3. Critical accounting estimates and assumptions

3.1 Critical accounting estimates and assumptions

Based on assumptions, the Company and its subsidiaries make estimates concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

a) Review of useful life and impairment of assets

The recoverability of assets utilized in the Company's activities is evaluated whenever events or changes in circumstances indicate that the carrying amount of an asset or a group of assets might not be recovered through future cash flows. If the carrying amount of these assets exceeds the recoverable amount, the difference is adjusted and the useful life is changed if necessary.

b) Provisions for contingencies

The Company is party to labor, civil and tax lawsuits at several stages. The provisions for contingencies to cover expected losses arising from lawsuits in progress are established and updated according to management's evaluation, which is based on the opinion of legal counsel, and requires a high level of judgment on the matters involved.

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c) Provisions for inventory losses

The provision for inventory losses is constituted when, based on management's estimates, the items are defined as discontinued, of low turnover and when the cost of inventory items exceeds their realizable value.

d) Deferred income tax and social contribution

Deferred tax assets and liabilities are based on tax loss carryforwards and temporary differences between the carrying amounts in the financial statements and the tax basis. If the Company and its subsidiaries incur losses or are not able to generate sufficient future taxable income, or if there is a significant change in current tax rates or the period of time in which the temporary differences become taxable or deductible, a reversal of a significant portion of the deferred tax asset may be necessary, which could result in an increase in the effective tax rate.

e) Private Pension Plan

The present value of the pension obligations depends on a number of factors that are determined based on the actuarial calculations, which utilize various assumptions. The assumptions utilized in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The appropriate discount rate is determined at the end of each year. This is the interest rate that should be used to determine the present value of the estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, Management considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension obligation.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 28.

3.2 Critical judgments in applying the Company's accounting policies

a) Receivables from Eletrobrás

Receivables from Eletrobrás are recognized based on the opinion of the Company's legal advisors and on the final and unappealable decision on the lawsuit, which is currently pending settlement. The amounts have already been calculated by the Federal Court’s accounting department, observing the characteristics of the sentence and the rulings of the trial judge and, therefore, in accordance with the legal advisors, the definitive approval of the amounts claimed is practically certain.

b) Credits with related parties with guarantees

Receivables from Refinadora Catarinense are recognized based on the contract signed with the counterparty and the amount of guarantees offered. The credits ceded as guarantee have already been converted into bonds to pay court-ordered debts and are included in the Federal Government's budget. Refinadora Catarinense S.A. has already paid part of the amounts due to the Company in August 2011 and March 2013, corresponding to the first and the second of the 10 annual installments, as established in the agreement.

c) Payment in installments - MP 470

The amount of the payment in installments in accordance with Provisional Measure (MP) 470 is based on the assumption that the Company will obtain the approval of its request, according to the opinion of its legal advisors.

The Company has already filed an action to obtain the legal approval of the payment in installments established by MP 470 and it is practically certain that this procedure - request of Injunction - will be deemed valid, based on the opinion of the Company's legal department, as well as two well-known specialized legal firms (Demarest Almeida and Souza Cescon).

d) ICMS tax benefits

The Company has a State Value-added Tax (ICMS) incentive, denominated PRODEC - Program of Development for Companies of the Santa Catarina State, described in Note 22(h). The Federal Supreme Court (STF) has handed down Direct Action decisions declaring that various state laws which have granted ICMS tax benefits without a previous agreement between the States are unconstitutional. Although the Company has no ICMS tax incentives being judged by the STF, it has been following, together with its legal advisors, the evolution of this issue in the courts to assess possible impacts on its operations and consequent effects on the financial statements.

4. Financial risk management

4.1 Financial risk factors

The activities of the Company and its subsidiaries expose them to a variety of financial risks: market risk, credit risk and liquidity risks. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Companies' financial performance.

Risk management is realized by the Treasury and Financial Departments under policies approved by the Board of Directors. The Treasury and Financial Departments identify, evaluate and hedge financial risks of the Company and its subsidiaries in close co-operation with the operating units. The Board of Directors establishes principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments, and the investment of surplus liquidity.

(All amounts in thousands of reais unless otherwise stated)

a) Market risk

i) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. dollar and the Euro. Foreign exchange risk arises from future commercial transactions, recorded assets and liabilities and net investments in foreign operations.

The table below presents the assets and liabilities exposed to foreign exchange variations:

	In local currency			
	Parent company		Consolidated	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Trade receivables	18,183	13,782	18,183	13,782
Receivables from subsidiaries	41,839	38,405	-	-
Provision for loss on investments	(41,496)	(38,582)	-	-
Trade payables, net of advances	(22,205)	(9,631)	(22,205)	(9,631)
Borrowings	(48,006)	(44,347)	(48,006)	(44,347)
Commissions	(815)	(703)	(815)	(703)
Net liability exposure	(52,500)	(41,076)	(52,843)	(40,899)

		In foreign currency (thousands)			
		Parent company		Consolidated	
		December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Trade receivables	euro	176	77	176	77
Trade payables, net of advances	euro	(1,305)	(1,619)	(1,305)	(1,619)
Borrowings	euro	(265)	(441)	(265)	(441)
Commissions	euro	(23)	(8)	(23)	(8)
		(1,417)	(1,991)	(1,417)	(1,991)
Trade receivables	U.S. dollar	6,907	6,451	6,907	6,451
Receivables from subsidiaries	U.S. dollar	20,474	20,474	-	-
Provision for loss on investments	U.S.	(20,306)	(20,568)	-	-

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		In foreign currency (thousands)			
		Parent company		Consolidated	
		December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
	dollar				
Trade payables, net of advances	U.S. dollar	(9,145)	(3,036)	(9,145)	(3,036)
Borrowings - FINIMP	U.S. dollar	(16,143)	(12,980)	(16,143)	(12,980)
Borrowings - Other	U.S. dollar	(7,000)	(10,089)	(7,000)	(10,089)
Commissions	U.S. dollar	(372)	(386)	(372)	(386)
		(25,585)	(20,134)	(25,753)	(20,040)

The strategy adopted to mitigate foreign exchange exposure of the Company's assets and liabilities is to maintain a net liability exchange exposure at amounts that approximate the exports for around 12 months, and, therefore, providing a natural cash flow hedge.

ii) Cash flow and fair value interest rate risk

The interest rate risk arises from long-term borrowings and is associated to borrowings at floating rates that expose the Company and its subsidiaries to interest rate and cash flow risks. Borrowings at fixed rates expose the Company and its subsidiaries to fair value interest rate risk.

Based on various scenarios, the Company manages the cash flow risk associated with the interest rate using the interest rate swap, which receives floating rate interest and pays fixed rate interest and has the economic effect of converting borrowings at floating rates to fixed rates. The fixed rates, which are the result of this swap transaction, are lower than those available had the Company obtained the borrowings directly at fixed rates. By means of interest rate swap transactions, the Company agrees with other parties to swap, at specified periods, the difference between the contractual fixed rates and the amounts at floating interest rates, calculated through the notional amounts agreed between the parties.

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

b) Credit risk

The Company and its subsidiaries maintain strict control on credit limits granted to their customers and adjust these limits whenever significant changes in the risk levels are detected.

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As regards financial investments, these are mainly realized in federal government securities and private securities of low risk.

c) Liquidity risk

This is the risk of the Company and its subsidiaries not having sufficient liquid funds to meet their financial commitments, due to the mismatch of terms or volume in expected receipts and payments.

To manage liquidity of cash in local and foreign currency, assumptions for future disbursements and receipts are determined, and these are monitored daily by the Treasury and Financial areas.

The table below analyzes the parent company and consolidated non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date up to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Parent company							
	December 31, 2012				December 31, 2011			
	Borrowings	Finance lease	Trade payables	Tax liabilities payable in installments	Borrowings	Finance lease	Trade payables	Tax liabilities payable in installments
Less than 1 year	74,667	917	120,541	22,029	79,562	38	98,105	20,731
Between 1 and 2 years	17,507	1,274	-	26,377	31,133	-	-	36,722
Between 2 and 5 years	72,356	209	-	28,251	10,860	-	-	26,394
Over 5 years	2,290	-	-	54,933	1,632	-	-	60,120
Total	166,820	2,400	120,541	131,590	123,187	38	98,105	143,967

	Consolidated							
	December 31, 2012				December 31, 2011			
	Borrowings	Finance lease	Trade payables	Tax liabilities payable in installments	Borrowings	Finance lease	Trade payables	Tax liabilities payable in installments
Less than 1 year	74,667	917	121,532	22,961	79,562	38	98,597	21,773
Between 1 and 2 years	17,500	1,274	-	26,809	31,068	-	-	37,953
Between 2 and 5 years	72,328	209	-	28,404	10,838	-	-	26,538
Over 5 years	3,240	-	-	55,233	2,575	-	-	60,447
Total	167,735	2,400	121,532	133,407	124,043	38	98,597	146,711

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a) Additional sensitivity analysis required by the Brazilian Securities Commission (CVM)

i) Sensitivity analysis of variations in interest rates

Income from the financial investments of the Company and the finance costs arising from borrowings are affected by interest rate variations, such as the Interbank Deposit Certificate interest rate (CDI) and the Long-term Interest Rate (TJLP).

Management defined, for the probable scenario, a CDI rate of 6.90% and TJLP of 5.50% at December 31, 2012. The probable rates were stressed by 25% and 50%, for the possible and remote scenarios, respectively.

	Consolidated							
	December 31, 2012	Risk	Probable		Possible (25%)		Remote (50%)	
Transaction			%	R$	%	R$	%	R$
Investments	55,215	CDI decrease	6.90%	3,905	5.18%	2,929	3.45%	1,953
Total	55,215			3,905		2,929		1,953
Transaction								
Loans – working capital	(11,872)	CDI increase	6.90%	(819)	8.63%	(1,024)	10.35%	(1,229)
Loans – Export credit note	(3,428)	CDI increase	6.90%	(237)	8.63%	(296)	10.35%	(355)
Loans - Trade 4131 Swap	(50,354)	CDI increase	6.90%	(3,474)	8.63%	(4,343)	10.35%	(5,212)
Loans - Exim Pre-shipment TJ 462	(502)	TJLP increase	5.50%	(28)	6.88%	(35)	8.25%	(41)
Total	(66,156)			(4,558)		(5,698)		(6,837)

ii) Sensitivity analysis of variations in foreign exchange rates

The Company had assets and liabilities denominated in foreign currency at December 31, 2012 and, for sensitivity analysis purposes, adopted as the probable scenario the future market rate in effect during the period of preparation of these financial statements. The probable rates were stressed by 25% and 50%, for the possible and remote scenarios, respectively.

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Accordingly, the table below presents a simulation of the effect of foreign exchange variations on future results.

	Consolidated						
	December 31, 2012	Probable		Possible (25%)		Remote (50%)	
		US$ rate	Gain (loss)	US$ rate	Gain (loss)	US$ rate	Gain (loss)
Trade receivables	18,183	2.0435	-	2.5544	4,546	3.0653	9,092
Trade payables, net of advances	(22,205)	2.0435	-	2.5544	(5,551)	3.0653	(11,103)
Borrowings	(48,006)	2.0435	-	2.5544	(12,002)	3.0653	(24,003)
Commissions	(815)	2.0435	-	2.5544	(204)	3.0653	(408)
		2.0435		2.5544		3.0653	
Net liability exposure	(52,843)	2.0435	-	2.5544	(13,211)	3.0653	(26,422)

4.2 Capital management

Management's objectives when managing capital are to safeguard the ability of the Company and its subsidiaries to continue as going concerns in order to provide returns for stockholders and benefits for other stakeholders, as well as provide the best cash management, so as to obtain the lowest cost of funding in the combination of own or third party capital.

Capital is monitored on the basis of the consolidated gearing ratio. This ratio is calculated as net debt expressed as a percentage of total capital. Net debt is calculated as total borrowings and tax liabilities payable in installments less cash and cash equivalents, receivables from other related parties and marketable securities. Total capital is calculated as equity as shown in the consolidated balance sheet plus net debt.

The gearing ratios at December 31, 2012 were as follows:

	Parent company		Consolidated	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Borrowings	165,600	118,954	166,515	119,810
Tax liabilities payable in installments	131,590	143,967	133,407	146,711
Less: Cash and cash equivalents	(56,576)	(8,091)	(58,870)	(10,065)
Receivables from other related parties	(100,398)	(93,780)	(100,398)	(93,780)
Net debt	140,216	161,050	140,654	162,676
Total equity	127,119	81,790	127,127	81,798
Total capital	267,335	242,840	267,781	244,474
Gearing ratio (%)	52	66	53	67

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The Company had available and unutilized credit facilities totaling R$ 13,913 at December 31, 2012.

5. Financial instruments by category

In the table below, the financial instruments of the Company and its subsidiaries are classified by category at the balance sheet dates:

	Parent company		Consolidated	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Assets as per balance sheet				
Loans and receivables				
Cash and cash equivalents	56,576	8,091	58,870	10,065
Trade receivables	137,626	104,303	142,678	107,867
Judicial deposits	8,457	7,924	8,494	7,961
Receivables from Eletrobrás	36,819	31,059	36,819	31,059
Total	239,478	151,377	246,861	156,952
Liabilities as per balance sheet				
Other financial liabilities				
Trade payables	120,122	97,488	121,113	97,980
Borrowings	165,600	118,954	166,515	119,810
Tax liabilities payable in installments	131,590	143,967	133,407	146,711
Total	417,312	360,409	421,035	364,501

6. Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired is assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. For the credit quality of financial institutions, the Company considers the lowest rating of the counterparty disclosed by the three main international rating agencies (Moody's, Fitch and S&P):

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	Parent company		Consolidated	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Trade receivables				
Counterparties without external credit rating				
Group 1	13,673	14,018	14,173	14,628
Group 2	121,291	87,350	125,725	91,148
Group 3	3,571	5,746	3,701	5,996
Total	138,535	107,114	143,599	111,772
Cash at banks and short-term bank deposits (not including cash on hand)				
AAA (bra)	56,080	6,169	58,044	7,654
AA+ (bra)	1	116	1	120
AA- (bra)	238	1,163	238	1,166
BBB	141	-	151	-
Other	116	643	420	1,125
Total	56,576	8,091	58,854	10,065
Loans to related parties				
Group 3	1,945	896	-	-
Total	1,945	896	-	-

The internal risk classification for customers is as follows:

- Group 1 – new customers/related parties (less than six months).
- Group 2 – existing customers/related parties (more than six months) with no defaults in the past.
- Group 3 – existing customers/related parties (more than six months) with some defaults in the past.

7. Cash and cash equivalents

	Parent company		Consolidated	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Checking accounts	3,155	8,091	3,655	10,065
Financial investments	53,421	-	55,215	-
Total	56,576	8,091	58,870	10,065

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Financial investments designated as cash equivalents relate to investment funds, which yielded on average 103% of the CDI in 2012 and can be redeemed at any time.

8. Derivative financial instruments

The derivatives for trading are classified as current assets or liabilities. The total fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

The Company conducted a transaction in December 2012 following the rules of Law 4,131 (Trade Exporter) amounting to R$ 50,000 at a fixed cost of 9.8%, but with a swap for CDI, detailed in item (a), and a repayment term of 60 months, with a grace period of 24 months. This transaction is classified in non-current liabilities, linked to borrowings. Repayments are semiannual, beginning in December 2014.

a) Interest rate swap

The notional amounts of the interest rate swap contract at the end of 2012 corresponded to R$ 50,000 at the CDI rate +1.60% p.a. Repayments are semiannual, and they have therefore not occurred to date.

The risk of the transaction was recorded in current assets and the portion recognized in the result at December 31, 2012 totaled a gain of R$ 39 (Note 35).

9. Trade receivables

	Parent company		Consolidated	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Receivables from third parties:				
Customers – domestic market	118,935	92,074	123,999	96,732
Customers – foreign market	18,183	13,782	18,183	13,782
	137,118	105,856	142,182	110,514
Receivables from related parties:				
Entities related to management	1,417	1,258	1,417	1,258
	1,417	1,258	1,417	1,258
Impairment of trade receivables:				
Provision	(882)	(2,728)	(894)	(3,822)
Present value adjustment	(27)	(83)	(27)	(83)
	(909)	(2,811)	(921)	(3,905)
Total	137,626	104,303	142,678	107,867

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The changes in the provision for impairment of trade receivables were as follows:

	Parent company	Consolidated
At December 31, 2011	2,728	3,822
Provision for impairment of trade receivables	418	310
Trade receivables written-off during the year as uncollectible	(2,264)	(3,238)
At December 31, 2012	882	894

The provision is considered to be sufficient to cover probable losses on the collection of trade receivables, considering each customer's situation and the related guarantees. The amount represents an estimated risk of the non-realization of receivables, based on the analysis of the respective manager.
The provision and reversal are recorded in the statement of income in other selling expenses.

a) Aging of trade receivables - impaired and not impaired

	Parent company							
	December 31, 2012	Not impaired trade notes not yet due	Overdue not impaired	Overdue impaired*	December 31, 2011	Not impaired trade notes not yet due	Overdue not impaired	Overdue impaired*
Not yet due	125,911	125,700	-	211	97,280	96,851	-	429
Overdue for up to 30 days	10,846	-	10,834	12	6,551	-	6,529	22
Overdue from 31 to 90 days	759	-	727	32	609	-	502	107
Overdue from 91 to 360 days	819	-	307	512	917	-	504	413
Overdue for more than 360 days	200	-	85	115	1,757	-	-	1,757
Total	138,535	125,700	11,953	882	107,114	96,851	7,535	2,728

* The provision for the impairment of trade receivables is based on each customer's situation and guarantees.

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	Consolidated							
	December 31, 2012	Not impaired trade notes not yet due	Overdue not impaired	Overdue impaired*	December 31, 2011	Not impaired trade notes not yet due	Overdue not impaired	Overdue impaired*
Not yet due	130,850	130,639	-	211	100,467	100,038	-	429
Overdue for up to 30 days	10,918	-	10,906	12	6,622	-	6,600	22
Overdue from 31 to 90 days	760	-	728	32	609	-	502	107
Overdue from 91 to 360 days	871	-	347	524	1,979	-	810	1,169
Overdue for more than 360 days	200	-	85	115	2,095	-	-	2,095
Total	143,599	130,639	12,066	894	111,772	100,038	7,912	3,822

* The provision for the impairment of trade receivables is based on each customer's situation and guarantees.

The Company's receivables are pledged in guarantee of certain borrowings, as disclosed in Note 22, as a percentage of the outstanding debt balance. Trade receivables pledged in guarantee amounted to R$ 63,229 at December 31, 2012 (R$ 38,606 at December 31, 2011).

10. Inventories

	Parent company		Consolidated	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Finished products	96,460	76,693	96,636	77,888
Work in process	7,826	8,777	7,826	8,777
Raw and consumption materials	11,174	7,412	11,174	7,412
Provision for realizable value of inventories	(5,505)	(7,895)	(5,568)	(9,090)
Imports in transit	9,977	5,566	9,977	5,566
Total	119,932	90,553	120,045	90,553

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11. Taxes recoverable

	Parent company		Consolidated	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Current				
ICMS	530	389	540	389
IPI (a)	820	892	820	892
IRRF/CSRF	23	-	23	4
IRPJ/CSLL	-	699	459	1,152
Other	77	101	222	245
Total	1,450	2,081	2,064	2,682
Non-current				
ICMS on property, plant and equipment	1,682	1,762	1,682	1,762
Total	1,682	1,762	1,682	1,762

(ICMS - Value-added Tax on Sales and Services
IPI - Excise Tax
IRPJ/CSLL - Corporate Income Tax / Social Contribution on Net Income
IRRF/CSRF - Withholding Income Tax/Withholding Social Contribution)

a) The reduction in the percentages of IPI rates charged on the products manufactured and sold by Portobello S.A., originally permitted by Decree 7,032 of December 14, 2009, was extended for the fourth time, in accordance with Decree 7,796 of August 30, 2012, and will be maintained up to December 31, 2013. This measure generates credits which are utilized quarterly to offset federal taxes payable.

12. Receivables from other related parties

From 2001 to 2003, the Company purchased, from the related party Refinadora Catarinense S.A. ("Refinadora"), tax credits against the National Treasury, arising from an injunction seeking the refund of the IPI credit premiums. The Company utilized these credits to settle federal taxes. According to the terms of the agreement between the parties, Refinadora must reimburse the Company if the credits are not validated by the National Treasury.

In 2009, the Federal Supreme Court (STF) issued a decision determining that this incentive ended on October 4, 1990, and, therefore, the credit could no longer be utilized. Consequently, the Company applied for the installment payment program established by Law 11,941/09, including the debt arising from the credit obtained from Refinadora.

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However, Refinadora had already entered into an agreement with the Company guaranteeing the reimbursement of the amounts utilized to offset tax debts. The guarantee was supported by credits arising from the reimbursement of the "IPI credit premium" tax benefit for the calculation period prior to October 4, 1990, in respect of which a final and unappealable decision from the Federal Court in the Federal District had already been issued.

On requesting its enrollment in the installment payment program established by Law 11,941/09, the Company and Refinadora entered into an agreement confirming these credits as guarantees as well as being sufficient to settle all the tax debt installments. These credits, which also arose from lawsuit 87,00,00967-9, totaled R$ 100,398 at December 31, 2012 (R$ 93,780 at December 31, 2011) and are monetarily restated by the Special System for Settlement and Custody (SELIC) rate, as determined in the agreement.

It should be noted out that the credits given in guarantee have already been converted into a court-ordered debt and the Company received, in August 2011, R$ 8,505 related to the first of the 10 annual installments, as established in the agreement. The Company received the second installment, amounting to R$ 9,824, in March 2013**.**

Refinadora Catarinense S/A was the parent company in the past and currently has the same stockholders as the Company. It remains financially responsible for the payment of the obligation.

13. Judicial deposits

The Company and its subsidiaries are parties to labor, civil and tax lawsuits (see Note 26) and are discussing such matters at the administrative and judicial levels, which, when applicable, are supported by judicial deposits. The deposits are recorded at the original amounts plus the basic remuneration rates for savings accounts, Reference Rate (TR) + 0.5% per month.

Judicial deposits are presented according to the nature of the related disputes, as follows:

	Parent company		Consolidated	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Civil	43	-	43	-
Labor	6,450	5,994	6,487	6,031
Tax	1,964	1,930	1,964	1,930
Total	8,457	7,924	8,494	7,961

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14. Receivables from Eletrobrás

With the objective of obtaining reimbursement of a compulsory loan paid through invoices for electric energy from 1977 to 1993, based on Law 4,156/62, the Company filed a legal action against Centrais Elétricas Brasileiras S.A. – Eletrobrás.

A final and unappealable decision in favor of the Company was issued on December 16, 2005, and, in February 2006, the Company filed the execution action. Eletrobrás and the Federal Government challenged the action and only recognized the undisputed portion of R$ 6,286 (amount at March 1, 2008 price levels), which was settled through (i) a bank deposit of R$ 4,964 on April 1, 2008 and (ii) the transfer of 61,209 class B nominative preferred shares of Eletrobrás, which were sold on August 13, 2008 for R$ 1,597.

The Federal Court determined that its accounting department calculate the amount due to the Company, which calculated the amount of R$ 12,064 on February 1, 2006. The Company recognized the amount calculated and maintained the amount restated based on the National Consumer Price Index (INPC) plus 12% p.a. The balance originally recorded at September 30, 2010 was R$ 15,613, before restatement.

The Federal Court's accounting department reviewed the calculation and presented new amounts, determining the net amount of R$ 24,749. In September 2010, the Company recognized the difference between the previously calculated amount and the updated calculation, totaling R$ 9,136, which was recorded in "Other operating income". The balance of the asset was R$ 36,819 at December 31, 2012 (R$ 31,059 at December 31, 2011).

15. Income tax and social contribution

a) Income tax and social contribution

The Company adopts the annual taxable income tax method. Consequently, the estimated payments effected during the year are recorded in current liabilities, in reduction accounts of IRPJ and CSLL payable. This accounting method was adopted as from 2012 and, in 2011, the estimated payments were recorded in current assets.

Income tax and social contribution recoverable and payable comprise the following:

	Current assets				Current liabilities			
	Parent company		Consolidated		Parent company		Consolidated	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Income tax	-	513	413	919	(2,564)	(63)	(3,045)	(435)
Social contribution	-	186	46	233	(924)	-	(1,097)	(106)
Total	-	699	459	1,152	(3,488)	(63)	(4,142)	(541)

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b) Deferred income tax and social contribution

Deferred taxes are calculated on income tax and social contribution losses and on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The current tax rates of 25% for income tax and 9% for social contribution are utilized to calculate deferred taxes. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available to offset temporary differences and/or tax losses, considering projections of future results of operations based on internal assumptions and future economic scenarios, which may, therefore, suffer changes.

The deferred tax amounts are as follows:

	Parent company and Consolidated	
	December 31, 2012	December 31, 2011
Deferred income tax and social contribution - Assets	24,867	25,280
Tax losses	-	6,477
Temporary differences - assets	24,867	18,803
Portobello pension plan	(246)	(244)
Provision for adjustment to market value	2,377	2,998
Provision for contingencies	6,126	5,446
Provision for PIS with reduced basis of ICMS	1,992	1,454
Provision for COFINS with reduced basis of ICMS	9,179	6,702
Provision for impairment of trade receivables	300	928
Provision for profit sharing	1,775	-
Provision for long-term incentive (ILP)	740	-
Other temporary differences - assets	2,624	1,519
Deferred income tax and social contribution - Liabilities	(41,176)	(40,973)
Temporary differences - liabilities	(41,176)	(40,973)
Realization of revaluation reserve	(17,933)	(18,470)
Receivables from Eletrobrás	(12,518)	(10,560)
Contingent assets – IPI credit premium – phase II	(4,376)	(4,020)
Adjustment to present value – Prodec*	(1,231)	(1,452)
Adjustment to present value of trade payables	(142)	(210)
Depreciation adjustment (due to the useful lives of assets)	(4,639)	(4,778)
Exchange rate variations on cash basis	(337)	(1,483)
Deferred income tax and social contribution – net	(16,309)	(15,693)

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The deferred taxes on tax losses and temporary differences are expected to be utilized or settled as follows:

	Parent company and Consolidated			
	Deferred taxes			
	Assets		Liabilities	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
2012	5,007	11,433	(568)	(537)
2013	1,054	2,669	(17,604)	(15,328)
2014	12,557	9,000	(568)	(537)
2015	1,300	1,089	(568)	(537)
2016	1,300	1,089	(568)	(537)
Over 5 years	3,649	-	(21,300)	(23,497)
	24,867	25,280	(41,176)	(40,973)

The net changes in the deferred taxes at December 31, 2012 were as follows:

	Parent company and Consolidated
At December 31, 2011	(15,693)
Tax losses	(6,477)
Temporary differences - assets	6,064
Temporary differences - liabilities	(740)
Revaluation reserve	537
At December 31, 2012	(16,309)

The changes in deferred income tax and social contribution assets and liabilities during the year, without the offset of balances, were as follows:

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	Parent company and Consolidated	
	Accumulated	
	December 31, 2012	December 31, 2011
	Effect on statement of income	
Deferred tax asset		
Tax losses	(6,477)	(2,475)
Portobello pension plan	(1)	(834)
Provision for adjustment to market value	(622)	(66)
Provision for contingencies	680	(122)
Provision for PIS with reduced basis of ICMS	538	518
Provision for COFINS with reduced basis of ICMS	2,477	2,388
Provision for impairment of trade receivables	(628)	119
Provision for profit sharing	1,775	(946)
Provision for long-term incentive (ILP)	740	-
Provision for contingencies of IPI credit premium - SIMAB	-	(1,896)
Other temporary differences	1,108	(715)
Total	(410)	(4,029)
Realization of revaluation reserve	537	537
Receivables from Eletrobrás	(1,958)	(1,676)
Contingent assets – IPI credit premium – phase II	(357)	(419)
Adjustment to present value – Prodec*	221	(680)
Adjustment to present value of trade payables	67	(195)
Depreciation adjustment (due to the useful lives of assets)	139	-
Exchange rate variations on cash basis	1,145	5,763
Total	(206)	3,330
	(616)	(699)

The Company did not have deferred income tax and social contribution credits derived from unrecognized tax losses.

c) Income tax and social contribution in the results

The income tax and social contribution expense can be analyzed as follows:

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	Parent company		Consolidated	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Current tax				
Current tax on profit for the year	(23,091)	(5,752)	(29,408)	(11,465)
Total current tax	(23,091)	(5,752)	(29,408)	(11,465)
Deferred tax				
Generation and reversal of temporary differences	(616)	(699)	(616)	(699)
Total deferred tax	(616)	(699)	(616)	(699)
Income tax and social contribution expense	(23,707)	(6,451)	(30,024)	(12,164)

	Parent company		Consolidated	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Profit before tax	89,371	30,794	95,172	37,102
Tax calculated based on the standard tax rates	(30,386)	(10,470)	(32,358)	(12,614)
Equity in the results of investees	3,531	3,410	-	-
Non-deductible expenses for tax purposes	831	435	583	363
Depreciation of revalued assets	(537)	(537)	(537)	(537)
Tax credits on tax losses and temporary differences	3,470	1,011	2,904	924
Deferred income tax and social contribution	(616)	(699)	(616)	(699)
RPJ and CSLL adjustment - legislation (Lei do Bem) benefit	-	399	-	399
Tax expense	(23,707)	(6,451)	(30,024)	(12,164)

16. Tax asset

The Company filed a lawsuit requesting the recognition of the Excise Tax (IPI) Credit Premium for different calculation periods. Lawsuit 1987,0000,645-9, referring to the period from April 1, 1981 to April 30, 1985, was decided in the Company's favor and is at the sentence execution phase, with the related amounts already determined by the Federal Court's accounting department. The Company expects to realize this asset in the medium term. Consequently, the Company recognized the undisputed amount in November 2009 equivalent to R$ 12,872 restated through December 31, 2012 (R$ 11,823 at December 31, 2011).

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17. Contingent assets

Contingent assets refer to lawsuits 1998,34,00,029022-4 and 1984,00,020114-0 and also to the recognition of tax benefits of the "IPI credit premium", which are in the execution phase. However, as the amounts owed by the Federal Government have not yet been calculated by the Federal Justice Department, they cannot be, and were not, recorded as assets. The Company's legal consultants estimate net credits of R$ 54,605 and R$ 1,848, respectively.

18. Investments

a) Investments in subsidiaries

The Company controls four companies, and the relevant amounts are recorded in assets as investments in subsidiaries or in liabilities as provision for loss on investments.

	Investments	Provision for loss on investments
At December 31, 2011	480	(43,202)
Equity in results	11,073	(687)
Exchange variations	-	(3,441)
Dividends proposed	(11,073)	-
At December 31, 2012	480	(47,330)
Current	-	41,496
Non-current	480	5,834

The subsidiaries are closely-held companies, in which the parent company's share of the assets, liabilities and profit (loss) for the year were as follows:

	Country of incorporation	Ownership percentage	Assets	Liabilities	Revenue	Profit/(loss)
At December 31, 2011						
Portobello América Inc.	United States	100.00%	592	39,174	586	(548)
PBTech Ltda.	Brazil	99.94%	1,237	4,802	179	(255)
Portobello Shop S/A	Brazil	99.90%	6,076	5,596	42,907	10,940
Mineração Portobello Ltda.	Brazil	99.76%	451	1,506	1,981	(109)
At December 31, 2012						
Portobello América Inc.	United States	100.00%	355	41,851	425	527
PBTech Ltda.	Brazil	99.94%	1,498	6,426	1,115	(1,363)
Portobello Shop S/A	Brazil	99.90%	8,813	8,333	51,530	11,073
Mineração Portobello Ltda.	Brazil	99.76%	457	1,363	2,168	149

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b) Other investments

The Company recorded a balance of R$ 198 at December 31, 2012 (R$ 198 at December 31, 2011), relating to its interest of 11.72% in Infragás - Infraestrutura de Gás para a Região Sul S.A., which has the specific purpose of enabling the implementation of infrastructure for the supply of natural gas to the states in the south region of Brazil. This balance, plus that of the Amazon Investment Fund (FINAM) recorded in the subsidiary Mineração Portobello, comprised the consolidated balance of R$ 215 at December 31, 2012 (R$ 215 at December 31, 2011).

19. Property, plant and equipment

a) Composition

		Parent company				Consolidated	
		December 31, 2012			December 31, 2011	December 31, 2012	December 31, 2011
	Annual average depreciation rate	Cost	Accumulated depreciation	Net	Net	Net	Net
Land		11,111	-	11,111	11,111	11,488	11,488
Buildings, constructions and improvements	3%	98,626	(15,790)	82,836	80,366	82,985	80,523
Machinery and equipment	7%	290,326	(211,340)	78,986	70,314	78,986	70,314
Furniture and fixtures	10%	8,305	(7,354)	951	1,026	1,061	1,156
Computers	20%	13,450	(11,834)	1,616	1,389	1,668	1,406
Other property, plant and equipment	20%	219	(189)	30	48	89	107
Construction in progress (a)		10,311	-	10,311	13,058	10,779	13,058
Total		432,348	(246,507)	185,841	177,312	187,056	178,052

(a) The balance of construction in progress comprises mainly projects for the expansion and optimization of the Company's industrial unit.

Management opted to maintain the deemed cost of property, plant and equipment because this balance approximates the fair value, considering that the last revaluation was in 2006 (see Note 30.c).

As established by the Technical Interpretation ICPC 10 issued by the CPC and approved by CVM Deliberation 619/09, effective as from January 1, 2009, the Company reviewed and changed the useful lives of its property, plant and equipment in 2008, based on a technical appraisal of the engineering department, and these useful lives were maintained from 2009 to 2012.

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b) Changes in property, plant and equipment

	Parent company							
	Land	Buildings, constructions and improvements	Machinery and equipment	Furniture and fixtures	Computers	Other property, plant and equipment	Construction in progress	Total
At December 31, 2011	11,111	80,366	70,314	1,026	1,389	48	13,058	177,312
Additions	-	-	846	121	668	-	22,560	24,195
Transfers	-	5,291	19,669	18	-	-	(24,978)	-
Depreciation	-	(2,821)	(11,843)	(214)	(441)	(18)	-	(15,337)
Disposals	-	-	-	-	-	-	(329)	(329)
At December 31, 2012	11,111	82,836	78,986	951	1,616	30	10,311	185,841

	Consolidated							
	Land	Buildings, constructions and improvements	Machinery and equipment	Furniture and fixtures	Computers	Other property, plant and equipment	Construction in progress	Total
At December 31, 2011	11,488	80,523	70,314	1,156	1,406	107	13,058	178,052
Additions	-	-	846	129	709	-	23,450	25,134
Transfers	-	5,291	19,669	18	-	-	(24,978)	-
Depreciation	-	(2,829)	(11,843)	(242)	(447)	(18)	-	(15,379)
Disposals	-	-	-	-	-	-	(751)	(751)
At December 31, 2012	11,488	82,985	78,986	1,061	1,668	89	10,779	187,056

The depreciation was recorded as cost of sales and selling and administrative expenses, as follows:

	Parent company		Consolidated	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Cost of sales	13,898	14,253	13,898	14,253
Selling expenses	950	840	988	887
Administrative expenses	489	372	493	372
Total	15,337	15,465	15,379	15,512

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20. Intangible assets

a) Composition

		Parent company				Consolidated	
		December 31, 2012			December 31, 2011	December 31, 2012	December 31, 2011
	Annual average amortization rate	Cost	Accumulated amortization	Net	Net	Net	Net
Software	20%	12,358	(12,047)	311	451	311	451
Right to explore mineral resources	20%	1,000	(550)	450	650	457	659
Trademarks and patents		150	-	150	150	152	152
Goodwill		-	-	-	-	190	80
Management system (a)		14,221	(12)	14,209	3,407	14,209	3,407
Total		27,729	(12,609)	15,120	4,658	15,319	4,749

(a) Refers to expenditures on the acquisition and implementation of business management systems, also named Value Chain Management System, comprising mainly the Oracle, WMS, Demantra and Inventory Optimization systems, and enhancements in the value chain management process. The expenses will be amortized as from the conclusion of the acquisitions and implementations according to the future benefit period estimated by the Company's management. The portion of the management system referring to WMS is already being amortized.

b) Changes in intangible assets

	Parent company				
	Software	Right to explore mineral resources	Trademarks and patents	Management system	Total
At December 31, 2011	451	650	150	3,407	4,658
Additions	-	-	-	10,814	10,814
Amortization	(140)	(200)	-	(12)	(352)
At December 31, 2012	311	450	150	14,209	15,120

	Consolidated					
	Software	Right to explore mineral resources	Trademarks and patents	Goodwill	Management system	Total
At December 31, 2011	451	659	152	80	3,407	4,749
Additions	-	-	-	210	10,814	11,024
Amortization	(140)	(202)	-	-	(12)	(354)
Disposals	-	-	-	(100)	-	(100)
At December 31, 2012	311	457	152	190	14,209	15,319

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The amortization was recorded as cost of sales and selling and administrative expenses, as follows:

	Parent company		Consolidated	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Cost of sales	241	252	243	256
Selling expenses	14	2	14	14
Administrative expenses:	97	136	97	136
Total	352	390	354	406

c) Plan for amortization of consolidated intangible assets

	2013	2014	2015	2016	2017
Software	116	68	48	40	39
Right to explore mineral resources	203	202	52	-	-
Management system (a)	2,368	3,158	3,158	3,158	2,367
Total	2,687	3,428	3,258	3,198	2,406

(a) Amortization plan based on the estimated conclusion of acquisitions and implementations.

The items trademarks and patents and goodwill, totaling R$ 342, are not being amortized since they have no defined useful life.

21. Trade payables

	Parent company		Consolidated	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Trade payables	120,541	98,105	121,532	98,597
Domestic market	98,292	88,463	99,283	88,955
Foreign market	22,249	9,642	22,249	9,642
Present value adjustment	(419)	(617)	(419)	(617)
Total	120,122	97,488	121,113	97,980

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22. Borrowings

	Maturity	2012 charges	Parent company December 31, 2012	Parent company December 31, 2011	Consolidated December 31, 2012	Consolidated December 31, 2011
Current						
Foreign currency						
Suppliers credits		VC+5.44% p.a.[1]	5,877	4,278	5,877	4,278
Prepayments and advances on export contracts (a)		VC+5.68% p.a.[1]	2,640	5,769	2,640	5,769
FINIMP (b)		VC+2,78% p.a.[1]	36,814	24,349	36,814	24,349
Total foreign currency		VC + 3.29% p.a.	45,331	34,396	45,331	34,396
Local currency						
Exim Pre-shipment TJ 462 (c)		12.80% p.a.	502	2,014	502	2,014
FINEP (d)		5.25% p.a.	2,966	1,992	2,966	1,992
Export credit note (e)		9.44% p.a.	12,602	7,053	12,602	7,053
Law 4,131 (f) - (Note 8)		1.60% p.a. + CDI	354	11,111	354	11,111
Finance lease (g)		10.06% p.a.	917	38	917	38
Advances on credit notes			-	5,489	-	5,489
Working capital		9.95% p.a.[1]	10,957	17,507	10,957	17,507
PRODEC (h)		4.00% + UFIR	1,955	-	1,955	-
Total local currency		8.93% p.a.	30,253	45,204	30,253	45,204
Total current			75,584	79,600	75,584	79,600
Non-current						
Foreign currency						
Suppliers credits	Oct/2016	VC+6.21% p.a.[1]	2,675	7,610	2,675	7,610
Prepayments (a)	Dec/2013		-	2,341	-	2,341
Total foreign currency		VC + 6.21% p.a.	2,675	9,951	2,675	9,951
Local currency						
Exim Pre-shipment TJ 462 (d)	Mar/2013		-	500	-	500
FINEP (d)	Sep/2018	5.25% p.a.	13,926	11,285	13,926	11,285
Export credit notes (e)	Mar/2013		-	3,333	-	3,333
Law 4,131 (f) - (Note 8)	Dec/2017	1.60% p.a. + CDI	50,000	-	50,000	-
Finance lease (g)	May/2015	10.02% p.a.	1,483	-	1,483	-
PRODEC (h)	Mar/2016	4.00% p.a. + UFIR	21,932	9,952	21,932	9,952
Working capital	Mar/2017		-	4,333	915	5,189
Total local currency		6.88 % p.a.	87,341	29,403	88,256	30,259
Total non-current liabilities			90,016	39,354	90,931	40,210
Total			165,600	118,954	166,515	119,810

[1] Average rate
VC - Exchange variation
UFIR - Fiscal Reference Unit

a) Prepayments and advances on export contracts - The Company signed export prepayment agreements totaling US$ 10,431 in 2010 and 2011. The agreements have terms of up to 30 months and are collateralized by receivables of Portobello Shop S.A. and Portobello S.A.

b) FINIMP (special credit lines for the import of capital assets, machinery, equipment and services) - The Company entered into several FINIMP contracts from July 2012 to December 2012, amounting to US$ 38,815, with an average rate of 2.78% p.a., and average terms of 6 months, with payments made at the end of each contract. These contracts were collateralized by receivables of Portobello S.A. in an average of 38% of the contractual debt due.

c) Exim Pre-shipments TJ 462 (type of financing with funds originating from the National Bank for Economic and Social Development (BNDES) that is utilized as an advance for the manufacture of export products.) - In April 2010, the Company signed a "BNDES - Exim Pre-shipment TJ-462" agreement for R$ 4,000, subject to the Long-term Interest Rate (TJLP) plus 6.80% p.a. The amount is payable over 3 years, with a 1-year grace period and divided in 24 monthly and consecutive installments. This loan is collateralized by receivables of Portobello S.A., in an amount equivalent to 50% of the contractual balance due.

d) FINEP - Fund for Financing of Studies and Projects - The Company entered into an agreement with FINEP in the amount of R$ 30,103 in May 2010, with interest of 5% p.a., payable over 80 months, with a 20-month grace period. The first installment of R$ 13,248 was fully released on September 2, 2010. A letter of guarantee at the cost of 3% p.a. was required for this agreement.

e) NCE - Export Credit Note - The Company entered into an export credit note agreement with Banco do Brasil, in the amount of R$ 15,000 in May 2012, with interest of 9.24% p.a., payable in 5 installments, the first of which on July 14, 2012, the second on October 14, 2012, the third on January 14, 2013, the fourth on April 15, 2013 and the last one on July 14, 2013. Receivables of Portobello S.A. were pledged in guarantee for 114% of the debt balance.

f) Law 4,131 Trade Exporter with Swap for CDI –The Company entered into an agreement in the amount of R$ 50,000 in December 2012, with a repayment term of 60 months and a grace period of 24 months. Repayments are semiannual (Note 8) and receivables of Portobello S.A., in an amount equivalent to 50% of the contractual balance due, were pledged in guarantee .

g) Finance lease - The Company entered into a lease agreement with SG Equipment Finance S.A, in the amount of R$ 2,418 in May 2012, with interest of 10.90% p.a., payable over 36 months. The Company also entered into a lease agreement with Hewlett Packard (HP) in July 2012, in the amount of R$ 450, with interest of 0.4578% p.a., payable over 36 months. These agreements were collateralized by the leased assets.

h) PRODEC - Development Program for Companies of Santa Catarina State - In July 2009, the Company was granted a Special Tax Financing Regime by the State of Santa Catarina. The balance is subject to adjustment to present value. The rate utilized for the present value adjustment calculation was the average for working capital, 9.69% per year.

- 60% of the ICMS due monthly in excess of R$ 761 (average paid in 2007 and 2008) can be deferred for future payment;
- Grace period of 48 months;
- Term of 120 months;
- Monetary restatement of 4% p.a. plus UFIR variation.

The borrowings at December 31, 2012 did not have restrictive covenants.

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The other loans are mainly guaranteed by mortgages on properties, pledges of equipment and receivables of the Parent Company (Note 9) and of a subsidiary (Note 42). No inventories of finished products were pledged in guarantee.

The long-term borrowings fall due as follows:

	Parent company		Consolidated	
Maturity in	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
2013	-	19,128	-	19,128
2014	18,055	8,957	18,055	8,957
2015	25,580	5,254	25,580	5,254
2016	26,963	2,580	26,963	2,580
2017	17,217	1,963	17,217	1,963
2018	2,201	1,472	3,116	2,328
Total	90,016	39,354	90,931	40,210

The exposure of the Company's borrowings to interest rate changes and contractual repricing at the end of the reporting period were as follows:

	Consolidated	
	December 31, 2012	December 31, 2011
Six months or less	41,834	33,485
From 6 to 12 months	5,142	19,164
From 1 to 5 years	58,719	37,550
Over 5 years	915	856
Total	106,610	91,055

The carrying amounts and fair value of borrowings are denominated in the following currencies:

	Parent company		Consolidated	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Reais	117,594	74,607	118,509	75,463
Euro	714	1,074	714	1,074
U.S. dollars	47,292	43,273	47,292	43,273
Total	165,600	118,954	166,515	119,810

The fair value of the outstanding borrowings approximates their book values as the impact of discounting to present value is not significant. The fair values are based on discounted cash flows utilizing a rate based on the borrowing rate of 6.26% (8.71% at December 31, 2011).

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Finance lease payables are as follows:

	Parent company and Consolidated	
	December 31, 2012	December 31, 2011
Gross finance lease liabilities - minimum lease payments		
Less than 1 year	1,107	39
Between 1 and 5 years	1,592	-
Total	2,699	39
Future finance costs on finance leases	(299)	(1)
Present value of finance lease liabilities	2,400	38
The present value of finance lease liabilities is as follows:		
Less than 1 year	917	38
Between 1 and 5 years	1,483	-
Total	2,400	38

23. Tax liabilities payable in installments

	Tax liabilities	Request for payment in installments		December 31, 2012	December 31, 2011
		Date	No. of installments not yet due		
Portobello S.A.	INSS	Dec/09	26	6,302	8,987
	IPI	Dec/09	26	4,281	6,083
	PIS	Mar/09	17	178	310
	COFINS	Mar/09	17	820	1,426
	IRPJ	Mar/09	17	1,301	2,265
	CSLL	Mar/09	17	484	842
	LAW 11,941/09 (a)	Nov/09	145	118,224	124,054
Total Parent company				131,590	143,967
Current				22,029	20,731
Non-current				109,561	123,236
PBTech Ltda.	LAW 11,941/09 (a)	Nov/09	-	-	169
Portobello Shop S.A.	INSS	Nov/09	25	507	735
	COFINS	Mar/09	17	61	107
	IRPJ	Mar/09	17	472	821
	CSLL	Mar/09	17	171	298
	LAW 11,941/09 (a)	Nov/09	145	606	614
Total subsidiaries				1,817	2,744
Total consolidated				133,407	146,711
Current				22,961	21,773
Non-current				110,446	124,938

INSS - National Institute of Social Security

The installments fall due as follows:

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	Parent company		Consolidated	
Maturity	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
2012	-	20,731	-	21,773
2013	22,031	20,869	22,962	21,742
2014	16,958	15,852	17,341	16,211
2015 to 2023 (*)	84,753	79,182	85,214	79,614
2024	7,848	7,333	7,890	7,371
Total	131,590	143,967	133,407	146,711

(*) The aggregate annual installments in December 2012 and December 2011, respectively, amounted to R$ 9,417 and R$ 8,798 in the Parent Company and R$ 9,468 and R$ 8,846 in the Consolidated.

a) Law 11,941/09 (REFIS - Tax Recovery Program)

In May and June 2011, the Company concluded the process of consolidation (final approval) of the installment program established by Law 11,941/09, which was initiated with the enrollment in the Tax Recovery Program in November 2009.

Between the enrollment and consolidation dates, the Company paid the minimum installment of R$ 395, as permitted by legislation. During this period, and more precisely at the time of the consolidation, it took decisions that had a positive economic impact of R$ 3,013, of which R$ 3,613 was recognized in other operating income and R$ 600 in finance costs. The main impact was due to the non-confirmation of the transfer of debts which were denied in the installment program of Provisional Measure (MP) 470 to the installment program of Law 11,941 (see Note 24).

After the consolidation, the Company is required to pay monthly installments of R$ 1,185 without any delay exceeding three months and it must discontinue any lawsuit and waive any alleged rights on which the referred lawsuits are based, under penalty of the immediate cancellation of the installment payment program and the consequent loss of the benefits established by Law 11,941/09. The termination of lawsuits filed against the tax assessments does not affect the processes in course in the judicial sphere, mentioned in Note 16.

24. Tax debts law 12,249/10 (MP 470 and MP 472)

In November 2009, the Company enrolled in the installment program established by Provisional Measure 470 (regarding the improper use of IPI premium credits) with the Federal Revenue Secretariat (SRF) and the Attorney General's Office of the National Treasury (PGFN). As a result of this enrollment, in addition to the payment in installments, there was a reduction in the charges and the Company was permitted to utilize tax credits arising from tax losses up to 2008 to settle the debts.

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When the Provisional Measure was converted into Law 12,249/10 in June 2010, the utilization of tax credits arising from tax losses existing at December 31, 2009 was authorized. The Company used this benefit and recorded R$ 3,252 in the second quarter of 2010 (see Note 33), thereby considering the installment payment program as concluded.

PGFN partially denied the request in June 2010 alleging the need to withdraw from lawsuits challenging the credit. The Company requested the withdrawal/waiver only in respect of the lawsuits contesting the assessments received from SRF. However, the Attorney General's Office of the National Treasury of the State of Santa Catarina understood that the withdrawal/waiver should be extended to the declaratory actions seeking the recognition of the IPI credit premiums, mentioned in Note 16. The Company's Legal Department is adopting the necessary measures against the decision of the PGFN in order to dismiss the demand of withdrawal/waiver of these declaratory actions. This procedure is supported by an opinion issued by the law firm Demarest Almeida, defending that, in relation to debts included in the installment program established by Law 12,249/10, the Company is not obliged to withdraw from the declaratory actions, which differs from the procedure established by Law 11,941/09. The Company's legal department understands that, based on the merits of the case, a favorable outcome is virtually certain at the various legal levels available to reconsider the unfavorable decisions.

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$ 26,108 at December 31, 2012, considering the non-acknowledgement 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 17.

25. Taxes and contributions

	Parent company		Consolidated	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
IRRF	1,188	1,034	1,397	1,225
ICMS	3,551	1,985	3,552	1,985
PIS	304	116	365	158
COFINS	1,399	533	1,680	727
Other	103	93	251	218
Total	6,545	3,761	7,245	4,313

26. Provision for contingencies

The Company and its subsidiaries are parties to civil, labor and tax lawsuits and also to administrative tax processes. Based on the opinion of its legal advisors, management believes that the provisions constituted are sufficient to cover the costs necessary to settle the obligations.

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The analysis of the provision is as follows:

Provision	Parent company		Consolidated	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Civil	4,533	4,416	4,575	4,488
Labor	11,288	9,654	11,288	9,654
Tax	35,051	25,935	35,051	25,935
Total	50,872	40,005	50,914	40,077
Current	1,288	988	1,322	1,015
Non-current	49,584	39,017	49,592	39,062

Provisions are measured at the present value of the costs necessary to settle the liability. The civil and labor claims are individually evaluated by the Company's legal advisors, who classify them in accordance with the expectation of the outcome.

The changes in the provision were as follows:

	Parent company			Total
	Civil	Labor	Tax	
At December 31, 2011	4,416	9,654	25,935	40,005
Charged (credited) to the statement of income:	955	2,587	9,116	12,658
Additional provisions	1,157	1,833	7,125	10,115
Reversal - not used	(920)	(883)	-	(1,803)
Unwinding of discount	-	37	-	37
Monetary adjustment (Note 33)	718	1,600	1,991	4,309
Reversal due to realization	(838)	(953)	-	(1,791)
At December 31, 2012	4,533	11,288	35,051	50,872

	Consolidated			Total
	Civil	Labor	Tax	
At December 31, 2011	4,488	9,654	25,935	40,077
Charged (credited) to the statement of income:	994	2,709	9,547	13,250
Additional provisions	1,221	1,955	7,556	10,732
Reversal - not used	(951)	(883)	-	(1,834)
Unwinding of discount	-	37	-	37
Monetary adjustment (Note 33)	724	1,600	1,991	4,315
Reversal due to realization	(907)	(1,075)	(431)	(2,413)
At December 31, 2012	4,575	11,288	35,051	50,914

Comments on civil, labor and tax lawsuits:

Civil

The Company and its subsidiaries are defendants in 112 civil lawsuits (102 civil lawsuits at December 31, 2011) in common and special civil courts. Most of the lawsuits have been brought by customers and claim compensation for alleged pain and suffering and tangible damages. Judicial deposits were effected, when applicable (Note 13).

The civil contingent liabilities are disclosed in Note 27.

Labor

The Company and its subsidiary Portobello Shop S.A. are defendants in 281 labor claims (70 claims at December 31, 2011) brought by former employees and third parties. The claims refer to the payment of termination amounts, premiums, overtime, salary equalization, monetary adjustment of the Government Severance Indemnity Fund for Employees (FGTS), compensation for pain and suffering and tangible damages from occupational accidents/disease. The provisions are reviewed by management based on the opinion of the legal advisors. Some lawsuits are supported by judicial deposits (Note 13).

Labor provisions also cover an assessment relating to social security contributions due by the Company on insured employee remuneration, contributions for financing of benefits for labor disability, and contributions to third parties (National Institute of Colonization and Agrarian Reform (INCRA) and Brazilian Support Service for Small Business (SEBRAE)), interest and fines for late payment.

These contingent liabilities are disclosed in Note 27.

Tax

a) INSS on Cooperatives

The Company filed lawsuits (injunctions) against the INSS, which required the payment of the social contribution determined in article 22, item IV of Law 8,212/91, with the wording provided by Law 9,879/99.
The Company affirms that in the course of its activities it contracts cooperatives of several labor areas to provide specialized services, which makes it subject to the payment of the contribution. The Company believes that the payment of the contribution is not constitutional, since it does not respect the principles of legality, equality and protection of the cooperatives. A preliminary injunction was requested to declare the right to not pay the social contribution, as well as to offset the amounts that had been unduly paid. The balance of the provision was R$ 2,197 at December 31, 2012 (R$ 1,948 at December 31, 2011).

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b) Exclusion of ICMS from the PIS and COFINS calculation basis

The Company was granted Injunction 2008,34,00,011286-4 on April 16, 2008 to exclude the ICMS from the calculation basis of the PIS and COFINS federal contributions. As from the date of this injunction, the Company calculates and pays PIS and COFINS without including the ICMS in the calculation basis.
The balances of the provisions for tax contingencies related to the exclusion of ICMS from the calculation basis of PIS and COFINS amounted to R$ 32,854 at December 31, 2012 (R$ 23,987 at December 31, 2011).

The balances of provisions for tax contingencies are adjusted based on the official interest (SELIC) rate.

27. Contingent liabilities

In accordance with the assessment of the risks arising from the above lawsuits, the Company's legal advisors estimated the amounts of contingent liabilities. In addition to the provisions recorded in the financial statements, in respect of contingencies classified as probable losses, the following civil and labor lawsuits were classified as possible losses:

	Parent company		Consolidated	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Civil	927	767	967	787
Labor	10,839	9,323	10,839	9,323
Total	11,766	10,090	11,806	10,110

These processes are classified as contingent liabilities since an adverse judgment for the Company is not probable and, as a result, an outflow of resources to settle the obligation should not be necessary.

28. Employee benefits

28.1 Private pension plan

The Company and its subsidiaries sponsor the Portobello Prev benefit plans since November 1, 1997, managed by BB Previdência - Fundo de Pensão Banco do Brasil, which includes 43 participants. The plan has the characteristics of a defined contribution plan; however, it provides a minimum retirement benefit for length of service or age.

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The balance of the special contributions relating to past service, to be deposited in the individual accounts of the participants who meet the conditions established by the regulations of the plan, amounted to R$ 2,918 at December 31, 2012 (R$ 3,118 at December 31, 2011) and is recognized in long-term liabilities. The Company will pay the related special reserve amount when each participant becomes eligible under the established conditions.

The actuarial calculation, updated through December 31, 2012, presented a surplus of R$ 3,641 (surplus of R$ 3,837 at December 31, 2011), which was recorded in non-current assets as “Actuarial assets” and the amounts recognized in the balance sheet are as follows:

	Parent company and Consolidated	
	December 31, 2012	December 31, 2011
Fair value of plan assets	56,984	42,305
Present value of funded obligations	(53,343)	(38,468)
Net actuarial asset	3,641	3,837

The changes in the fair value of the benefit plan assets and in the defined benefit obligation during the year were as follows:

Parent company and Consolidated		
Fair value of plan assets		
At December 31, 2011	42,305	39,270
Benefits paid in the year	(786)	(1,103)
Participant contributions in the year	792	870
Sponsor contributions in the year	1,577	1,589
Expected return on assets in the year	3,743	4,036
Assets - gain or (loss)	9,353	(2,357)
At December 31, 2012	56,984	42,305

Parent company and Consolidated		
Defined benefit obligation		
At December 31, 2011	38,468	37,506
Gross current service cost (with interest)	1,606	1,446
Interest on actuarial obligation	3,403	3,855
Benefits paid in the year	(786)	(1,103)
Obligations - (gain) or loss	10,652	(3,236)
At December 31, 2012	53,343	38,468

The Company recorded an actuarial loss of R$ 1,299 at December 31, 2012 (R$ 879 at December 31, 2011), classified as other comprehensive income, in equity, under “Carrying value adjustments”.

	Parent company and Consolidated	
	December 31, 2012	December 31, 2011
Gain (loss) on actuarial obligations	(10,652)	3,236
Gain (loss) on plan assets	9,353	(2,357)
Actuarial gain (loss)	(1,299)	879

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The amounts recognized in the statement of income, as "Other operating income (expenses)", related to the result from asset management are as follows:

	Parent company and Consolidated	
	December 31, 2012	December 31, 2011
Current service cost (with interest)	(1,606)	(1,446)
Interest on actuarial obligations	(3,403)	(3,855)
Expected return on plan assets	3,743	4,036
Participant contributions in the year	792	870
Net income (expense)*	(474)	(395)

* Note 33

The Company also recognized income of R$ 1,577 at December 31, 2012 (R$ 1,589 at December 31, 2011), related to payments made by the sponsor in the year, with the effect of an asset for purposes of the employee benefit plan (see Note 33).

The main actuarial assumptions were as follows:

	Parent company and Consolidated	
Economic and financial	December 31, 2012	December 31, 2011
Annual interest rate	8.85% p.a. nominal (inflation+ 4.16%p.a. real)	10.28% p.a. nominal (inflation+5.53%p.a. real)
Long-term return on assets	8.85%	10.28%
Long-term inflation	4.50%	4.50%
Projected salary increases	6.59% p.a. (inflation+2% p.a. real)	6.59% p.a. (inflation+2% p.a. real)
Projected growth of the plan benefits	0.00% p.a.	0.00% p.a.
Factor for determination of the real value over time (salaries)	0.98	0.98
Factor for determination of the real value over time (benefits)	0.98	0.98

	Parent company and Consolidated	
Biometric and demographic	December 31, 2012	December 31, 2011
Turnover hypothesis	Null	Null
Mortality table	AT-2000	AT-2000
Disability mortality table	Exp. IAPC	Exp. IAPC
Disability table	Hunter and Álvaro Vindas	Hunter and Álvaro Vindas
Retirement	Elegibility	Elegibility
Family composition before retirement		
Probability of married	100% [3]	100% [3]
Age difference for active participants	Men 5 years older than women	Men 5 years older than women
Number of dependent children	- [4]	- [4]
Age of children	- [4]	- [4]
Family composition after retirement	Real family	Real family

[1] Turnover hypothesis: The turnover varies according to the length of service (TS) and the salary bracket: 0-10 SM: 0.45 / (TS+1); 10-20 SM: 0.30 / (TS+1); over 20 SM: 0.15 / (TS+1), where SM corresponds to the minimum salary in effect (R$ 510.00 at 12/31/2010 and R$ 465.00 at 12/31/2009)

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(2) Probability of retirement: 50% on the date of the first eligibility to Early Retirement, 10% per year until the date of the first eligibility to Normal Retirement and 100% on the date of the first eligibility to Normal Retirement.
(3) Probability that, on the date of death, a pension will be generated for a lifetime dependent.
(4) In view of the regulatory provisions, considering 100% of the benefit as the family quota, children in the standard family were not utilized due to the utilization of lifetime dependents in 100% of the deaths.

28.2 Employee benefit expenses

	Parent company		Consolidated	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Remuneration	75,664	69,546	80,902	74,693
Benefits				
Private pension plan	636	695	900	950
Government Severance Indemnity Fund for Employees (FGTS)	6,753	6,160	7,061	6,530
Other	7,852	7,467	8,132	7,702
Total	90,905	83,868	96,995	89,875

29. Long-term incentive (ILP)

With the perspective of creating value for the business, the Company's Board of Directors introduced and approved on May 10, 2012 the long-term incentive (ILP). This incentive consists in a meritocracy program aimed at attracting, retaining and recognizing the performance of the Company's professionals, aligning the interests of the professionals to those of the shareholders and stimulating their permanence in the Company.

The officers eligible to the ILP are the directors and managers with performance classifications above the average, according to the internal performance assessment policy, and who on the signature of an enrollment agreement participate in the program.

The number of securities that each participant will receive is defined in the enrollment program. The securities are called “reference shares” and cannot be traded on the over-the-counter market.

The “valuation” of the securities annually is calculated by the EBITDA[1] performance and the EBITDA-net debt ratio[2]. The total expense is recognized over the vesting period, which is the period in which all of the specified vesting conditions are to be complied with. At the balance sheet date, the entity revises its estimates of the number and value of the securities and recognizes the impact of the revision to the original estimates, if any, in the statement of income, with a corresponding adjustment in liabilities.

The payment will be made in three annual installments (2015, 2016 and 2017), with a two-year deferral at the beginning of the period (2013 and 2014). The settlement will be complete after five years from the initial recognition (2017) and the Company will determine the form of payment, which can be realized through monetary values or the granting of the Company's shares in an amount proportional to the amounts calculated by the plan metrics.

If the payment is realized through granting of shares, the average value of the share in the three-month period prior to the incentive payment date will be considered. The Company can, at the discretion of the Board of Directors: (a) issue new shares within the authorized capital limit; or (b) sell shares held in treasury.

The first group of participants enrolled in 2012 and the present value of the obligation at December 31, 2012 was R$ 2,176, and R$ 2,623 consolidated.

[1]earnings before interest, taxes, depreciation and amortization
[2] borrowings added to the installments of tax obligations and deducted from cash and cash equivalents, as well as securities.

30. Equity

a) Share capital

(full amounts, figures not rounded)

The Company's subscribed and paid-up capital amounts to R$ 40,798,244, comprising 159,008,924 common shares with no par value.

In November 2012, the Company's capital was reduced by R$ 72,159,243,12 (seventy-two million, one hundred and fifty-nine thousand, and two hundred and forty-three reais and twelve cents), from R$ 112,957,487.40 (one hundred and twelve million, and nine hundred and fifty-seven thousand, and four hundred and eighty-seven reais and forty cents) to R$ 40,798,244.28 (forty million, and seven hundred and ninety-eight thousand, and two hundred and forty-four reais and twenty-eight cents).

The voluntary reduction of the Company's capital approved by the Extraordinary General Meeting of November 22, 2012 occurred due to the loss in equity, resulting in the absorption of the accumulated deficit, supported by Art. 173 of Law 6,404/76, without a change in the total number of shares. As a consequence, any profits generated as from that date will no longer be allocated to the accumulated deficit account, remaining at the disposal of the Annual General Meeting.

Each common share is entitled to one vote at Stockholders' Meetings, pursuant to the rights and privileges established by Brazilian corporate legislation and by the Company's bylaws.

The Company is authorized to increase capital by up to 1,000,000,000 (one billion) new common shares, with no par value, resulting in a total of up to 1,159,008,924 shares. The issue of preferred shares or founder shares is not permitted.

There were 61,992,342 shares outstanding in the market at December 31, 2012, corresponding to 38.99% of the total shares issued (61,992,547 at December 31, 2011, corresponding to 38.99% of the total). The shares outstanding in the market comprise all securities available for trading in the market, excluding those held by the controlling stockholders and members of the Board of Directors and the Executive Board.

b) Revenue reserves

Legal reserve

The legal reserve is credited annually with 5% of the profit for the year and cannot exceed 20% of the capital. The purpose of the legal reserve is to protect the Company's capital, and it can only be utilized to offset losses and increase capital. The Company constituted a legal reserve of R$ 3,283 in 2012, as established in article 193 of Corporation Law.

Distributable profits reserve

The distributable profits reserve of R$ 46,786 at December 31, 2012 refers to the retention of the remaining balance of retained earnings, after the allocation of 5% to the legal reserve and 25% to mandatory minimum dividends.

The Company's management will propose at a General Meeting the allocation of R$ 5,000 of this reserve to increase capital, in conformity with articles 169 and 199 of Corporation Law, and of R$ 41,786 to meet the business growth project established in the Company's investment plan, according to the capital budget proposal, to be submitted in the General Meeting of Stockholders, in compliance with article 196 also of Corporation Law.

c) Revaluation reserve

This reserve was constituted due to the revaluation of land, buildings and improvements, based on the appraisal report prepared by an independent appraisal company, which established the revalued amounts of the assets, as well their remaining useful lives, which became the new basis for depreciation.

The revaluation reserve is being realized proportionally to the depreciation of revalued buildings and improvements, with a corresponding entry to retained earnings, net of tax effects. An amount equivalent to the realization of the revaluation reserve is recorded in the statement of income for the year, relating to the depreciation of the revalued assets.

In accordance with ICPC 10, the Company recorded an additional amount of R$ 2,517 of deferred income tax and social contribution on the revaluation of land, which, when the land was revalued in 2006, the legislation did not permit such tax deferral. ICPC 10 requires that entities constitute a provision for taxes on the revaluation of land when "it is probable that the economic benefits associated with the non-depreciable asset will flow to the entity, derived either from current or future sales or own use of the asset". Deferred income tax and social contribution corresponding to the reserve for revaluation of land, constructions and improvements are classified in non-current liabilities, as mentioned in Note 15(b).

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Considering the complement to the revaluation reserve, approved by the Extraordinary General Meeting of stockholders held on December 29, 2006, the balance of the revaluation of the Company's assets, net of deferred taxes, amounted to R$ 43,713 at December 31, 2012 (R$ 45,292 at December 31, 2011). The depreciation charge on the revaluation, net of the effect of deferred IRPJ and CSLL liabilities, in the year ended December 31, 2012 was R$ 1,579 (R$ 1,580 at December 31, 2011), and the balance of deferred IRPJ and CSLL on the revaluation reserve recorded in non-current liabilities was R$ 17,933 at December 31, 2012 (R$ 18,470 at December 31, 2011). See Note 15(b).

The Company opted to maintain the revaluation reserve at December 31, 2006 up to its full realization, in accordance with Law 11,638/07.

d) Accumulated deficit

	Parent company and Consolidated
At December 31, 2011	(73,738)
Realization of revaluation reserve	1,579
Profit for the year (excluding non-controlling interests)	65,664
Capital reduction	72,159
Legal reserve (revenue reserve)	(3,283)
Dividends	(13,742)
Interest on capital	(1,853)
Distributable profits reserve	(46,786)
At December 31, 2012	-

31. Revenue

The reconciliation between gross and net revenue, presented in the statement of income, is as follows:

	Parent company		Consolidated	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Gross sales revenue	830,500	702,241	882,769	745,384
Deductions from gross revenue	(171,011)	(154,281)	(176,298)	(158,578)
Returns	(156,564)	(136,204)	(161,796)	(140,499)
Taxes on sales	(14,447)	(18,077)	(14,502)	(18,079)
Net sales revenue	659,489	547,960	706,471	586,806
Domestic market	609,055	513,914	653,091	543,279
Foreign market	50,434	34,046	53,380	43,527

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32. Expenses by nature

Cost of sales and selling and administrative expenses for the year ended December 31, 2012 can be summarized as follows:

	Parent company		Consolidated	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Changes in inventories of finished products and work in process	(18,188)	(1,028)	(18,188)	(1,028)
Direct production costs (raw materials and inputs)	226,358	201,913	224,186	200,027
General production expenses (including maintenance)	31,719	29,627	31,719	29,627
Cost of goods sold	129,684	86,725	131,045	88,101
Transportation of goods sold	2,565	2,672	2,565	2,672
Salaries, social charges and employee benefits	112,087	103,717	119,451	110,937
Third-party labor and services	17,946	14,556	23,989	20,865
Amortization and depreciation	15,511	15,720	15,556	15,782
Rentals and operating leases	7,822	6,626	8,093	6,626
Sales commissions	15,114	11,927	15,135	11,927
Marketing and publicity	6,529	7,112	11,192	10,925
Other selling expenses	12,243	15,672	15,531	17,579
Other administrative expenses	3,066	2,618	3,269	2,740
Total	562,456	497,857	583,543	516,780

(a) The changes in inventories of finished products and work in process is the difference between the cost of goods produced and the cost of goods sold (COGS), and could result in a negative balance due to the write-off of COGS related to products that were produced in prior periods which were included in the inventories account.

33. Other operating income and expenses, net

Other operating income and expenses in the parent company and consolidated financial statements, for the years ended December 31, 2012 and 2011, were as follows:

	Parent company		Consolidated	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Other operating income				
Related party service revenue	2,623	3,187	-	-
Third-party service revenue	1,031	886	1,031	886
Tax credits (a)	3,833	-	3,833	-
Bank exclusivity contract	2,100	-	2,100	-
Consolidation of installment payments of Law 11,941/09 (Note 23(a))	-	3,613	-	3,613
Actuarial adjustment (Note 28.1)	1,577	1,589	1,577	1,589
Other	518	621	466	636
Total	11,682	9,896	9,007	6,724
Other operating expenses				
Provision for labor contingencies (Note 26)	(987)	(5,110)	(1,109)	(5,110)
Provision for civil contingencies (Note 26)	(237)	(3,254)	(270)	(3,298)
Provision for tax contingencies (b)	-	-	(431)	-
Provision for profit sharing (c)	(7,057)	-	(8,367)	-
Provision for long-term incentive (Note 29)	(2,176)	-	(2,623)	-
Cost of idle capacity (d)	-	(3,610)	-	(3,610)
Project consulting services	(17)	-	(3,759)	-

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	Parent company		Consolidated	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Actuarial adjustment (Note 28.1)	(474)	(395)	(474)	(395)
Other costs	(693)	(2,202)	(1,382)	(2,618)
Total	(11,641)	(14,571)	(18,415)	(15,031)
Net	41	(4,675)	(9,408)	(8,307)

(a) Extemporaneous PIS and COFINS credits related to the period from January 2008 to May 2012.
(b) Payment of tax debts related to Tax on Services of the Municipal Government of Friburgo.
(c) Recognition of provision for profit sharing, to be paid to the employees after the end of the year.
(d) There was a reduction of the production volume during the second half of 2011 as part of the Company's strategic actions to adjust its inventory levels. Therefore, part of the fixed costs incurred in the period were recognized directly in the results for the year, in order not to measure finished products at an amount above their normal cost. The accounting treatment is in accordance with CPC 16.

34. Other gains (losses), net

The net exchange variation, recorded under "Other gains (losses), net" in the parent company and consolidated financial statements for the year ended December 31, 2012, can be summarized as follows:

	Parent company and Consolidated	
	December 31, 2012	December 31, 2011
Foreign exchange variations, net		
Trade receivables	4,187	5,849
Trade payables	(830)	(1,211)
Commissions	(15)	(8)
Total	3,342	4,630

35. Finance result

The parent company and consolidated finance results for the years ended December 31, 2012 and 2011 were as follows:

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	Parent company		Consolidated	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Finance income				
Interest	1,688	1,486	1,842	1,874
Discounts received	288	177	350	273
Restatement of Eletrobrás compulsory loan (Note 14)	5,760	4,928	5,760	4,928
Restatement of tax assets (Note 16(a))	1,049	1,233	1,049	1,233
Restatement of receivables from related parties (Note 9)	6,604	9,189	6,604	9,189
Gains on derivative transactions (Note 8)	40	-	40	-
Other	495	747	495	872
Total	15,924	17,760	16,140	18,369
Finance costs				
Interest	(14,442)	(16,325)	(14,678)	(16,530)
Finance charges on taxes	(9,597)	(15,104)	(9,762)	(15,414)
Discount of provision for contingencies (Note 26)	(4,309)	(1,861)	(4,315)	(1,861)
Commissions and service fees	(1,557)	(1,337)	(1,582)	(1,357)
Discounts/bank expenses	(447)	(3,397)	(447)	(3,397)
Discounts granted	(1,838)	(1,260)	(1,844)	(1,270)
Tax on Financial Transactions (IOF)	(653)	(1,280)	(685)	(1,284)
Payment of interest on capital (Note 37)	(245)	-	(245)	-
Other	(632)	(711)	(637)	(726)
Total	(33,720)	(41,275)	(34,195)	(41,839)
Foreign exchange variations, net				
Borrowings	(3,635)	(5,777)	(3,635)	(5,777)
Total	(3,635)	(5,777)	(3,635)	(5,777)
Net	(21,431)	(29,292)	(21,690)	(29,247)

36. Result from discontinued operations

The Board of Directors approved the discontinuation of the operations of the subsidiary Portobello América on August 17, 2010, taking into consideration the fact that the demand in the North American market is not expected to grow over the coming years. The sale of assets is in progress and the main assets and liabilities of this unit, as well as the result from discontinued operations for the year ended December 31, 2012, can be summarized as follows:

Assets	December 31, 2012	December 31, 2011	Liabilities and equity	December 31, 2012	December 31, 2011
Current assets	355	592	Current liabilities	41,851	39,174
Cash and banks	272	477	Trade payables	-	9
Trade receivables	22	49	Social and labor obligations	-	17
Other	61	66	Rent payable	12	743
			Debts with related parties	41,839	38,405
			Equity	(41,496)	(38,582)
Total assets	355	592	Total liabilities and equity	355	592

No groups were classified as held for sale in 2012 and 2011.

Portobello S.A and subsidiaries

Notes to the financial statements at December 31, 2012 and 2011 (All amounts in thousands of reais unless otherwise stated)

The result from discontinued operations is presented on a consolidated basis. Accordingly, in addition to the result of the subsidiary Portobello América, Inc., (Note 18), the result also considers the Company's share in discontinued operations.

Result from discontinued operations	December 31, 2012	December 31, 2011
Net revenue	425	586
Cost of products (services)	(24)	(534)
Gross profit	401	52
Selling, general and administrative expenses	(266)	(565)
Finance result (loss)	-	(35)
Other operating income	392	-
Result before IRPJ/CSLL	527	(548)
Net result from discontinued operations	527	(548)

37. Earnings per share

a) Basic

In accordance with CPC 41 (Earnings per share), basic earnings per share is calculated by dividing the profit attributable to the stockholders of the Company by the weighted average number of common shares in issue during the year, excluding common shares purchased by the Company and held as treasury shares.

	Parent company		Consolidated	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Profit attributable to the Company's stockholders	65,664	24,343	65,664	24,381
Weighted average number of common shares (thousands)	159,009	159,009	159,009	159,009
Basic earnings per share – R$	0.41	0.15	0.41	0.15
Profit from continuing operations	65,664	24,343	65,137	24,929
Profit (loss) from discontinued operations	-	-	527	(548)
Weighted average number of common shares (thousands)	159,009	159,009	159,009	159,009
Earnings per share from continuing operations	0.41296	0.15309	0.40964	0.15678
Earnings (loss) per share from discontinued operations	-	-	0.00331	(0.00345)

The Company did not have any shares held in treasury during 2012 and the last share issue occurred in 2007. Therefore, the weighted average number of shares is equal to the total comprising the share capital (Note 30), represented by a single class of common shares.

The consolidated profit attributable to stockholders does not consider non-controlling interests. The same criterion was used for results from continuing and discontinued operations.

b) Diluted

The diluted earnings per share are the same as the basic earnings per share since the Company does not have contracts or any financial instrument that grants the holder the right to common shares.

38. Dividends and interest on capital

At the Board of Directors' meeting held on December 18, 2012, the Company's management approved the distribution of part of the profit for 2012 in the form of advance dividends, in the amount of R$ 5,103, and the payment of interest on capital, net of income tax, in the amount of R$ 1,853, which corresponded to R$ 0.03210 and R$ 0.01122 per share, respectively, which was paid to the stockholders on December 28, 2012.

For December 31, 2012, there was the allocation of 25% of the adjusted profit for the year, in accordance with the Company's bylaws, and the amounts advanced in 2012 were deducted from this amount, as previously mentioned. This allocation will be submitted for approval at the Annual General Meeting of April 30, 2013. The provision related to any amount above the minimum required will be recognized on the date of its approval by the stockholders.

39. Segment information

Management has determined the Company's operating segments based on the reports reviewed by the Executive Board which are utilized to make strategic decisions.

The Executive Board considers the business from the perspective of the markets in which the Company operates, as follows: Local (Domestic Market - Brazil) and Export (Foreign Market - Other Countries).

The income from operating segments reported is exclusively derived from the manufacture and sale of ceramic tiles used in the civil construction sector.

The Executive Board evaluates the performance of operating segments based on the operating result (result before net finance income (costs) and taxes on profit - EBIT). The Board does not take the assets into consideration for the analysis of segment performance, since the Company's assets are not segregated.

Portobello S.A and subsidiaries

Notes to the financial statements at December 31, 2012 and 2011 (All amounts in thousands of reais unless otherwise stated)

The segment information reviewed by the Executive Board was as follows:

	December 31, 2012			December 31, 2011		
Continuing operations	Brazil	Other countries	Total	Brazil	Other countries	Total
Revenue	653,091	53,380	706,471	543,279	43,527	586,806
Cost of sales	(421,463)	(34,589)	(456,052)	(363,620)	(37,033)	(400,653)
Gross profit	231,628	18,791	250,419	179,659	6,494	186,153
Operating income (expenses), net	(126,320)	(7,237)	(133,557)	(113,896)	(5,908)	(119,804)
Selling, general and administrative expenses	(120,751)	(6,740)	(127,491)	(110,478)	(5,649)	(116,127)
Other operating expenses, net	(8,655)	(753)	(9,408)	(7,727)	(580)	(8,307)
Other gains (losses), net	3,086	256	3,342	4,309	321	4,630
Operating profit before finance result	105,308	11,554	116,862	65,763	586	66,349
% on revenue	16%	22%	17%	12%	1%	11%

The Company does not have customers that individually represent more than 10% of net sales revenue.

40. Commitments

a) Capital commitments

Expenditures contracted but not yet incurred at December 31, 2012, referring to property, plant and equipment, amounted to R$ 42,293, which included investments in the large formats project.

b) Operating lease commitments

Operating leases refer to vehicles. The minimum future payments on non-cancelable operating leases, in total and for each year, are as follows:

	Consolidated	
	December 31, 2012	December 31, 2011
Less than 1 year	367	530
Between 1 and 5 years	277	290
Total	644	820

Portobello S.A and subsidiaries

Notes to the financial statements
at December 31, 2012 and 2011
(All amounts in thousands of reais unless otherwise stated)

41. Insurance

The insurance cover at December 31, 2012 against fire, robbery, collision and sundry risks for property, plant and equipment and inventories, as well as for loss of profits, is considered sufficient by management to cover any losses.

	Parent company and Consolidated
Insurance coverage	2013
Fire/lighting/explosion of any type	84,000
Electrical damages	3,600
Riots	1,000
Windstorms/smoke with vehicle impact	25,000
Civil liability - operations	500
Civil liability - employer	500
Loss of profits - windstorm with impact	16,000
Loss of profits - basic	35,115

The policy is effective from February 14, 2013 to February 14, 2014, when the Company intends to enter into a new insurance contract.

42. Related party transactions

The commercial transactions in respect of the purchase and sale of products, raw materials and contracting of services, as well as loans between the parent company and the subsidiaries, were as follows:

		Parent company	
		Assets (liabilities)	
	Nature	December 31, 2012	December 31, 2011
Transactions with subsidiaries			
Portobello América, Inc.	Receivables from subsidiaries – Trade receivables	41,839	38,405
Portobello Shop S.A.	Dividends receivable	2,073	477
PBTech Com. Serv. Cer. Ltda.	Receivables from subsidiaries – Trade receivables	3,424	2,832
	Receivables from subsidiaries - Loan	1,945	896
Mineração Portobello Ltda.	Advances to suppliers	1,207	1,232
Transactions with related parties			
Refinadora Catarinense S.A.	Receivables	100,398	93,780
Solução Cerâmica Com. Ltda.	Trade receivables	7	478
	Advances from customers	(1,780)	(569)
Flooring Revest. Cer. Ltda.	Trade receivables	1,410	780
	Advances from customers	(388)	(198)
Gomes Participações Societárias Ltda.	Rent	-	(52)
		150,135	138,061

Portobello S.A and subsidiaries

Notes to the financial statements at December 31, 2012 and 2011 (All amounts in thousands of reais unless otherwise stated)

	Nature	Parent company Income (expenses) Accumulated December 31, 2012	December 31, 2011
Transactions with subsidiaries			
Portobello Shop S.A.	Provision of services	6,115	6,100
	Cost of services rendered	(3,384)	(2,923)
PBTech Com. Serv. Cer. Ltda.	Sales of products	429	92
Mineração Portobello Ltda.	Purchase of products	(2,174)	(1,884)
Transactions with related parties			
Solução Cerâmica Com. Ltda.	Sales of products	15,706	12,238
Flooring Revest. Cer. Ltda.	Sales of products	6,909	5,950
Gomes Participações Societárias Ltda.	Rent	(184)	(178)
		23,417	19,395

The intercompany loan to the subsidiary PBTech bears interest at 100% of the CDI interest rate, and falls due on December 31, 2016.

No receivables from the subsidiary Portobello Shop were pledged in guarantee of the Company's loans in the year ended December 31, 2012. The subsidiary is the guarantor of the Company in some financing transactions (see Note 22).

Related-party transactions

Portobello Shop had receivables and revenue from services relating to royalties of four franchisees that are related parties. The franchising network includes one subsidiary of the Company and two related companies. The transactions are disclosed below:

	Nature	Assets (liabilities) December 31, 2012	December 31, 2011	Nature	Income (expenses) Accumulated at December 31, 2012	Accumulated at December 31, 2011
Transactions with subsidiaries						
PBTech Com. Serv. Cer. Ltda.	Trade receivables	7	7	Royalties	-	26
Transactions with related parties						
Solução Cerâmica Com. Ltda.	Trade receivables	211	291	Royalties	4,027	3,098
Flooring Revest. Cer. Ltda.	Trade receivables	137	81	Royalties	1,776	1,517
		355	379		5,803	4,641

Portobello S.A and subsidiaries

Notes to the financial statements
at December 31, 2012 and 2011
(All amounts in thousands of reais unless otherwise stated)

Key management remuneration

The remuneration of the key management personnel, comprising members of the Executive Board, Board of Directors, Statutory Audit Board and senior management for the year ended December 31, 2012, was as follows:

	Parent company		Consolidated	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Fixed remuneration				
Salaries	6,982	6,000	8,047	7,113
Fees	2,201	1,836	3,416	3,001
Variable remuneration	3,107	2,888	4,029	3,381
Short-term direct and indirect benefits		-		-
Private pension plan	439	444	686	668
Other	1,032	826	1,259	1,037
Severance benefits	191	251	193	251
	13,952	12,245	17,630	15,451

The Company does not have long-term or post-employment benefits.

The Annual General Meeting of stockholders held on April 30, 2012 approved the global remuneration of the Board of Directors for the year at the maximum amount of R$ 5,100, the same as the amount approved on April 28, 2011, and also determined the monthly remuneration of each member of the Statutory Audit Board to be equivalent to 10% of the directors' remuneration.

Comments on Business Projections

(All amounts in thousands of reais unless otherwise stated)

BUSINESS PROJECTIONS

Projections disclosed and assumptions

a) Purpose of the projection

Investments in the expansion and modernization of the Tijucas plant with the introduction of a production line that will focus on enameled porcelain of large formats.

b) Projected period and projection validity period

Growth projected to initiate in the second half of 2013.

c) Projection assumptions, with indication of those that can be influenced by the issuer's management and those that are beyond its control

The increase in the projected production for the second half of 2013 is based on the installation of a new furnace with a resulting increase in production by 4.6 million m2/year.
It is estimated that, in 2014, when the line will be operating at its total production capacity, the new unit will generate a revenue of R$ 141 million per year.
Portobello's growth target in 2013 is 20%, based on the data for the last five years, since, according to data from industry entities (ABRAMAT, ANFACER, ANAMACO e IBGE), the ceramic tile industry should grow 6 to 7% in 2013.
All the assumptions considered are subject to external factors, which are beyond the control of the Company's management and that can impact the projections disclosed.

d) Amounts of the indicators included in the projection

Projections	Estimated amounts
Investment in the expansion and modernization of the Tijucas plant	R$ 86 million
New line's production capacity	4.6 million m²/year
New line's net revenue estimated for 2014	R$ 141 million
Growth target in 2013	20%

In addition to the projections disclosed above, Portobello is studying the implementation of a new industrial unit, which, it is anticipated, will be located in the state of Alagoas. The investment is initially estimated at R$ 205 million, although this study has not yet been completed.

It should be noted that the amounts stated above are mere estimates and in no way constitute a promise of performance by the Company or its managers.

Comments on Business Projections

(All amounts in thousands of reais unless otherwise stated)

Monitoring and alterations in projections disclosed

a) Information on which projections are being replaced by new projections included in the form and those which are repeated in the form.

There were no alterations in the projections previously disclosed.

b) With regard to the projections related to periods already elapsed, compare the projected data with the actual performance of the indicators, indicating clearly the reasons that led to the deviations in the projections.

The projections disclosed have not yet fully materialized, thereby preventing the comparisons.

c) Regarding the projections related to periods still in progress, inform if the projections remain valid at the delivery date of the form and, when applicable, explain why they were discontinued or replaced.

The projections disclosed remain valid since the estimates are projected to achieve results as from the second half of 2013.

Proposal for Capital Budget

All amounts in thousands of reais unless otherwise stated

CAPITAL BUDGET FOR FORMATION OF THE REVENUE RESERVE FOR EXPANSION

Management will propose to the Annual General Meeting that part of the profit for 2012 be retained for the expansion of the Company's activities, as determined in article 196 of Law 6,404/76.

The investment plan for 2013 is presented below.

Investment plan	
Sources	**89,200**
Retention of earnings	41,786
Operating flows, net of disbursements expected for operations	47,414
Applications	**89,200**
Investments - 2013	89,200

The Company will invest R$ 89.2 million in 2013 in order to continue its strategy of expansion and improvement of processes.

Approximately 71% of the estimated amount is destined for the project of expansion and modernization of the plant in Tijucas (SC), with the introduction of a production line focused exclusively on enamel porcelain of large formats.

The investments will be distributed as follows: (i) R$ 71.6 million in the industrial area, highlighting the previously mentioned production line of large formats; (ii) R$ 14.8 million in the commercial area, of which R$ 9.1 million in logistics (storage, separation, loading, among others); and (iii) R$ 2.8 million in the administrative area for management systems.

The sources of funding for the investments will be the proposed retention of the profit for 2012 and the generation of cash from operations, considering the financing of R$ 50 million already contracted in 2012.

The capital budget presented was approved by the Statutory Audit Board, on March 26, 2013, and by the Board of Directors, at the meeting held on March 26, 2013.

Tijucas, March 28, 2013

Opinions and representations / Independent auditor's report – without exceptions

Independent Auditor's Report

To the Board of Directors and Stockholders
Portobello S.A.

We have audited the accompanying financial statements of Portobello S.A. ("Company" or "Parent Company"), which comprise the balance sheet as at December 31, 2012 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

We have also audited the accompanying consolidated financial statements of Portobello S.A. and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2012 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility
for the financial statements

Management is responsible for the preparation and fair presentation of the parent company financial statements in accordance with accounting practices adopted in Brazil, and for the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and accounting practices adopted in Brazil, 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.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements 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 internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Opinions and representations / Independent auditor's report – without exceptions

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the parent company financial statements

In our opinion, the parent company financial statements referred to above present fairly, in all material respects, the financial position of Portobello S.A. as at December 31, 2012, and its financial performance and cash flows for the year then ended, in accordance with accounting practices adopted in Brazil.

Opinion the consolidated financial statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Portobello S.A. and its subsidiaries as at December 31, 2012, and their financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and accounting practices adopted in Brazil.

Emphasis of matter

As discussed in Note 2.1 to these financial statements, the parent company financial statements have been prepared in accordance with accounting practices adopted in Brazil. In the case of Portobello S.A., these practices differ from IFRS applicable to separate financial statements only in relation to the measurement of investments in subsidiaries, associates and jointly-controlled entities based on the equity accounting method, whereas IFRS requires measurement based on cost or fair value. Our opinion is not qualified in respect of this matter.

Other matters

Supplementary information - statements of value added

We have also audited the parent company and consolidated statements of value added for the year ended December 31, 2012, the presentation of which is required by the Brazilian corporate legislation for listed companies, but is considered supplementary information for IFRS, which do not require the presentation of the statement of value added.

These statements were subject to the same audit procedures described above and, in our opinion, are fairly presented, in all material respects, in relation to the financial statements taken as a whole.

Florianópolis, March 26, 2013

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5 "F" SC

Mario Miguel Tomaz Tannhauser Junior
Contador CRC 1SP217245/O-8 "S" SC

(A free translation of the original in Portuguese)

Opinions and representations / Opinion of the statutory audit board or equivalent body

OPINION OF THE STATUTORY AUDIT BOARD

In compliance with legal and statutory requirements, the Statutory Audit Board has examined the financial statements for the year ended December 31, 2012, comprising the balance sheet, statement of income, statement of changes in equity, statement of comprehensive income, statement of cash flows, statement of value added, and notes to the financial statements, as well as the management report and the independent auditor's report. The Statutory Audit Board has also examined the consolidated financial statements. After the examinations and Management's clarifications, the Statutory Audit Board, also taking into consideration the report of the auditors PricewaterhouseCoopers Auditores Independentes, issued in March 2013 without exceptions, and their opinion that, in all material respects, these financial statements reflect fairly the financial position of Portobello S.A. and the results of its operations, believes that these statements are appropriate to be submitted for the appreciation and approval of the Stockholders. Additionally, the Statutory Audit Board has analyzed management's proposals related to the modification in capital, capital budgets and distributions of dividends and interest on capital, which are also appropriate to be submitted for the appreciation and approval of the Stockholders at the General Meeting.

Tijucas, March 26, 2013

Haroldo Pabst
Maro Marcos Hadlich Filho
Rodrigo Sancovsky

Opinions and representations / Directors' representation on the financial statements

Directors' representation on the financial statements

In compliance with CVM Instruction 480/09, the Directors of Portobello S.A. state that they have analyzed, discussed and agreed with the information disclosed in the financial statements for the year ended December 31, 2012.

Tijucas, March 26, 2013

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

Directors' representation on the independent auditor's report

In compliance with CVM Instruction 480/09, the Directors of Portobello S.A. state that they have analyzed, discussed and agreed with the opinion expressed in the independent auditor's report and with the financial statements for the year ended December 31, 2012.

Tijucas, March 26, 2013

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