(A free translation of the original in Portuguese)

Portobello S.A. and Subsidiaries

Financial Statements at December 31, 2009 and 2008 and Report of Independent Auditors

(A free translation of the original in Portuguese)

PricewaterhouseCoopers
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Report of Independent Auditors

To the Board of Directors and Stockholders
Portobello S.A.
Tijucas - SC

1 We have audited the accompanying balance sheets of Portobello S.A. ("the Company") and the consolidated balance sheets of Portobello S.A. and its subsidiaries at December 31, 2009 and 2008, and the related statements of operations, of changes in stockholders' equity, of cash flows and of value added of the Company and the related consolidated statements of operations, of cash flows and of value added for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.

2 We conducted our audit in accordance with approved Brazilian auditing standards, which require that we perform the audit to obtain reasonable assurance about whether the financial statements are fairly presented in all material respects. Accordingly, our work included, among other procedures: (a) planning our audit taking into consideration the significance of balances, the volume of transactions and the accounting and internal control systems of the companies, (b) examining, on a test basis, evidence and records supporting the amounts and disclosures in the financial statements, and (c) assessing the accounting practices used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

3 In our opinion, the financial statements audited by us present fairly, in all material respects, the financial position of Portobello S.A. and of Portobello S.A. and its subsidiaries at December 31, 2009 and 2008, and the results of operations, the changes in stockholders' equity, cash flows and value added to the Company's operations, and the consolidated results of operations, cash flows and value added to the operations of the Company and its subsidiaries, for the years then ended, in accordance with accounting practices adopted in Brazil.

Joinville, February 23, 2010

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

Carlos Alexandre Peres
Contador CRC 1SP198156/O-7 "S" SC

Portobello S.A. and Subsidiaries

Balance Sheets at December 31

In thousands of reais

(A free translation of the original in Portuguese)

		Parent company		Consolidated	
Assets	**Note**	**2009**	**2008**	**2009**	**2008**
Current assets					
Cash and cash equivalents		7,014	6,446	8,618	9,017
Trade accounts receivable	4	64,679	67,007	68,546	74,224
Marketable securities	5	4,279	6,790	4,279	6,790
Inventories	6	68,224	57,696	71,037	64,300
Advances to suppliers		2,120	2,322	2,121	2,365
Taxes recoverable	7	3,329	224	4,294	1,166
Deferred income tax and social contribution	8b	2,839	5,313	2,839	5,313
Dividends receivable	20	5,909	8,285	-	-
Prepaid expenses		112	104	230	214
Other		1,598	1,469	1,662	1,534
		160,103	155,656	163,626	164,923
Non-current assets					
Long-term receivables					
Receivables from subsidiaries	20	32,787	38,757	-	-
Receivables from other related parties	20	86,763	95,229	86,763	95,229
Judicial deposits		260	260	455	365
Properties for sale		139	208	139	1,016
Receivables from Eletrobrás, net	9	10,560	9,059	10,560	9,059
Tax credits	10	7,365	-	7,365	-
Other	11	1,173	461	1,766	1,072
		139,047	143,974	107,048	106,741
Permanent assets					
Investments	12				
Investments in subsidiaries		480	480	-	-
Other		198	198	223	221
Property, plant and equipment	13	176,146	173,948	177,172	175,403
Intangible assets	14	2,501	3,070	2,665	3,141
		179,325	177,696	180,060	178,765
		318,372	321,670	287,108	285,506
Total assets		478,475	477,326	450,734	450,429

		Parent company		Consolidated	
Liabilities and stockholders' equity	**Note**	**2009**	**2008**	**2009**	**2008**
Current liabilities					
Suppliers		65,999	70,812	68,033	72,178
Loans and financing	15	90,411	91,553	90,428	93,144
Tax liabilities payable in installments	16	21,434	9,303	22,179	9,761
Taxes, fees and contributions	17	1,531	9,716	1,955	10,005
Dividends payable		-	-	6	8
Provision for contingencies	19	5,539	-	5,557	-
Debts with related parties	20	-	2,120	-	2,120
Advances from customers		18,673	18,677	20,254	19,957
Social and labor liabilities		10,705	8,031	11,603	9,169
Other		3,858	9,930	4,410	13,941
		218,150	220,142	224,425	230,283
Non-current liabilities					
Loans and financing	15	28,127	35,583	28,859	36,327
Provision for contingencies	19	15,237	11,965	15,237	12,010
Debts with related parties	20	7,827	7,386	-	149
Deferred income tax and social contribution	13	17,122	17,711	17,122	17,711
Liabilities with pension plans	21	3,281	3,629	3,281	3,629
Tax liabilities payable in installments	16	128,377	28,957	131,453	30,217
Taxes payable	18	-	111,957	-	112,354
Provision for loss on investments	12	29,746	31,612	-	-
Other		775	2,918	745	2,918
		230,492	251,718	196,697	215,315
Minority interest		-	-	8	(5)
Stockholders' equity	22				
Capital		112,957	112,957	112,957	112,957
Capital reserve		267	267	267	267
Revaluation reserve	13	51,246	52,989	51,246	52,989
Carrying value adjustment		(1,154)	(9,352)	(1,154)	(9,352)
Accumulated deficit		(133,483)	(151,395)	(133,712)	(152,025)
		29,833	5,466	29,604	4,836
Total liabilities and stockholders' equity		478,475	477,326	450,734	450,429

The accompanying notes are an integral part of these financial statements.

Portobello

Portobello S.A
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Portobello S.A. and Subsidiaries

Statements of Operations
Years Ended December 31

In thousands of reais, unless otherwise indicated (A free translation of the original in Portuguese)

		Parent company		Consolidated	
	Note	**2009**	**2008**	**2009**	**2008**
Gross sales revenues		465,087	464,025	506,957	517,466
Gross sales deductions		(101,410)	(104,993)	(104,978)	(108,885)
Net sales revenues		363,677	359,032	401,979	408,581
Cost of sales		(283,783)	(259,156)	(289,965)	(275,841)
Gross profit		79,894	99,876	112,014	132,740
Operating income (expenses)					
Selling		(45,108)	(45,467)	(66,741)	(76,036)
General and administrative		(11,599)	(13,225)	(16,093)	(17,330)
Equity in the loss of subsidiaries	12	(423)	(9,453)	-	-
Other operating income (expenses), net	23	15,872	4,812	12,955	3,056
		(41,258)	(63,333)	(69,879)	(90,310)
Operating income (loss) before financial result		38,636	36,543	42,135	42,430
Financial result	25				
Financial income		2,040	1,301	2,801	2,048
Financial expenses		(26,587)	(32,178)	(27,914)	(33,662)
Monetary and foreign exchange variations, net		3,965	(8,613)	3,965	(8,613)
		(20,582)	(39,490)	(21,148)	(40,227)
Operating profit (loss)		18,054	(2,947)	20,987	2,203
Income tax and social contribution on net income	8c				
Current		-	(6,154)	(2,873)	(10,684)
Deferred		(1,885)	376	(1,538)	(864)
		(1,885)	(5,778)	(4,411)	(11,548)
Profit (loss) before minority interest		16,169	(8,725)	16,576	(9,345)
Minority interest		-	-	(6)	(7)
Net income (loss) for the year		16,169	(8,725)	16,570	(9,352)
Outstanding shares at the balance sheet date (in thousands)		159,009	159,009	159,009	159,009
Net income (loss) for the year per thousand shares - R$		101.69	(54.87)	104.21	(58.81)

The accompanying notes are an integral part of these financial statements.

Portobello S.A. and Subsidiaries

Statements of Changes in Stockholders' Equity

In thousands of reais, unless otherwise indicated (A free translation of the original in Portuguese)

Parent company	Note	Capital	Capital reserve	Revaluation reserve	Accumulated deficit	Carrying value adjustment	Total
At December 31, 2007		112,957	267	54,584	(144,265)	-	23,543
Realization of revaluation reserve	13	-	-	(1,595)	1,595	-	-
Cumulative translation adjustments		-	-	-	-	(9,352)	(9,352)
Loss for the year		-	-	-	(8,725)	-	(8,725)
At December 31, 2008		112,957	267	52,989	(151,395)	(9,352)	5,466
Realization of revaluation reserve	13	-	-	(1,743)	1,743	-	-
Cumulative translation adjustments		-	-	-	-	8,198	8,198
Net income for the year		-	-	-	16,169	-	16,169
At December 31, 2009		112,957	267	51,246	(133,483)	(1,154)	29,833

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Portobello S.A. and Subsidiaries

Statements of Cash Flows
Years Ended December 31

In thousands of reais (A free translation of the original in Portuguese)

		Parent company		Consolidated	
	Note	2009	2008	2009	2008
Net cash from operating activities		32,531	(678)	31,201	(4,181)
Cash provided by operating activities		41,715	14,776	41,889	14,343
Income (loss) for the year before taxation		18,054	(2,947)	20,987	2,203
Adjustments		23,491	15,954	19,950	7,739
Depreciation and amortization	13 and 14	15,965	14,777	16,522	15,382
Equity in the loss of subsidiaries		423	9,453	-	-
Financial charges and foreign exchange variations		(992)	(11,851)	(3,226)	(12,046)
Deferred income tax and social contribution on net income	8b	1,885	(376)	1,538	(864)
Employee profit sharing		-	1,300	-	1,420
Provision of inventories to market value		3,112	1,408	3,112	1,408
Provision for doubtful accounts		510	(113)	(650)	654
Net book value of property, plant and equipment disposals		1,675	1,356	1,735	1,778
Minority interest		-	-	6	7
Other provisions		913	-	913	-
Income tax and social contribution paid		170	1,769	952	4,401
Changes in assets and liabilities		(9,184)	(15,454)	(10,688)	(18,524)
(Increase)/decrease in accounts receivable		8,808	6,372	3,283	(35,602)
(Increase)/decrease in inventories		(7,416)	1,509	(5,387)	11,309
(Increase)/decrease in other assets		1,847	(9,273)	(537)	(1,557)
(Increase)/decrease in non-current assets		1,431	(51,511)	821	(12,988)
Increase/(decrease) in accounts payable		(4,813)	10,773	5,795	10,715
Increase/(decrease) in tax liabilities payable in installments		111,551	628	111,481	1,912
Increase/(decrease) in tax liabilities		(120,731)	1,632	(120,993)	(3,424)
Increase/(decrease) in labor liabilities		2,674	401	2,512	322
Increase/(decrease) in other accounts payable		(2,535)	24,015	(7,663)	10,789
Net cash used in investing activities		(19,273)	(31,421)	(19,554)	(31,761)
Purchases of property, plant and equipment		(18,162)	(37,982)	(18,346)	(38,322)
Purchases of intangible assets		(1,111)	-	(1,208)	-
Receivables from Eletrobrás		-	6,561	-	6,561
Net cash provided by financing activities		(12,690)	37,265	(12,046)	42,597
New loans and financing		249,406	212,710	261,997	275,958
Payments of loans and financing		(239,608)	(175,339)	(271,774)	(233,255)
Payments to related parties		(22,488)	(106)	(2,269)	(106)
Increase/(decrease) in cash and cash equivalents		568	5,166	(601)	6,892
Opening balance of cash and cash equivalents		6,446	1,280	9,017	2,362
Closing balance of cash and cash equivalents		7,014	6,446	8,416	9,254
Foreign exchange variations on cash and cash equivalents		-	-	(202)	237
Adjusted cash and cash equivalents		7,014	6,446	8,618	9,017

The accompanying notes are an integral part of these financial statements.

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Portobello S.A. and Subsidiaries

Statements of Value Added
Years Ended December 31

In thousands of reais (A free translation of the original in Portuguese)

	Note	Parent company 2009	Parent company 2008	Consolidated 2009	Consolidated 2008
Revenues		474,552	478,735	512,639	553,221
Sales of goods, products and services		475,062	478,622	511,922	553,641
Other revenues		-	-	67	234
Allowance for doubtful accounts		(510)	113	650	(654)
Inputs acquired from third-parties		(257,390)	(257,783)	(273,030)	(305,338)
Cost of products, goods and services sold		(196,631)	(188,349)	(197,124)	(216,456)
Materials, energy, third party services and other		(60,851)	(69,536)	(75,998)	(88,985)
Loss/recovery of assets		92	102	92	103
Gross value added		217,162	220,952	239,609	247,883
Retentions		(15,965)	(14,777)	(16,522)	(15,382)
Depreciation and amortization	13 and 14	(15,965)	(14,777)	(16,522)	(15,382)
Net value added produced		201,197	206,175	223,087	232,501
Value added received in transfer		37,551	41,621	32,832	43,544
Equity in the loss of subsidiaries		(423)	(9,453)	-	-
Financial income		32,065	42,789	32,826	43,536
Other		5,909	8,285	6	8
Total value added to be distributed		238,748	247,796	255,919	276,045
Distribution of value added		238,748	247,796	255,919	276,045
Personnel l		71,034	69,322	79,761	82,905
Direct remuneration		62,500	59,513	70,558	72,457
Benefits		5,017	5,956	5,426	6,382
Government Severance Indemnity Fund for Employees (FGTS)		3,517	3,853	3,777	4,066
Taxes, fees and contributions		94,833	101,416	100,184	108,233
Federal		44,530	56,143	49,099	61,686
State		50,260	45,198	51,027	46,457
Municipal		43	75	58	90
Remuneration of third party capital		56,712	85,783	59,404	94,259
Interest		52,647	82,279	53,959	84,197
Rents		4,065	3,504	5,445	10,062
Remuneration of own capital		16,169	(8,725)	16,570	(9,352)
Retained earnings/(loss for the year)		16,169	(8,725)	16,570	(9,352)

The accompanying notes are an integral part of these financial statements.

1. Operations

Portobello S.A. ("Portobello" or the "Company") manufactures and sells ceramic tiles for interior walls, mosaics, external façades, floors, technical porcelain, enameled porcelain, decorated objects and special objects, and provides supplementary services for the civil construction industry in Brazil and abroad.

The Company also holds investments in subsidiaries. At December 31, 2009, the Company holds interest in the following subsidiaries:

(a) Portobello América, Inc. - Distributes Portobello products in the North American market, is located in Pompano Beach, Flórida, and has 12 employees.

(b) Mineração Portobello Ltda. - Supplies about 50% of the raw materials used by Portobello S.A. in the production of ceramic tiles. It has mineral deposits in several municipalities in the States of Santa Catarina and Paraná.

(c) PBTech Ltda. - Located in Tijucas, State of Santa Catarina and was incorporated with the objective of providing customers in the engineering sectors (civil construction companies) a differentiated service, with sales of products and services. PBTech Ltda. did not operate during 2009.

(d) Portobello Shop S.A. - Company which manages the Portobello Shop franchised stores specialized in ceramic tiles, currently totaling 104 stores.

At December 31, 2009, Portobello S.A. has an excess of current liabilities over current assets of R$ 58,047 (2008 - R$ 64,486) and of R$ 60,799 (2008 - R$ 65,360) in the consolidated statements. Management plans to reverse this situation through:

- Restructuring of the debt extending the indebtedness profile and obtaining a grace period for payment and reduction of the financial cost of borrowing.
- Implementation of measures to strengthen the operating and financial areas in order to improve the profit margins, such as: reduction of costs, replacement of equipment by other with higher productivity and launching of innovative products.

As described in Note 16, in the last quarter of 2009, the Company completed an important stage in the process of extending its indebtness profile through the adhesion to the Federal Tax Recovery Program (REFIS). As part of management's plans to improve the Company's operating results and remedy its negative working capital, the following measures were implemented and have already presented satisfactory results:

- Reduction of product portfolio aiming at increased productivity;
- Reduction of foreign market sales, which are less profitable;
- Outsourcing of the production of items with lower profitability margin;
- Obtaining fiscal incentives under the Program of Development for Companies of Santa Catarina State (PRODEC).

All amounts in thousands of reais unless otherwise indicated

The consolidated financial statements have been prepared and are being presented considering that the Company and its subsidiaries will continue as going concerns.

2. Presentation of the Consolidated Financial Statements and Significant Accounting Practices

Presentation of the Financial Statements (Parent company and Consolidated)

The financial statements were approved by the Company's Board of Directors on February 23, 2010.

The financial statements have been prepared and are being presented in accordance with the accounting practices adopted in Brazil, based on the provisions of Brazilian Corporation Law and the standards established by the Brazilian Securities Commission (CVM).

The significant accounting practices adopted in the preparation of these financial statements are consistent with the standards and guidelines applicable to the financial statements for the year ended December 31, 2009, which will differ from those that will be adopted to prepare the financial statements at December 31, 2010, as described in Note 3.

The preparation of financial statements requires the use of estimates to record certain assets, liabilities, revenues and expenses. The Company's financial statements, therefore, include estimates related to the selection of the useful lives of property, plant and equipment and the provisions required for contingent liabilities, income tax and other similar liabilities. The actual results may differ from those estimated.

The balance sheet accounts, revenues, costs and expenses arising from transactions between the Company and its subsidiaries have been eliminated on consolidation. The balance of investments maintained by the Company has also been eliminated, and the minority interest highlighted.

The consolidated financial statements include the financial statements of the following subsidiaries:

		%
	2009	2008
Portobello América, Inc.	100.00	100.00
PBTech Ltda.	99.94	99.94
Portobello Shop S.A.	99.90	99.90
Mineração Portobello Ltda.	99.76	99.76

When applicable, the accounting practices adopted by the subsidiaries are adjusted to reflect the same accounting practices adopted by the parent company.

All amounts in thousands of reais unless otherwise indicated

The reconciliation between the stockholders' equity and the net income (loss) for the years in the parent company and the consolidated is as follows:

	Result		Stockholders' equity	
	2009	2008	2009	2008
Parent company	16,169	(8,725)	29,833	5,466
Unrealized profit in inventories	(229)	(630)	(229)	(630)
Reversal of unrealized profit	630	3	-	-
Consolidated	16,570	(9,352)	29,604	4,836

3. Description of the Significant Accounting Practices Adopted

The significant accounting practices adopted in the preparation of the financial statements are described below:

(a) Cash and cash equivalents

These comprise cash, bank deposits and short-term investments with high liquidity and original maturities of three months or less, which are readily convertible into known amounts of cash and are subject to immaterial risk of change in value.

(b) Financial instruments

Classification and measurement

The Company classifies its financial assets according to the following categories: at fair value through profit or loss (held for trading), held to maturity and receivables since there are no financial assets available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of the financial assets when first recorded.

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

These are financial assets held for active and frequent trading. Gains or losses arising from the changes in fair value of financial assets measured at fair value through profit or loss are recorded in the statement of operations in "Financial results" in the period in which they occur.

Financial assets held to maturity (marketable securities)

These are basically financial assets that cannot be classified as loans and receivables, because they are quoted in an active market. In this case, these financial assets are acquired with the purpose and financial ability of being held up to their maturity. They are recorded at the acquisition cost, plus earnings, based on the effective interest rate method, credited to the statement of operations.

Receivables

These include receivables which are non-derivative financial assets with fixed or determinable payments, not quoted in an active market. They are included in current assets, except for those with maturity of more than 12 months from the balance sheet date (these are classified as non-current assets). The Company's receivables comprise trade accounts receivable, related party receivables and other accounts receivable.

Trade accounts receivable are initially stated at present value, net of the allowance for doubtful accounts, when applicable. The allowance for doubtful accounts is established when there is objective evidence that the Company will not be able to realize the amounts due in accordance with the original terms of the accounts receivable. The amount of the allowance is the difference between the book value and the recoverable value.

Because the Company's accounts receivable are due in the short-term and compatible with the operating cycle, they are not adjusted to present value.

Advances on foreign exchange contracts and export contracts

These are stated at cost plus foreign exchange variations and interest calculated up to the balance sheet date. Advances related to credit sales already made are deducted from accounts receivable.

Fair value

Fair value is the amount by which an asset could be exchanged or a liability settled between knowledgeable, willing parties, in an arm's-length transaction.

(c) 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. The net realizable value is the estimated sales price in the normal course of business, less completion costs and selling expenses.

(d) Income tax and social contribution on net income

The current income tax and social contribution on net income expense is calculated based on the rates of 25% for income tax and 9% effective 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; deferred tax liabilities relate to revaluations of property, plant and equipment. The recognition of credits takes into consideration the expectation of future taxable income and are calculated based on the rates established by current tax legislation and the amount considered realizable based on estimates prepared by the Company.

(e) Judicial deposits

Judicial deposits are monetarily restated and presented as a deduction from the corresponding liability when they cannot be redeemed, unless there is a favorable outcome for the entity in the dispute.

(f) Investments

Investments in subsidiaries are recorded based on the equity accounting method and the equity in the results of the investees is recognized in the statement of operations as operating expenses. In the event of exchange variations on the investment in the subsidiary Portobello America Inc. the changes in the value of the investment exclusively arising from exchange variations are recorded in the account "Carrying value adjustment", in the Company's stockholders' equity, and will be taken to the statement of operations for the year only when the investment is sold or written down as a loss. The other investments are stated at acquisition cost less provision to adjust them to probable realization values, when applicable.

(g) Property, plant and equipment

Property, plant and equipment is stated at purchase or construction cost plus revaluations, less depreciation on the straight-line method at the rates listed in Note 13, which are reviewed annually. The corresponding entries to these revaluations are recorded in a specific account in stockholders' equity and in deferred taxes under “Long-term liabilities”.

As permitted by the Brazilian Accounting Pronouncements Committee (CPC) Pronouncement 13 - First-time adoption of Law 11638/07, the Company opted to maintain the revaluation reserve up to its effective realization.

The Company reviews its property, plant and equipment annually to identify evidence of impairment, and also whenever events or changes in circumstances indicate that the book value of an asset or a group of assets might not be recovered through future cash flows. Based on the reviews to date, there is no need to record provisions for any permanent impairment.

Repairs and maintenance costs are allocated to the results as they are incurred. The cost of major renovations is included in the book value of the asset when it is probable that future economic benefits which exceed the performance initially expected for the existing asset will be obtained by the Company. Major renovations are depreciated over the remaining useful life of the related asset.

(h) Intangible assets

These refer to rights of trademarks and patents, expenses with the implementation of the management system and software and rights to explore mineral resources. Intangible assets are stated at acquisition cost less accumulated amortization calculated on the straight-line method, considering the estimated period of benefit.

(i) Financial lease

Leases of property, plant and equipment in which the Company substantially assumes all ownership risks and benefits are classified as financial leases under “Loans and financing”. These financial 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 the amortized cost. Property, plant and equipment acquired in finance leases are depreciated at the rates defined in Note 13.

Leases in which a significant portion of the ownership risks and benefits remains with the lessor are classified as operating leases. Operating lease payments are charged to results of operations on the straight-line basis over the term of the lease.

(j) Other current assets and long-term receivables

These are stated at realizable values including, when applicable, accrued income and monetary and foreign exchange rate variations.

(k) Profit sharing and bonuses

Profit sharing and bonuses are recognized, when applicable, at the end of the year, when the amount can be accurately calculated by the Company and recorded in other current liabilities and in the statement of operations as “Other operating expenses”.

(l) Loans and financing

These are initially recognized at fair value, upon the receipt of funds, net of transaction costs. Subsequently, the loans are presented at amortized cost, i.e. plus charges and interest proportional to the period elapsed ("pro rata temporis").

(m) Other current and non-current liabilities

These are stated at known or estimated amounts including, when applicable, related charges on a pro rata daily basis.

(n) Determination of the results of operations

Income and expenses are recorded on the accrual basis of accounting. Sales revenue is recognized at the time the goods are delivered or services rendered, upon 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 account receivable is probable; and d) the costs incurred or to be incurred related to the transaction can be reliably determined.

(o) Private pension plan

The plan is recorded on the accrual basis of accounting, as described in Note 21.

(p) Transactions with related parties

These transactions are carried out under the conditions described in Note 20.

(q) Provisions for contingencies

Provisions 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.

(r) Foreign currency translation

Foreign currency assets and liabilities are translated at the exchange rate in effect on the balance sheet date. Foreign exchange gains and losses resulting from the translation process are recognized in the results of operations, as financial results.

The assets and liabilities recorded in U.S. dollar by the foreign subsidiary were translated to reais at the exchange rate ruling on the balance sheet date and the result of operations at the monthly average exchange rates. The exchange variation on the foreign investment was recorded as “Cumulative translation adjustment” in stockholders’ equity under ‘Carrying value adjustments”.

The CPC accounting pronouncements and interpretations of standards listed below were published and are mandatory for the years beginning on or after January 1, 2010. In addition, other pronouncements and interpretations were also published, which alter the accounting practices adopted in Brazil, within the process of convergence with the international standards. The standards below are only those that could (or should) more significantly affect the Company's financial statements. Under the terms of these new standards, the figures for 2009, presented herein, should be restated for comparison purposes with the statements for 2010. The Company did not early adopt these standards for the year ended December 31, 2009.

(a) Pronouncements

- CPC 16 – Inventories.
- CPC 20 – Borrowing costs.
- CPC 23 - Accounting Policies, Changes in Accounting Estimates and Error Correction.
- CPC 24 - Subsequent Events.
- CPC 25 - Provisions, Contingent Liabilities and Assets.
- CPC 26 - Presentation of Financial Statements.
- CPC 27 – Property, Plant and Equipment.
- CPC 30 – Revenues.
- CPC 32 – Taxes on Profit.
- CPC 33 – Employee Benefits.
- CPC 34 - Exploration for and Evaluation of Mineral Resources.
- CPC 36 - Consolidated Financial Statements.
- CPC 37 - First-time Adoption of International Financial Reporting Standards.

All amounts in thousands of reais unless otherwise indicated

- CPC 38 - Financial Instruments: Recognition and Measurement.
- CPC 39 - Financial Instruments: Presentation.
- CPC 40 - Financial Instruments: Disclosure.

(b) Interpretations

- ICPC 03 - Complementary Aspects of Leasing Operations.
- ICPC 09 - Individual, Separate, Consolidated Financial Statements and Application of the Equity Accounting Method.
- ICPC 10 - Clarifications on CPC 27 and CPC 28.
- ICPC 12 - Changes in Decommissioning, Restoration and Similar Liabilities.

4. Trade Accounts Receivable

	Parent company		Consolidated	
	2009	2008	2009	2008
Accounts receivable from third parties:				
Customers - Local market	56,552	51,821	62,290	54,480
Customers - Foreign market	10,693	20,398	11,325	28,661
	67,245	72,219	73,615	83,141
Accounts receivable from subsidiaries:				
PBTech Ltda. - local	2,285	2,327	-	-
	2,285	2,327	-	-
Allowance for doubtful accounts	(2,408)	(1,898)	(2,626)	(3,276)
Discounted trade bills	(5)	(1,112)	(5)	(1,112)
Advances on export contracts	(2,438)	(4,529)	(2,438)	(4,529)
	(4,851)	(7,539)	(5,069)	(8,917)
Total accounts receivable	64,679	67,007	68,546	74,224

During the year ended December 31, 2009, the balance receivable from the subsidiary Portobello America Inc. was reclassified to non-current assets under “Receivables from subsidiaries”.

All amounts in thousands of reais unless otherwise indicated

The aging of accounts receivable is as follows:

	Parent company		Consolidated	
	2009	2008	2009	2008
Not yet due	59,567	63,718	65,681	70,969
Overdue up to 30 days	2,548	3,635	2,411	4,347
Overdue from 31 to 60 days	283	966	346	1,384
Overdue from 61 to 90 days	251	606	251	929
Overdue from 91 to 180 days	450	346	869	2,570
Overdue from 181 to 360 days	1,420	429	1,276	433
Overdue for more than 360 days	2,726	2,519	2,781	2,509
Total accounts receivable	67,245	72,219	73,615	83,141

5. Marketable Securities

The financial assets in the parent company and the consolidated at December 31, 2009, classified as Held to maturity, are as follows:

	Parent company and Consolidated	
	2009	2008
Restricted account (a)	3,650	6,790
Financial investments (b)	629	-
	4,279	6,790

(a) Non-interest bearing restricted account in connection with the prepayment transaction, subject to the U.S. dollar exchange variation and falling due on March 29, 2010.

(b) Financial investments pledged as collateral for loans, remunerated at 98% of the Interbank Deposit Certificate (CDI) variation and falling due on August 25, 2010.

6. Inventories

	Parent company		Consolidated	
	2009	2008	2009	2008
Finished products	61,101	46,492	64,262	54,697
Work in process	6,967	7,379	6,967	7,379
Raw material and consumption materials	8,270	6,927	8,270	6,927
Provision for adjustment to realizable value	(8,114)	(3,102)	(8,462)	(4,703)
Total	68,224	57,696	71,037	64,300

All amounts in thousands of reais unless otherwise indicated

7. Taxes Recoverable

	Parent company		Consolidated	
	2009	2008	2009	2008
Value-added Tax on Sales and Services (ICMS)	38	-	75	126
Excise Tax (IPI) (a)	706	-	706	-
Income Tax Withheld at Source (IRRF)	94	109	464	478
Corporate Income Tax (IRPJ)	125	-	294	154
Social Contribution on Net Income (CSLL)	96	52	176	126
Social Integration Program (PIS)	19	9	178	211
Social Contribution on Revenues (COFINS)	87	40	87	40
PIS/COFINS credit (b)	2,138	-	2,138	-
Other	26	14	176	31
Total	3,329	224	4,294	1,166

(a) The percentages of IPI rates levied on the products manufactured and sold by Portobello S.A. have been reduced up to June 30, 2010, in accordance with Decree 7032 of December 14, 2009, generating credits which may be used to offset tax liabilities in the future.

(b) In 2009, the Company recognized PIS and COFINS credits of R$ 6,703 on acquisitions of spare parts for the maintenance of machines and equipment in the period from January 2006 to June 2009. These credits resulted from the review of the calculation of these federal taxes and are supported by the opinion of independent legal consultants. In 2010, R$ 2,138 of these credits should be utilized (see Note 23).

8. Income Tax and Social Contribution on Net Income

(a) Deferred income tax and social contribution on net income

	Parent company		Consolidated	
	2009	2008	2009	2008
Tax losses	41,442	23,272	41,442	23,272
Temporary differences	(6,648)	24,544	(6,648)	24,544
Realization of revaluation reserve	15,107	24,544	15,107	24,544
Provision for contingencies	14,188	-	14,188	-
PIS calculation basis reduced by deduction of the ICMS	1,489	-	1,489	-
COFINS calculation basis reduced by deduction of the ICMS	6,860	-	6,860	-
Portobello pension plan	3,281	-	3,281	-
Other temporary differences	1,837	-	1,837	-
Exchange variation under the cash basis	(21,027)	-	(21,027)	-
Adjustment to the depreciation of machines and equipment	(8,283)	-	(8,283)	-
Provision for financial investments	(6,185)	-	(6,185)	-
Provision for adjustment to market value	(10,974)	-	(10,974)	-
Allowance for doubtful accounts	(2,408)	-	(2,408)	-
Adjustment to present value - ICMS PRODEC	(533)	-	(533)	-
	34,794	47,816	34,794	47,816

All amounts in thousands of reais unless otherwise indicated

(b) Analysis of deferred income tax and social contribution

Deferred income tax and social contribution assets and liabilities were recorded at the rates effective on December 31, 2009 and are as follows:

	Parent company		Consolidated	
	2009	2008	2009	2008
Deferred income tax assets				
On tax losses	10,360	5,818	10,360	5,818
On temporarily non-deductible provisions	(1,662)	6,136	(1,662)	6,136
(-) Valuation allowance for the amount with realization not currently assured	(6,611)	(8,139)	(6,611)	(8,139)
	2,087	3,815	2,087	3,815
Deferred social contribution assets				
On tax losses	3,730	2,149	3,730	2,149
On temporarily non-deductible provisions	(599)	2,107	(599)	2,107
(-) Valuation allowance for the amount with realization not currently assured	(2,379)	(2,758)	(2,379)	(2,758)
	752	1,498	752	1,498
Total	2,839	5,313	2,839	5,313

During 2009, accumulated tax losses from prior years, in the amount of R$ 49,336, were recorded and used to offset debts included in the tax recovery program established by Provisional Measure (MP) 470 (see Note 16).

At December 31, 2009, the Company recorded deferred income tax and social contribution on tax losses incurred in 2009, in the amount of R$ 11,829. In conformity with the recognition criteria established in CVM Instruction 371 and based on the analysis of the budget for 2010 approved by the Board of Directors, the Company recorded R$ 8,990 (R$ 6,611 relating to income tax and R$ 2,379 to social contribution) as an allowance for the amount with realization not currently assured. The realization of R$ 2,839 is expected for 2010.

All amounts in thousands of reais unless otherwise indicated

(c) Analysis of the tax expense:

	Accumulated in 2009 and 2008			
	Parent company		Consolidated	
	2009	2008	2009	2008
Income tax				
Provision for income tax - current	-	(4,518)	(2,106)	(7,954)
Deferred income tax	16,308	-	16,308	
Reversal of deferred income tax on realization of revaluation reserve	434	396	434	396
(-)Valuation allowance	(18,127)	(120)	(17,868)	(1,360)
	(1,385)	(4,242)	(3,232)	(8,918)
Social contribution				
Provision for social contribution - current	-	(1,636)	(767)	(2,730)
Deferred social contribution	5,871	-	5,871	-
Reversal of deferred social contribution on realization of revaluation reserve	156	145	156	145
(-)Valuation allowance	(6,527)	(45)	(6,439)	(45)
	(500)	(1,536)	(1,179)	(2,630)
Total	(1,885)	(5,778)	(4,411)	(11,548)

(d) Effective tax rate reconciliation:

	Accumulated in 2009 and 2008			
	Parent company		Consolidated	
	2009	2008	2009	2008
Profit/(loss) before taxation	18,054	(2,947)	20,987	2,203
Standard tax rate	34%	34%	34%	34%
Tax credit (expense) at the standard rate	(6,138)	1,002	(7,136)	(749)
Tax effect of permanent (additions) exclusions:				
Equity in the results of subsidiaries	(144)	(3,214)	-	-
Additions related to tax payment in installments - Law 11941 and MP 470	(5,054)	-	(5,054)	-
Other non-deductible expenses	(253)	(111)	(382)	(306)
Depreciation of revalued assets	(593)	(544)	(593)	(544)
Unrecorded tax credits (debits) on temporary differences and tax losses from prior years	12,182	(3,287)	10,292	(9,085)
(-)Valuation allowance	(1,885)	376	(1,538)	(864)
Expense for the year	(1,885)	(5,778)	(4,411)	(11,548)

(e) Transitional Tax System

The Transitional Tax System (RTT) will be effective until enactment of the Law that will govern the tax effects of the new accounting methods, and seeks tax neutrality.

The system is optional for calendar years 2008 and 2009, as long as the following is observed: (i) be applied to both 2008 and 2009, not to only one calendar year; and (ii) the option must be declared in the Federal Corporate Income Tax Return (DIPJ).

The Company opted for the RTT in 2009, for calendar years 2009 and 2008. Consequently, for the purposes of calculating the income tax and social contribution on net income for 2009 and 2008, the Company used the prerogatives defined in RTT.

9. Eletrobrás Compulsory Loan

From 1977 to 1993, the Company paid, through invoices for electrical energy, the compulsory loan created by Law 4156/62 with the purpose of financing the expansion of the Brazilian electrical sector.

With the objective of obtaining reimbursement of this compulsory loan, the Company filed litigation against Centrais Elétricas Brasileiras S.A. - ELETROBRÁS, which was judged favorably on December 16, 2005.

After the final and unappealable decision, the Company filed an execution action in February 2006 against ELETROBRÁS and the Federal Government. ELETROBRÁS, in its defense, recognized the undisputed portion of R$ 6,286 (amounts at March 1, 2008), comprising (i) a bank deposit of R$ 4,964, received by the Company on April 1, 2008 and (ii) 61,209 class B nominative preferred shares of Eletrobrás, valued at R$ 1,322 (March 2008). These shares, according to the IBOVESPA quotation at June 30, 2008, had a market value of R$ 1,594, and were sold on August 13, 2008 for R$ 1,597.

The Judge of the 2nd Federal Court of Florianópolis, after presentation of the parties' positions, determined that the Court Accounting Department calculate the amount due to Portobello, based on the parameters of the court decision. The Department determined that the amount of R$ 12,064, as of February 1, 2006, was due for the repayment of the compulsory loan, including legally defined charges.

The Company has updated the amount calculated by the legal experts, based on the same methodology and deducting the amount already recognized as undisputed, resulting in a remaining balance of R$ 13,859, (R$ 10,560, net of provisions for income tax and social contribution) (2008 - R$ 9,059 net of income tax and social contribution), which is recorded in non-current assets as “Receivables” and is restated monthly by the National Consumer Price Index (INPC), plus interest of 12% p.a.

As a contingent asset, the Company is still claiming in court the additional recognition of R$ 3,800, based on the fact that the Federal Court of Florianópolis accounting department has not applied correctly the interest levied on credits already declared in favor of the Company. The court accounting department has not considered that the new civil code established revised regulations to calculate legal interest (art. 406) upon which the Company pleads the mentioned difference.

All amounts in thousands of reais unless otherwise indicated

10. Tax Credits

(a) The Company filed several lawsuits requesting the recognition of the IPI Premium credit for different calculation periods. Regarding lawsuit 1987,0000,645-9, referring to the period from April 1, 1981 to April 30, 1985, the Company obtained a favorable final court decision, which is at the sentence liquidation phase, with the related amounts already determined by the Federal Court accounting department (Federal Regional Court of Appeal (TRF) – 1st Region). Accordingly, in November 2009, the Company recognized the undisputed amount of R$ 9,602 (R$ 7,365 net of the provision for income tax and social contribution on net income).

(b) Lawsuits 1998.34.00.029022-4 and 1984.00.020114-0 have already received a final decision on the merits and are at the settlement stage. However, as the amounts owed by the Federal Government have not yet been calculated by the federal justice, they cannot be recorded as assets. The Company's legal consultants estimate credits of R$ 54,605 and R$ 1,848, respectively, net of provisions (see Note 16).

At last, lawsuit RE 594816 waits for the Federal Supreme Court final decision.

11. Other Long-term Receivables

	Parent company		Consolidated	
	2009	2008	2009	2008
Marketable securities (a)	6,186	6,186	6,186	6,186
Provision for loss	(6,186)	(6,186)	(6,186)	(6,186)
Escrow deposits	-	-	593	611
Value-added Tax on Sales and Services (ICMS) credits on property, plant and equipment	293	254	293	254
Transactions with Banco Santos (a)	1,041	1,041	1,041	1,041
(-) ACE long-term	(1,041)	(1,041)	(1,041)	(1,041)
Receivables - SIMAB (b)	4,535	4,535	4,535	4,535
(-) Provision for loss	(4,535)	(4,535)	(4,535)	(4,535)
Municipal taxes and fees (c)	207	207	207	207
Trade accounts receivable	673	-	673	-
Total	1,173	461	1,766	1,072

(a) The Company recorded a provision for loss on the full amount of marketable securities related to transactions with Banco Santos S.A., a bank that was declared bankrupt in 2005. The Company received three advances on foreign exchange contracts (ACC) from Banco Santos in the total amount of US$ 2,200 thousand. Of this amount, R$ 1,041 is still outstanding and the products have been shipped (Advances on Export Contracts - ACE - performed) and are classified in Other long-term receivables as a reduction of trade accounts receivable relating to this same transaction. In reciprocity, the Company acquired debentures from companies of the Banco Santos group (SANTOSPAR

All amounts in thousands of reais unless otherwise indicated

Investimentos e Participações S.A. and SANVEST Participações S.A.), in the total amount of R$ 5,577 (R$ 6,185 at the date of bankruptcy). Following the intervention of Banco Santos by the Brazilian Central Bank, several actions were taken to protect the Company's interests. Having been unsuccessful in the administrative proceedings, the Company filed litigation seeking to offset the liabilities (ACC contracts) of R$ 3,454 against the receivables (Debentures) of R$ 5,577. The Judge of the Civil Court of Tijucas granted a preliminary injunction, suspending the effectiveness of the contract signed on October 20, 2004 (ACC 9398).

(b) On September 30, 2007, the Company recorded R$ 4,535 as a long-term account receivable relating to the transfer of tax credits (Excise Tax (IPI) premium credits) to SIMAB S.A. On the same date, the Company recorded a provision for loss of the same amount as the asset.

(c) In March 2008, the Company requested the reimbursement of municipal taxes paid to the Municipality of Tijucas, of R$ 207, according to Municipal Decree 078/2001. No answer had been received from the Municipality up to December 31, 2009. These credits are not being adjusted for monetary restatement.

12. Investments in Subsidiaries

	Investments with net capital deficiency				Investments
	Portobello América, Inc.	PBTech Ltda.	Mineração Portobello	Provision for losses on investments	Portobello Shop S.A.
Paid-up capital	16,280	3,337	167		400
Stockholders'/quotaholders' equity(net capital deficiency) at December 31, 2009	(27,026)	(2,342)	(378)		480
Net income (loss) for the year	(5,947)	(307)	(78)		5,915
Ownership interest %	100.00%	99.94%	99.76%		99.90%
Balance at December 31, 2007	(4,106)	(1,560)	(227)	(5,893)	4,619
Equity in the earnings (loss)	(15,819)	(475)	(73)	(16,367)	6,914
Cumulative translation adjustments	(9,352)	-	-	(9,352)	-
Dividends proposed for prior years	-	-	-	-	(2,768)
Dividends proposed	-	-	-	-	(8,285)
Balance at December 31, 2008	(29,277)	(2,035)	(300)	(31,612)	480
Equity in the earnings (loss)	(5,947)	(307)	(78)	(6,332)	5,909
Cumulative translation adjustments	8,198	-	-	8,198	-
Dividends proposed	-	-	-	-	(5,909)
Balance at December 31, 2009	(27,026)	(2,342)	(378)	(29,746)	480

All amounts in thousands of reais unless otherwise indicated

The provision for losses on investments with net capital deficiency, totaling R$ 6,332 and the equity in the earnings of Portobello Shop S.A., of R$ 5,909, were recorded in the statement of income as equity in the results of subsidiaries.

During the year ended December 31, 2009, the Company recorded gains of R$ 8,198 arising from the currency translation of the financial statements of its fully-owned subsidiary Portobello America, Inc., from the U.S. dollar to the real.

13. Property, Plant and Equipment

(a) Analysis

		Parent company				Consolidated	
		2009			2008	2009	2008
	Annual average depreciation rate	Cost	Accumulated depreciation	Net	Net	Net	Net
Land		11,432	-	11,432	13,072	11,809	13,439
Buildings, constructions and improvements	3%	89,348	(7,707)	81,641	84,063	81,915	84,429
Machinery and equipment	15%	254,295	(176,337)	77,958	71,221	78,163	71,606
Furniture and fixtures	10%	7,637	(6,645)	992	1,206	1,159	1,470
Computers	20%	11,414	(10,818)	596	658	599	666
Other	20%	218	(149)	69	509	69	574
Construction in progress (*)		3,458	-	3,458	3,219	3,458	3,219
Total		377,802	(201,656)	176,146	173,948	177,172	175,403

(b) Changes in property, plant and equipment

	2009	Parent company				2008
	Net	Additions	Transfers	Depreciation	Disposals	Net
Land	11,432	-	-	-	(1,640)	13,072
Buildings, constructions and improvements	81,641	-	175	(2,577)	(20)	84,063
Machinery and equipment	77,958	331	17,398	(10,992)	-	71,221
Furniture and fixtures	992	49	-	(263)	-	1,206
Computers	596	369	-	(431)	-	658
Other	69	46	(445)	(26)	(15)	509
Construction in progress (*)	3,458	17,367	(17,128)	-	-	3,219
Total	176,146	18,162	-	(14,289)	(1,675)	173,948

All amounts in thousands of reais unless otherwise indicated

	2009	Consolidated				2008
	Net	Additions	Transfers	Depreciation	Disposals	Net
Land	11,809	10	-	-	(1,640)	13,439
Buildings, constructions and improvements	81,915	109	175	(2,756)	(42)	84,429
Machinery and equipment	78,163	385	17,398	(11,208)	(18)	71,606
Furniture and fixtures	1,159	60	-	(365)	(6)	1,470
Computers	599	369	-	(436)	-	666
Other	69	46	(496)	(26)	(29)	574
Construction in progress (*)	3,458	17,367	(17,128)	-	-	3,219
Total	177,172	18,346	(51)	(14,791)	(1,735)	175,403

(*) Approximately R$ 3.5 million of the balance of the account Construction in progress relate to constructions in the final stage. The corresponding depreciation will be recorded up to the second quarter of 2010, when the assets begin to be used.

As established by the Technical Interpretation ICPC 10 issued by the Committee of Accounting Pronouncements and approved by CVM Deliberation 619/09, in 2008, the Company reviewed and changed the economic useful lives of its property, plant and equipment, based on a technical appraisal of the Engineering department. The same rates were maintained for 2009.

At the Extraordinary General Meeting held on December 29, 2006, the stockholders approved the recording of the revaluation of land, buildings and improvements, based on the appraisal report prepared by Bretas & Associados Engenharia e Consultoria Ltda., an independent appraisal company. This report established the revalued amount of the assets, as well their remaining useful lives, which became the new basis for depreciation. The revaluation of R$ 62,652 was credited to revaluation reserve, in the amount of R$ 43,868, net of tax effects of R$ 18,784, which were recorded in long-term liabilities. This increase was carried out in addition to the balance of revaluation reserve of assets in the amount of R$ 13,368, related to revaluations prior to 2006 and which is still included in the revaluation reserve balance.

The analysis of the assets revalued in 2006 is as follows:

	Amounts before the revaluation			**Revaluation 12.31,2006**	
	Acquisition cost	**Accumulated depreciation**	**Balance 12.31,2006**	**Revaluation surplus**	**Balance after revaluation**
Land	5,803	-	5,803	7,402	13,205
Buildings	63,047	(33,566)	29,481	47,656	77,137
Improvements	8,190	(3,189)	5,001	7,594	12,595
	77,040	(36,755)	40,285	62,652	102,937
(-)Deferred income tax and social contribution on net income				(18,784)	
Net amount of the revaluation				43,868	

All amounts in thousands of reais unless otherwise indicated

Therefore, considering the surplus credited to the revaluation reserves approved by the Extraordinary General Meeting on December 29, 2006, the balance of the revaluation of own assets, net of deferred taxes, amounted to R$ 51,246 at December 31, 2009 (R$ 52,989 at December 31, 2008),the depreciation expense on the revaluation, net of deferred IR and CSLL liabilities for the year ended December 31, 2009 was R$ 1,743 (R$ 1,595 for the same period of 2008), and the balance of deferred income tax and social contribution on the revaluation reserve recorded in non-current liabilities was R$ 17,122 (R$ 17,711 at December 31, 2008).

14. Intangible Assets

(a) Analysis

		Parent company				Consolidated	
		2009			2008	2009	2008
	Annual average amortization rate	Cost	Accumulated amortization	Net	Net	Net	Net
Trademarks and patents		150	-	150	154	152	154
Software	20%	12,149	(10,798)	1,351	2,916	1,403	2,987
Right to explore mineral resources (*)	20%	1,000	-	1,000	-	1,030	-
Goodwill		-	-	-	-	80	-
Total		13,299	(10,798)	2,501	3,070	2,665	3,141

(b) Changes in intangible assets

	2009	Parent company				2008
	Net	Additions	Transfers	Amortizations	Write-offs	Net
Trademarks and patents	150	-	-	-	(4)	154
Software	1,351	111	-	(1,676)	-	2,916
Right to explore mineral resources (*)	1,000	1,000	-	-	-	-
Total	2,501	1,111	-	(1,676)	(4)	3,070

	2009	Consolidated				2008
	Net	Additions	Transfers	Amortizations	Write-offs	Net
Trademarks and patents	152	-	2	-	(4)	154
Software	1,403	128	-	(1,712)	-	2,987
Right to explore mineral resources (*)	1,030	1,000	49	(19)	-	-
Goodwill	80	80	-	-	-	-
Total	2,665	1,208	51	(1,731)	(4)	3,141

(*) The exploration of this mineral resource is expected to start in March 2010, when it will begin to be amortized.

All amounts in thousands of reais unless otherwise indicated

(c) The timing of the amortization of consolidated intangible assets is as follows:

	2010	2011	2012	2013	2014
Software	967	167	103	41	1
Right to explore mineral resources	206	206	206	206	206
Total	1,173	373	309	247	207

The items Trademarks and patents, Software under development and Goodwill, in the amount of R$ 356, are not being amortized.

15. Loans and Financing

	Parent company		Consolidated			
	2009	2008	2009	2008		
Current						
Foreign currency						Charges
Ancora	1,862	1,236	1,862	1,236		VC+7.54% p.a.
Nuovafima	1,247	383	1,247	383		VC+7.66% p.a.
Tecnoferrari	285	-	285	-		VC+6.00% p.a.
IFC - International Finance Corporation	-	3,798	-	3,798		VC+Libor+4,625% p.a.
Advance on export contract	1,779	3,834	1,779	3,834		VC+7.00% p.a.
Suppliers credit	2,569	1,027	2,569	1,027		VC+6.25% p.a.
Banco ABN (a)	5,443	29,227	5,443	29,227		VC+Libor+5.50% p.a.
Banco ABC_1 (c)	877	2,384	877	2,384		VC+Libor+3.90% p.a.
Banco ABC_2	438	796	438	796		VC+Libor+3.60% p.a.
Banco SAFRA (b)	832	2,288	832	2,288		VC+Libor+3.75% p.a.
Working capital in USA	-	-	17	1,591		VC+7.50% p.a.
Total foreign currency	15,332	44,973	15,349	46,564		
Local currency						
FINAME/POC	16	196	16	196		TJLP+14.00% p.a.
Leasing	205	109	205	109		2.16% p.m.
Working capital in Brazil	74,858	46,275	74,858	46,275		19.75% p.a. (average)
Total local currency	75,079	46,580	75,079	46,580		
Total current liabilities	90,411	91,553	90,428	93,144		
Non-current						
Foreign currency					**Maturity**	
Ancora	378	1,707	378	1,707	May/2011	VC+7.54% p.a.
Nuovafima	831	1,213	831	1,213	Nov/2011	VC+7.66% p.a.
Suppliers credit	14,626	17,583	14,626	17,583	Mar/2014	VC+6.25% p.a.
Banco ABN (a)	-	7,303	-	7,303		VC+Libor+5.50% p.a.
Banco ABC_1 (c)	-	1,168	-	1,168		VC+Libor+3.90% p.a.
Banco ABC_2	-	584	-	584		VC+Libor+3.60% p.a.
Banco SAFRA (b)	-	1,169	-	1,169		VC+Libor+3.75% p.a.
Total foreign currency	15,835	30,727	15,835	30,727		

All amounts in thousands of reais unless otherwise indicated

	Parent company		Consolidated			
	2009	2008	2009	2008		
Local currency						
PRODEC (d)	1,735	-	1,735	-	Dec/2013	4.00% p.a. + UFIR
(-) Adjustment to present value	(533)	-	(533)	-		
FINAME/POC	-	16	-	16		TJLP+14.00% p.a.
Leasing	144	95	144	95	Jun/2012	2.16% p.m.
Working capital in Brazil	10,946	4,745	11,678	5,489	Dec/2012	10.68% p.a. (average)
Total local currency	12,292	4,856	13,024	5,600		
Total do non-current	28,127	35,583	28,859	36,327		
Total	118,538	127,136	119,287	129,471		

FINAME/POC - National Industrial Financing Authority/Program of Joint Operations
PRODEC - Program of Development for Companies of Santa Catarina State
VC - Exchange variation
TJLP - Long-term interest rate
LIBOR - London Interbank Offered Rate
UFIR - Fiscal Reference Unit

(a) Banco ABN Amro Bank - On March 30, 2007, the Company entered into an export prepayment contract of US$ 25 million with Banco ABN Amro Bank, subject to LIBOR plus interest of 5.5% p.a., to be repaid in 36 months, with a 15-month grace period. This contract contains the following restrictive covenants:

1) Total indebtedness divided by EBITDA <= 4.5
2) Operating cash generation over the last 12 months divided by financial expenses over the last 12 months > = 2.5
3) Total indebtedness divided by Stockholders' equity < = 7.0

At December 31, 2009, the Company had not complied with the above ratios and had not requested a waiver from the creditor, because the contract matures in March 2010 and the amount required for its settlement has been deposited in the current account of the financing agent responsible for the transaction. The balance of this loan is recorded in current liabilities in accordance with its maturity.

The transaction is guaranteed by:

- Trade bills receivable in the local market equivalent to 50% of the transaction amount;
- Finished product inventories equivalent to 25% of the transaction amount;
- Deposit of receivables in the foreign market into an account at the financial institution equivalent to 150% of the next quarterly amount due.
- Guarantee of the controlling stockholders (individuals).

(b) Banco Safra S.A. - In May 2007, the Company entered into a prepayment transaction with Banco Safra S.A. of US$ 3 million subject to LIBOR plus interest of 3.75% p.a., payable over 3 years. There are no restrictive covenants for this loan, which is guaranteed personally by the Company's Chief Executive Officer.

All amounts in thousands of reais unless otherwise indicated

(c) Banco ABC Brasil S.A. – Also in May 2007, the Company signed an agreement with Banco ABC Brasil S.A. for US$ 3 million subject to LIBOR plus interest of 3.9% p.a., payable over 3 years. There are no restrictive covenants for this loan which is collateralized by receivables of Portobello Shop S.A.

(d) PRODEC – In July 2009, The Company was granted the State of Santa Catarina's Special Regime, which permits special conditions for the payment of ICMS generated as a result of the plant expansion program in 2008, as follows:

1) 60% of the ICMS due monthly in excess of R$ 761 (average paid in 2007 and 2008) can be deferred
2) Grace period of 48 months
3) Term of 120 months
4) Monetary restatement of 4% p.a. plus UFIR variation

Because this contract is restated at rates below those practiced in the market it was adjusted to present value based on the official SELIC rate (8.65% p.a. at December 31, 2009).

The other loans are mainly guaranteed by mortgages on properties, pledges of equipment and receivables, reciprocity with financial investments, sureties of the controlling stockholders and finished product inventories in the amount of R$ 20,700.

The long-term loans fall due as follows:

	Parent company		Consolidated	
Maturity	2009	2008	2009	2008
2010	-	21,054	-	21,798
2011	11,091	10,334	11,091	10,334
2012	8,945	2,358	9,677	2,358
2013	7,384	1,837	7,384	1,837
2014	707	-	707	-
	28,127	35,583	28,859	36,327

16. Taxes Payable in Installments

	Tax liabilities	Request for installment payment		2009	2008
		Date	No. of installments not yet due		
Portobello S.A.	INSS	Sep/06	-	-	2,330
	INSS	Sep/06	-	-	420
	INSS	Jul/07	-	-	2,376
	INSS	Dec/09	59	12,381	-
	IPI	Sep/06	-	-	20,501

All amounts in thousands of reais unless otherwise indicated

	Tax liabilities	Request for installment payment		2009	2008
		Date	No. of installments not yet due		
	IPI	Sep/06	-	-	5,286
	IPI	Dec/09	59	8,510	-
	CPMF	Mar/07	-	-	39
	PIS	Mar/09	50	501	377
	COFINS	Mar/09	50	2,306	1,735
	IRPJ	Mar/09	50	3,662	3,790
	CSLL	Mar/09	50	1,362	1,406
	LAW 11941/09 (*)	Nov/09	180	113,430	-
	MP 470 (*)	Nov/09	10	7,659	-
Total parent company				149,811	38,260
Current				21,434	9,303
Non-current				128,377	28,957
PBTech Ltda.	INSS	Sep/06	-	-	75
	LAW 11941/09 (*)	Nov/09	180	287	-
Portobello Shop S.A.	INSS	Sep/06	-	-	101
	INSS	Nov/09	58	1,021	-
	PIS	Mar/09	17	4	-
	COFINS	Mar/09	50	173	18
	IRPJ	Mar/09	50	1,327	1,118
	CSLL	Mar/09	50	482	406
	LAW 11941/09 (*)	Nov/09	180	527	-
Total subsidiaries				3,821	1,718
Total consolidated				153,632	39,978
Current				22,179	9,761
Non-current				131,453	30,217

(*) REFIS – Tax Recovery Program

The installments above are subject to interest at the official SELIC (benchmark) rate and are being paid on the due date.
While it waits for the Law 11941/09 debt consolidation by the National Treasury, the Company pays R$ 389, the minimum installment.

In November 2009, the Company filed an application for REFIS, established by Law 11941/2009 and MP 470/2009.

All amounts in thousands of reais unless otherwise indicated

The benefits used by the Company under the REFIS are:

(a) Law 11941/2009

- Rescheduling of installments for the payment of balance remaining from prior programs;
- Payment in installments of federal debts overdue up to November 30, 2008;
- Reduction of penalties and interest without effecting the calculation of current income tax and social contribution on net income.
- Possibility of extending the payment term up to 180 months.

(b) MP 470 (debts arising from the utilization of IPI premium credit)

- Utilization of tax losses accumulated up to December 31, 2008 to settle the principal, fines and interest;
- Payment term of 12 months;
- Reduction of penalties and interest with effects on the calculation of current income tax and social contribution on net income.

The main effects recognized in the results for the year ended December 31, 2009 were as follows:

(a) Recognition of liability of R$ 126,093, in the parent company and the consolidated, arising from the utilization of IPI premium credit originated before October 5, 1990, the enforceability of which had been suspended.

(b) Accounting recognition of the discontinuation of judicial and administrative proceedings, of which an unfavorable outcome was previously considered as possible or remote, amounting to R$ 4,856 in the parent company and R$ 5,652 in the consolidated.

(c) Recognition of deferred income tax and social contribution assets of R$ 49,336 in the parent company and R$ 49,665 in the consolidated.

(d) Reduction of financial charges on taxes (fine and interest) amounting to R$ 117,571, of which R$ 31,769 relates to the adhesion to Law 11941 and R$ 85,802 to MP 470.

Stockholders' equity increased by R$ 12,486 in the parent company and R$ 12,569 in the consolidated financial statements, as shown below.

	Parent company	Consolidated
Other operating income (net)	2,479	2,863
Financial expenses	10,007	9,706
	12,486	12,569

All amounts in thousands of reais unless otherwise indicated

Future events:

(a) The conversion of Provisional Measure 470 into law may result in benefits such as the non taxation of reduced penalties and interest and the possibility of using tax losses of 2009, among others, according to amendments approved by the House of Representatives.

(b) Consolidation of debts by the National Treasury in accordance with Law 11941/2009.

Summary:

Parent company	2008	2009	Adhesion to the Installment Payment Program				
Debts	Balance	Balance before the adhesion to the program	Benefits of Law 11941	Benefits of MP 470	Adhesion to the installment payment program	Settlement - tax losses	Balance 11/30/2009
INSS overdue up to 11/30//08	1,724	1,866	135	-	1,731	-	1,731
IPI overdue up to 11/30//08	3,071	3,304	372	-	2,932	-	2,932
Ordinary installment payment CPMF	39	31	13	-	18	-	18
Ordinary installment payment INSS	2,376	1,938	1,527	-	411	-	411
Installment payment IPI – PAEX	5,286	3,782	893	-	2,889	-	2,889
Installment payment IPI - PAEX	20,501	19,536	4,901	-	14,635	-	14,635
IPI Premium credit (a)	95,229	108,468	22,815	-	85,653	-	85,653
IPI Premium credit (b)	16,728	17,954	-	10,408	7,546	-	7,546
IPI Premium credit (c)	-	126,093	-	75,394	50,699	49,336	1,363
Other debts	1,444	6,300	1,113	-	5,187	-	5,187
	146,398	289,272	31,769	85,802	171,701	49,336	122,365

Consolidated	2008	2009	Adhesion to the Installment Payment Program				
Debts	Balance	Balance before the adhesion to the program	Benefits of Law 11941	Benefits of MP 470	Adhesion to the installment payment program	Settlement - tax losses	Balance 11/30/2009
INSS overdue up to 11/30//08	1,853	2,007	145	-	1,862	-	1,862
IPI overdue up to 11/30//08	3,071	3,304	372	-	2,932	-	2,932
Ordinary installment payment CPMF	39	31	13	-	18	-	18
Ordinary installment payment INSS	2,450	2,058	1,540	-	518	-	518
Installment payment IPI – PAEX	5,286	3,782	893	-	2,889	-	2,889
Installment payment IPI - PAEX	20,501	19,536	4,901	-	14,635	-	14,635
IPI Premium credit (a)	95,625	108,883	22,889	-	85,994	-	85,994
IPI Premium credit (b)	16,728	17,954	-	10,408	7,546	-	7,546
IPI Premium credit (c)	-	126,093	-	75,394	50,699	49,336	1,363
Other debts	1,444	7,096	1,334	-	5,762	329	5,433
	146,997	290,744	32,087	85,802	172,855	49,665	123,190

All amounts in thousands of reais unless otherwise indicated

(a) Offset of federal taxes through IPI Premium credit originated after October 5, 1990, acquired from related party, with contractual right of recourse.

(b) Offset of federal taxes through IPI Premium credit originated after October 5, 1990, acquired from third-parties.

(c) Offset of federal taxes through IPI Premium credit originated before October 5, 1990. The offsets were carried out based on final court decisions, although at net amounts, since the final decision did not define the settlement values.

The income tax and social contribution losses used to settle the debts total R$ 49,336 (R$ 49,665 in the consolidated). In compliance with CVM Instruction 346/00, tax credits not previously recognized but used for the REFIS are also recorded in Other operating income, segregated in the result for the year in order to highlight their non-recurring nature.

Under the REFIS Program, the payment of installments cannot be more than three months late and the Company must discontinue any lawsuit and waive any alleged right on which the referred lawsuits are based, under penalty of immediate cancelation of the installment payment and the consequent loss of the aforementioned benefits. The termination of lawsuits filed against the tax assessments does not impair the proceedings in course, mentioned in Note 10(b).

The installments fall due as follows:

	Parent company		Consolidated	
Maturity	2009	2008	2009	2008
2009	-	9,303	-	9,761
2010	21,434	6,675	22,179	6,983
2011	13,690	6,194	14,432	6,503
2012	13,690	4,585	14,431	4,893
2013	13,690	4,106	14,431	4,415
2014	11,772	2,768	12,081	2,794
2015	7,562	2,645	7,616	2,645
2016	7,562	1,984	7,616	1,984
2017	7,562	-	7,616	-
2018	7,562	-	7,616	-
2019	7,562	-	7,616	-
2020	7,562	-	7,616	-
2021	7,562	-	7,616	-
2022	7,562	-	7,616	-
2023	7,562	-	7,616	-
2024	7,477	-	7,534	-
	149,811	38,260	153,632	39,978

All amounts in thousands of reais unless otherwise indicated

17. Taxes, Fees and Contributions

	Parent company		Consolidated	
	2009	2008	2009	2008
IRRF on bonuses (a)	-	1,444	-	1,444
IRRF	600	644	774	808
ICMS	899	2,119	899	2,119
IPI (b)	-	5,380	-	5,380
PIS	-	-	16	-
COFINS	-	9	71	9
IRPJ	-	-	22	-
Others	32	120	173	245
	1,531	9,716	1,955	10,005

(a) This debt was included in the REFIS, as mentioned in Note 16.
(b) The debts overdue up to November 30, 2008 were included in the REFIS; the other debts are included in the ordinary installment program (Note 16).

18. Taxes Payable

(a) Changes in taxes payable

	Parent company								
	2009	(-) Inclusion REFIS	(-) Benefits MP 470	(-) Benefits Law 11941	(+) Additions	(+) Monetary restatements	2008	Monetary restatements	2007
Taxes payable on credits acquired from related parties	-	85,653	-	22,815	9,353	3,886	95,229	4,925	90,304
Taxes payable on credits acquired from third-parties	-	7,546	10,408	-	594	632	16,728	791	15,937
	-	93,199	10,408	22,815	9,947	4,518	111,957	5,716	106,241

	Consolidated								
	2009	(-) Inclusion REFIS	(-) Benefits MP 470	(-) Benefits Law 11941	(+) Additions	(+) Monetary restatements	2008	Monetary restatements	2007
Taxes payable on credits acquired from related parties	-	85,994	-	22,889	9,353	3,904	95,626	4,949	90,677
Taxes payable on credits acquired from third-parties	-	7,546	10,408	-	594	632	16,728	791	15,937
	-	93,540	10,408	22,889	9,947	4,536	112,354	5,740	106,614

All amounts in thousands of reais unless otherwise indicated

These debts were included in the REFIS Program (Note 16), with a reduction in penalties and interest, which were recorded in the result, under Other operating expenses.

19. Provisions for Contingencies

The Company and its subsidiaries are parties to tax, civil and labor lawsuits and in administrative tax proceedings. Management, based on the opinion of its legal counsel, believes that the provisions for contingencies are sufficient to cover probable losses in connection with such contingencies.

The analysis of the provisions for contingencies, reduced by the corresponding judicial deposits, is as follows:

Parent company	Judicial deposits	Provisions	2009	Judicial deposits	Provisions	2008
Civil	-	1,803	1,803	-	2,370	2,370
Labor	(563)	10,779	10,216	(350)	6,349	5,999
Tax	(1,199)	1,606	407	(1,076)	1,481	405
(a) Tax	-	8,350	8,350	-	3,191	3,191
	(1,762)	22,538	20,776	(1,426)	13,391	11,965
		Current	5,539		Current	-
		Non-current	15,237		Non-current	11,965

Consolidated	Judicial deposits	Provisions	2009	Judicial deposits	Provisions	2008
Civil	-	1,821	1,821	-	2,370	2,370
Labor	(563)	10,779	10,216	(350)	6,394	6,044
Tax	(1,199)	1,606	407	(1,076)	1,481	405
(a) Tax	-	8,350	8,350	-	3,191	3,191
	(1,762)	22,556	20,794	(1,426)	13,436	12,010
		Current	5,557		Current	-
		Non-current	15,237		Non-current	12,010

Tax

(a) On April 16, 2008, the Company obtained an injunction granted by the Federal Judge of the 9th Judiciary Section of the Federal District, Dr. Antonio Corrêa, through Writ of Mandamus 2008.34.00,011286-4, to exclude the Value-added Tax on Sales and Services (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 not considering the ICMS in the calculation basis. At December 31, 2009, the amount provided was R$ 8,350.

The balances of provisions for tax contingencies are restated based on the SELIC interest rate for the year.

All amounts in thousands of reais unless otherwise indicated

The increase in the labor provision was due to the fact that some proceedings received a liquidation sentence. Accordingly, the Company reviewed and adjusted the related amounts.

The civil and labor claims are individually evaluated by the Company's legal advisors, who classify them in accordance with the expectation of outcome as: probable loss, possible loss or remote loss. The amounts classified as probable loss are fully provided and the amounts classified as possible loss are disclosed in the notes to the financial statements

The changes in the provisions and deposits for contingencies are as follows:

Parent company	Provisions				Judicial deposits		Total
	Civil	Labor	Tax	Tax (a)	Labor	Tax	
2008	2,370	6,349	1,481	3,191	(350)	(1,076)	11,965
Deposits	-	-	-	-	(268)	(123)	(391)
Provisions	30	5,672	125	5,159	-	-	10,986
Reductions	(597)	(1,242)	-	-	55	-	(1,784)
2009	1,803	10,779	1,606	8,350	(563)	(1,199)	20,776

Consolidated	Provisions				Judicial deposits		Total
	Civil	Labor	Tax	Tax (a)	Labor	Tax	
2008	2,370	6,394	1,481	3,191	(350)	(1,076)	12,010
Deposits	-	-	-	-	(268)	(123)	(391)
Provisions	63	5,702	125	5,159	-	-	11,049
Reductions	(612)	(1,317)	-	-	55	-	(1,874)
2009	1,821	10,779	1,606	8,350	(563)	(1,199)	20,794

The maximum exposure (probable and possible risk of loss) is as follows:

Parent company	Civil	Labor	Tax	Tax (a)	Total
Probable	1,803	10,779	1,606	8,350	22,538
Possible	542	3,713	-	-	4,255
	2,345	14,492	1,606	8,350	26,793

Consolidated	Civil	Labor	Tax	Tax (a)	Total
Probable	1,821	10,779	1,606	8,350	22,556
Possible	542	3,713	-	-	4,255
	2,363	14,492	1,606	8,350	26,811

All amounts in thousands of reais unless otherwise indicated

Possible loss - no provisions have been recorded for contingencies for which the likelihood of loss was assessed as possible by the Company's legal counsel. These contingencies involve tax, civil and labor lawsuits, as summarized below:

Labor

The Company and its subsidiary Portobello Shop S.A. are defendants in 130 labor claims brought by employees, former employees and third parties. The claims refer to the payment of termination amounts, premiums, overtime, salary equalization, monetary adjustment of Government Severance Indemnity Fund for Employees (FGTS), compensation for pain and suffering and tangible damage from occupational accidents/disease. The total risk is estimated at R$ 2,341.

A tax assessment was raised relating to social security contributions due by the Company on insured employee remuneration, contributions for financing of benefits due to labor disability, and contributions to third parties (INCRA and SEBRAE), plus late payment interest and fine. The updated amount at risk at December 31, 2009 is R$ 1,372.

Civil

The Company and its subsidiaries are defendants in 113 civil lawsuits in common courts and special civil courts. Most of the lawsuits have been brought by customers and claim compensation for alleged pain and suffering and property damages. The total risk is estimated at R$ 542.

20. Related Party Transactions

The transactions of purchase and sale of products, raw materials and contracting of services, as well as financial transactions of loans and fund raising between group companies are as follows:

	Subsidiaries								Total	
	Portobello America, Inc.		PBTech Com. Serv. Ltda.		Portobello Shop S.A.		Mineração Portobello Ltda.			
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Assets										
Trade accounts receivable	-	-	2,285	2,327	-	-	-	-	2,285	2,327
Advance to suppliers	-	-	-	-	-	-	741	518	741	518
Dividends receivable	-	-	-	-	5,909	8,285	-	-	5,909	8,285
Receivables from subsidiaries	32,182	37,937	605	820	-	-	-	-	32,787	38,757
Total	32,182	37,937	2,890	3,147	5,909	8,285	741	518	41,722	49,887
Liabilities										
Payables to related parties	-	-	-	-	7,827	7,237	-	-	7,827	7,237
Total	-	-	-	-	7,827	7,237	-	-	7,827	7,237
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Result										
Revenue from sale of products	10,968	27,359	-	551	-	-	-	-	10,968	27,910
Revenue from rendering of services	-	-	-	24	5,453	5,210	-	-	5,453	5,234

All amounts in thousands of reais unless otherwise indicated

	Subsidiaries								Total	
	Portobello America, Inc.		PBTech Com. Serv. Ltda.		Portobello Shop S.A.		Mineração Portobello Ltda.			
	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Cost of services	-	-	-	-	(2,839)	(3,289)	-	-	(2,839)	(3,289)
Purchase of products	-	-	-	-	-	-	(958)	(525)	(958)	(525)
Total	10,968	27,359	-	575	2,614	1,921	(958)	(525)	12,624	29,330

	Related parties				Total	
	Refinadora Catarinense S.A		Solução Cerâmica e Com. Ltda.			
	2009	2008	2009	2008	2009	2008
Assets						
Receivables	86,763	95,229	-	-	86,763	95,229
Trade accounts receivable	-	-	138	120	138	120
Total	86,763	95,229	138	120	86,901	95,349
Liabilities						
Advance from customers	-	-	314	401	314	401
Payables to related parties	-	2,269	-	-	-	2,269
Total	-	2,269	314	401	314	2,670

The prices practiced by the parent company for products sold to the subsidiaries is now defined as cost plus 15%, differently from last year, when these prices were 5% less than those practiced with third parties, as there were no expenses with agent commissions.

Intercompany loans earn interest at 100% of the CDI (Interbank Deposit Certificate) interest rate, and fall due on December 31, 2010.

The possibility of using part of the accounts payable to the Company by Portobello America Inc. to increase the subsidiary's capital is being evaluated.

Refinadora Catarinense

From 2001 to 2003, the Company acquired from the related party Refinadora Catarinense S.A. ("Refinadora"), tax credits against the National Treasury. These Refinadora credits derive from an injunction against the National Treasury, seeking refund of the IPI premium credits for the period from July 24, 1991 to July 23, 2001. In the period from January 2001 to January 2003, the Company utilized these credits, totaling R$ 42,102, to pay federal taxes incurred and due by the Company, expressly supported by the judicial decision in the injunction. According to the terms of the agreement between the parties, if such credits are not validated by the National Treasury, Refinadora must reimburse the Company for the amount it would disburse to pay definitively the federal taxes that were previously offset against the credits.

Upon the enactment of Law 11941, which provided the taxpayers with the opportunity to pay tax debts in up to 180 months, the Company adhered to the extraordinary installment payment plan, acknowledging its tax debts and obtaining the benefits of reduction in penalties and interest. As the IPI Premium credit had been extinguished by Supreme Court on October 4, 1990, the intentions mentioned above had to be disregarded.

All amounts in thousands of reais unless otherwise indicated

However, Refinadora had already entered into an agreement with the Company, guaranteeing the reimbursement of the amounts utilized to offset tax debts, which was eventually disallowed, and recording the amount provisioned for loss in the process in “Non-current assets”. The guarantee was supported by credits arising from lawsuit 87.00.00967-9, which also includes reimbursement of the "IPI credit premium" tax benefit for the calculation period prior to October 4, 1990, on which a final and unappealable decision from the Federal Court in the Federal District had already been passed.
.
As from the acknowledgement of their tax debts, Portobello and Refinadora Catarinense terminated the collateral agreement and signed a Contract of Payment in Kind with Assignment of Rights in the amount of R$ 86,763. This agreement replaces the collateral and considers that the credits thereby assigned, which also arise from lawsuit 87.00.00967-9 and are monetarily restated by the SELIC rate, fully satisfy the tax credit installments.

Also, Refinadora Catarinense S/A remains responsible for the financial performance of the obligation.

It should be pointed out that the credits offered in payment are about to become a court-ordered debt expected to be received in two years, when the Company may initiate the tax offset procedure, wait for the conversion into cash, or sell the court-ordered debt.

Remuneration of Key Management Personnel

The remuneration of key management personnel, comprising members of the board of directors and management for the year ended December 31, 2009 is as follows:

	Accumulated in 2009 and 2008	
	2009	2008
Salaries and charges	5,170	4,561
Directors’ fees and charges	1,785	1,991
Private pension plans	442	350
Others	939	674
Total	8,336	7,576

21. Private Pension Plan

The Plano de Benefícios Portobello Prev (the Portobello Prev Benefit Plan), managed by BB Previdência - Fundo de Pensão Banco do Brasil, was started in 1997 and now includes 1,892 employees. The plan has the characteristics of a defined contribution plan; however, it offers a minimum retirement benefit for length of service or age. The actuarial valuation of this portion of the plan, considered as a defined benefit, updated to December 31, 2009, indicates an actuarial deficit R$ 138.

At December 31, 2009, 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, amounts to R$ 3,281 (R$ 3,629 in December 2008) and is provided in long-term liabilities. The Company will pay the related special reserve amount when each participant in these conditions becomes eligible.

All amounts in thousands of reais unless otherwise indicated

All the plan's benefits will be granted to the participants who are eligible in accordance with the Regulations of the Plan. The costing of each plan will be determined by an independent actuary once a year, or whenever there are significant changes in the plan's costs.

During the year ended December 31, 2009 expenses with contributions to the pension plan amounted to R$ 818 (R$ 1,254 in 2008), recorded under “General and administrative expenses”.

Actuarial assumptions

At December 31, the main actuarial assumptions used were as follows:

	2009	2008
Economic assumptions		
Discount rate	6% p.a. (real)	6% p.a. (real)
Expected rate of return on assets	6% p.a. (real)	6% p.a. (real)
Future salary increases	2% p.a. (real) up to 47 years	1% p.a. (real) up to 47 years
Growth in the benefits and limits of the Government Social Security	2% p.a. (real) as from 48 years	1% p.a. (real) as from 48 years
Inflation	N/A	N/A
Capacity factor		
Salaries	100%	100%
Benefits	100%	100%
Demographic assumptions		
Mortality table	AT 83	AT 83
Disability mortality table	Exp. IAPC	Exp. IAPC
Disability table	Hunter and Álvaro Vindas	Hunter and Álvaro Vindas

22. Stockholders' Equity

(a) Capital

On November 27, 2007, the Extraordinary General Meeting of stockholders, in conformity with art. 136 of Law 6404/76, approved the conversion of all the preferred shares into common shares at the ratio of one common share for each preferred share. This occurred on January 10, 2008, when the Company's subscribed and paid-up capital totaled R$ 112,957 (R$ 112,957 at December 2008), comprising 159,008,924 book-entry common shares with no par value.

Each common share is entitled to one vote in Stockholder Meetings, pursuant to the rights and privileges established by Brazilian corporate legislation and by the Company's by-laws.

The Company is authorized to increase capital up to 1,000,000,000 (one billion) new book-entry 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.

All amounts in thousands of reais unless otherwise indicated

(b) Revaluation reserve

This reserve was recorded in 2006 based on independent appraisal reports and is transferred to retained earnings/accumulated deficit in the same proportion as the depreciation or disposal of the revalued assets (see Note 13).

(c) Legal and statutory reserves

The Company's by-laws determine that 5% of net income will be transferred to the legal reserve, limited to 20% of capital. In accordance with corporate legislation, the Company has not appropriated the net income for the year, which was used to offset the balance of accumulated deficit.

(d) Dividends

Stockholders are entitled to a mandatory minimum dividend equivalent to 25% of net income of each year, adjusted as determined by article 202 of Law 6404/76. Net income for the year ended December 31, 2009 was used to offset accumulated deficit.

23. Other Operating Income and Expenses, Net

	Parent company		Consolidated	
	2009	2008	2009	2008
Other operating income				
Tax credits (Note 7b)	6,703	-	6,703	-
Related party service revenues	2,451	1,921	-	-
Third-party service revenues	433	-	433	-
Reimbursement of municipal taxes and fees	-	60	-	60
Eletrobrás compulsory loan (Note 9)	1,503	15,030	1,503	15,030
Sale of property, plant and equipment	1,766	-	1,766	-
Installment payment program - REFIS (Note 16)	51,907	-	52,291	-
Tax credits (Note 10)	7,365	-	7,365	-
Payment in kind agreement with related parties (a)	1,156	-	1,156	-
Other income	997	55	869	828
Total other operating income	74,281	17,066	72,086	15,918
Other operating expenses				
Provision for contingencies (Note 19)	(5,742)	(7,331)	(5,674)	(7,355)
Taxes on other revenues	(306)	(170)	(306)	(170)
Idleness costs	-	(1,943)	-	(1,943)
Cost of sale of assets	(1,680)	-	(1,680)	-
Profit sharing	-	(2,417)	-	(2,537)
Indemnity payable on third-party agreement	(1,076)	-	(1,076)	-
Installment payment program - REFIS (Note 16)	(49,428)	-	(49,428)	-
Other expenses	(177)	(393)	(967)	(857)
Total other operating expenses	(58,409)	(12,254)	(59,131)	(12,862)
Total net	15,872	4,812	12,955	3,056

(a) Tax credit rights of Refinadora Catarinense S/A assigned in payment.

All amounts in thousands of reais unless otherwise indicated

24. Operating Leases

Operating leases refer to IT equipment and vehicles. The minimum future payments of non-cancelable operating leases, in total and for each one of the following periods, are:

	2009	2008
Up to one year	205	109
More than one year and up to five years	144	95
Total	349	204

25. Financial Income and Expenses

	Parent company		Consolidated	
	2009	2008	2009	2008
Financial income				
Interest	1,702	701	2,456	1,440
Discounts received	338	578	345	586
Other	-	22	-	22
	2,040	1,301	2,801	2,048
Financial expenses				
Interest	(22,751)	(21,208)	(23,146)	(22,432)
Commissions and service fees	(1,212)	(879)	(1,231)	(879)
Financial charges on taxes	576	(5,222)	(42)	(5,435)
Discounts/bank expenses	(631)	(1,715)	(631)	(1,740)
Discounts granted	(413)	(1,854)	(417)	(1,866)
CPMF (Tax on Bank Account Outflows)	-	(36)	-	(36)
IOF (Tax on Financial Transactions)	(2,156)	(1,219)	(2,156)	(1,219)
Other	-	(45)	(291)	(55)
	(26,587)	(32,178)	(27,914)	(33,662)
Foreign exchange variation, net				
Exchange gains	30,025	41,488	30,025	41,488
Financial investments	552	3,448	552	3,448
Accounts receivable	7,312	26,614	7,312	26,614
Suppliers	4,390	794	4,390	794
Loans and financing	17,771	10,632	17,771	10,632
Exchange losses	(26,060)	(50,101)	(26,060)	(50,101)
Financial investments	(2,976)	(748)	(2,976)	(748)
Accounts receivable	(16,936)	(16,703)	(16,936)	(16,703)
Suppliers	(3,488)	(3,604)	(3,488)	(3,604)
Loans and financing	(2,660)	(29,046)	(2,660)	(29,046)
	3,965	(8,613)	3,965	(8,613)
Financial expenses, net	(20,582)	(39,490)	(21,148)	(40,227)

All amounts in thousands of reais unless otherwise indicated

26. Insurance Cover

At December 31, 2009, the insurance cover against fire, robbery, collision and sundry risks for property, plant and equipment, inventories and loss of profits is considered sufficient by management to cover any losses.

	Parent company and Consolidated
Cover	2009
Fire/Lightning/Explosion of any type	84,000
Electrical damages	1,000
Riots	1,000
Windstorm/Smoke with Vehicle Impact	3,000
Civil liability - Operations	2,500
Civil liability - Employer	2,500
Loss of Profits - Windstorm with Impact	16,000
Loss of Profits - Basic	16,000

27. Directors' Fees

Fees for the Board of Directors totaled R$ 1,484 in 2009 (R$ 1,643 in 2008). The Annual General Meeting of stockholders held on April 24, 2009 approved a maximum overall directors' remuneration of R$ 4,320 for that year.

28. Financial Instruments

(a) Identification and valuation of financial instruments

The Company operates with several financial instruments, especially cash and cash equivalents, marketable securities, trade accounts receivable, accounts payable to suppliers and loans and financing.

The financial investments in investment funds and in quotas of investment funds are marked-to-market. The Bank Deposit Certificates are priced based on the earnings curve, but due to their characteristics of term and liquidity, the book values approximate fair values. Loans and financing are initially recognized on the receipt of funds at fair value, net of costs. Subsequently, they are presented at amortized cost, i.e., plus charges and interest proportional to the period elapsed.

The investments are limited to investments in subsidiaries, recorded on the equity method of accounting.

(b) Management of financial risks

The Company regularly monitors its exposure to these risks which are controlled and managed by the Treasury area.

The market risks are protected when it is considered necessary to support the corporate strategy or when it is necessary to maintain the level of financial flexibility. No derivative financial instruments are used.

(c) Credit risk

The Company maintains strict control on credit granted to its customers and adjusts these limits whenever significant changes in the risk levels are detected.

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

(d) Liquidity risk

This is the Company's risk of not having sufficient liquid funds to meet its financial commitments, due to the mismatch of terms or volumes of estimated 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.

(e) Market risk

Interest rate risk

This risk arises from the possibility that the Company may incur losses due to fluctuations in interest rates that lead to an increase in the financial expenses on loans and financing obtained in the market. The Company continuously monitors market interest rates in order to assess the need to contract new instruments to hedge against the volatility risk of these rates.

Foreign exchange rate risk

The amount of debt in foreign currency is equivalent to approximately 11 months of export revenues based on the average for 2009. The revenues subject to exchange rate variations over the payment period are close to the debt service cost, and therefore are a natural hedge of the cash flows.

All amounts in thousands of reais unless otherwise indicated

Exchange exposure risk:

	Parent company in reais		Consolidated in reais	
	2009	2008	2009	2008
Accounts receivable	10,693	20,398	11,325	28,661
Advance to suppliers	768	621	768	621
Marketable securities	3,650	6,790	3,650	6,790
Investments in subsidiaries	(27,026)	(29,277)	(27,026)	(29,277)
Suppliers	(2,687)	(5,909)	(3,820)	(6,961)
Loans and financing	(31,167)	(75,700)	(31,184)	(77,291)
Net exposure	(45,769)	(83,077)	(46,287)	(77,457)

		Parent company in foreign currency		Consolidated company in foreign currency	
		2009	2008	2009	2008
Accounts receivable	Euro	301	354	301	354
Accounts receivable	US Dollar	5,238	8,237	6,824	11,773
Advance to suppliers	Euro	82	14	82	14
Advance to suppliers	US Dollar	325	345	325	345
Marketable securities	US Dollar	2,096	2,905	2,096	2,905
Investments in subsidiaries	US Dollar	(15,521)	(12,528)	(15,521)	(12,528)
Suppliers	Euro	(708)	(829)	(708)	(829)
Suppliers	US Dollar	(400)	(1,380)	(1,051)	(1,831)
Loans and financing	Euro	(1,835)	-	(1,835)	-
Loans and financing	US Dollar	(14,235)	(32,392)	(14,245)	(33,073)

(f) Derivatives

The Company did not contract any derivative financial instruments such as term contracts, swaps, options, futures, swaptions, swaps with regret option, flexible options, derivatives included in other products, structured transactions with derivatives, exotic derivatives and any other transactions with derivatives, regardless of the manner in which they are contracted.

* * *

Portobello

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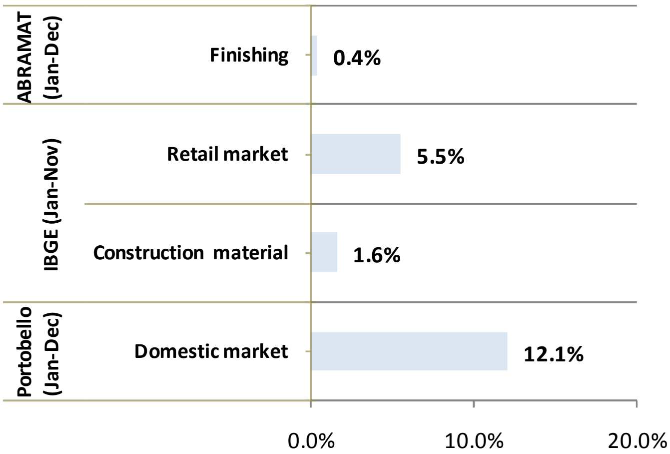
Portobello S.A. (BOVESPA code: PTBL3), one of the largest companies in the Brazilian ceramic tile sector, listed in the traditional segment of BOVESPA since 1991 and in the New Market since April 30, 2008, presents its results of operations for the year ended December 31, 2009. The financial and operating information below is consolidated, in accordance with Brazilian Corporate Law, and the comparisons refer to the 2008 and 2007 calendar years, unless otherwise indicated.

HIGHLIGHTS

- Net results increased 277%, as compared to 2008;
- Domestic sales increased 12%;
- Production of ceramic tiles increased 5%;
- Administrative and selling expenses decreased 12%;
- Net financial expenses decreased 47%;
- Bank borrowings decreased 8%;
- As a result of the adherence to the tax Recovery Program (REFIS) established by Law 11941 and MP 470, the Company's stockholders' equity increased by R$ 12,569 and the term for the payment of the debts was extended to up to 180 months;
- Recognized by the magazine “Anamaco” as “Outstanding brand in: Quality, Sales Strength, Technical Guidance and General Evaluation”;
- Award of “Best franchise in the category Ceramic Tile” granted by the magazines “Construção Mercado”, “Tèchne”,” AU - Arquitetura & Urbanismo” and “Equipe de Obra”,published by PINI;
- Award of “Seal of Excellence in Franchising” granted by the Brazilian Association of Franchising (ABF);
- Award of “Best Franchise of Brazil” granted by the magazine “Pequenas Empresas Grandes Negócios”.

MESSAGE FROM MANAGEMENT

2009 began under the impact of the international financial crisis initiated in September 2008, which adversely affected the demand for construction material and market liquidity. The Brazilian economy, which was contaminated by this negative international scenario, only started to shown signals of a consistent recovery in the second half of 2009.



In line with this economic cycle, the sector of civil construction material presented slight growth, of less than 2%, in the accumulated for the year, according to the Brazilian Institute of Geography and Statistics (IBGE). The segment of finishing materials, which includes ceramic tiles, grew even less, according to the Brazilian Association of Construction Material (ABRAMAT). In spite of the difficult situation, the Company's domestic sales increased by 12%, almost offsetting the market fall in exports.

Continuing its process of progressive rationalization, the Company reduced administrative and selling expenses by 12%. Significant progress was also made in the financial aspects, through the reduction of 8% in the balance of bank indebtness and 47% in net financial expenses.

In November 2009, the Company adhered to the programs for tax payment in installments established by Law 11941/2009 and Provisional Measure 470/2009, reducing significantly its tax liabilities and extending the payment terms up to 180 months. In addition to the regularization of its tax liabilities, the Company also recognized tax liabilities previously recorded as contingent liabilities, which may be included in the requests for payment in installments with the use of significant reductions provided for by the new legislation. Deferred income tax and social contribution credits were used to settle a significant portion of the taxes payable in installments, the use of which, in normal situations, would take years. Almost all these tax contingencies relate to the offset of taxes with IPI premium credits, which had already been disallowed by the Federal Revenue and were being discussed in the administrative and judicial spheres. The acknowledgement of the debts and the adherence to the installment plan for the payment of the tax debts arising from disallowed offsets eliminate the administrative discussion but do not impair the course of lawsuits that claim the recognition of the right to the IPI premium credit of exports carried out before October 4, 1990, which have already received a favorable final decision and are now in the process of sentence liquidation.

The main effects recognized in the consolidated results at December 31, 2009 were as follows:

(a) Recognition of a liability of R$ 126,093 arising from the utilization of IPI premium credit originated before October 5, 1990, the enforceability of which had been suspended.
(b) Accounting recognition of the discontinuation of judicial and administrative proceedings, of which an unfavorable outcome was previously considered as possible or remote, in the amount of R$ 5,652.
(c) Recognition of deferred income tax and social contribution assets of R$ 49,665.
(d) Reduction of financial charges on taxes (fine and interest) amounting to R$ 117,889, of which R$ 32,087 relates to the adhesion to Law 11941 and R$ 85,802 to MP 470.
(e) Increase of R$ 12,569 in stockholders' equity.

In the second half of the year, the Company's strategic plan was reviewed and adjusted to the new market scenario. Strategies to prioritize the domestic market growth were established.

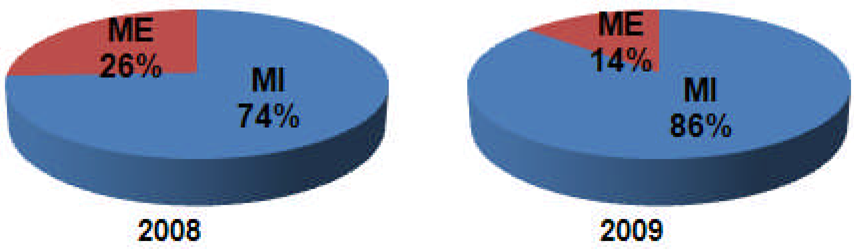
DISTRIBUTION

The Company's distribution strategy is based on four distinct channels with specific portfolio characteristics of products, services and commercial policy:

Domestic market: the distribution channels are: (i) multi-brands resale, responsible for the customers who are resellers of construction material, selling the Company products in the retail market; (ii) engineering, represented by specialized teams that serve civil construction companies and real estate development companies; and (iii) franchises that serve our customers in the retail market through franchised stores under the name Portobello Shop and Empório Portobello. With 104 stores located in 85 cities, this channel represents the largest Brazilian network of stores specialized in ceramic tiles.

Foreign Market: represents the sales to several countries, including those of the subsidiary abroad.

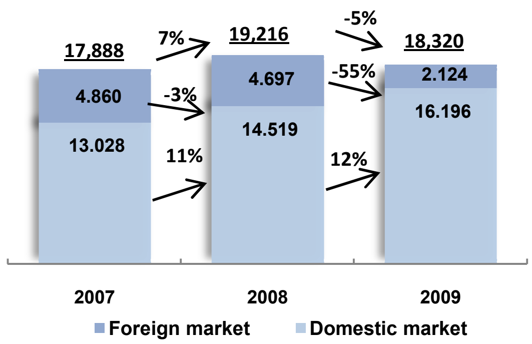
Revenue Distribution



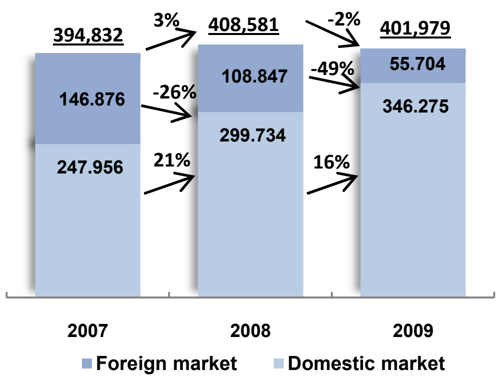
ME= Foreign market, MI= Domestic market

SALES PERFORMANCE

Sales volume (thousand m²)



Net Operating Revenue

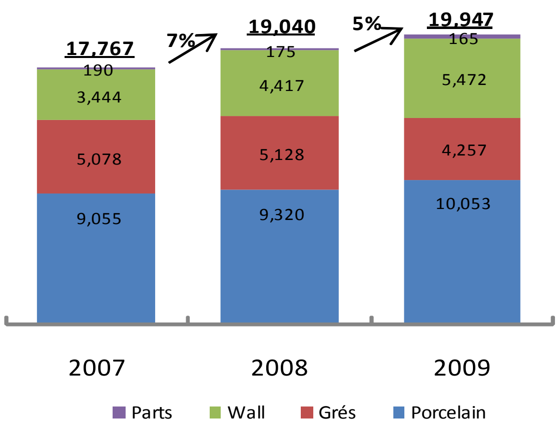


The sales volume decreased 5%, whereas sales in the domestic market increased 12%. Net revenues decreased 2%, affected by the fall in sales of the USA subsidiary.

OPERATING PERFORMANCE

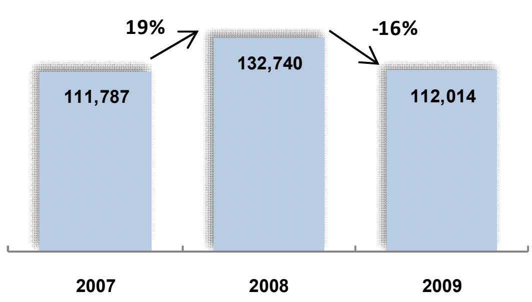
The ceramic tiles production increased 5% in 2009, mainly due to the investments made in the plant at the end of 2008 and during 2009.

Production (in thousand m2)



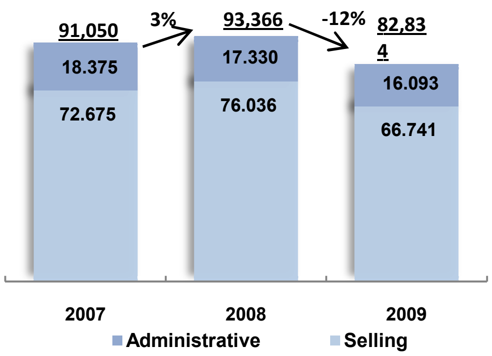
OPERATING PERFORMANCE	Accumulated 2008	Accumulated 2009
Gross operating revenue	517,466	506,957
Domestic market	409,276	449,825
Foreign market	108,190	57,132
(-) Deductions from gross revenue	(108,885)	(104,978)
(=) Net operating revenue	408,581	401,979
Domestic market	299,734	346,275
Foreign market	108,847	55,704
(-) Cost of products sold	(275,841)	(289,965)
(=) Gross profit	132,740	112,014
Gross margin %	**32%**	**28%**

Gross Operating Profit



Unit gross profit decreased in 2009, mainly as a result of operational problems in the plant, initiated with the lack of gas supply in December 2008 and solved in the second quarter of 2009.

Administrative and Selling Expenses



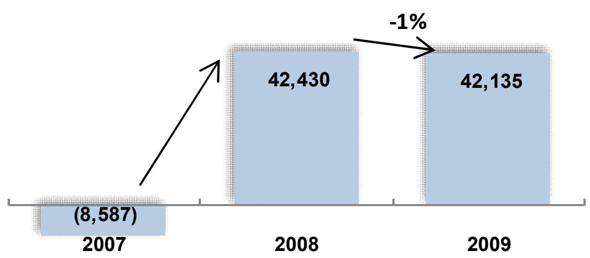
Operating expenses – The 12% decrease in operating expenses mainly resulted from the restructuring and adjustment of the operating area in the subsidiary Portobello America and the reduction of export expenses.

Administrative expenses – Administrative expenses decreased 7%, due to the rationalization of expenditures.

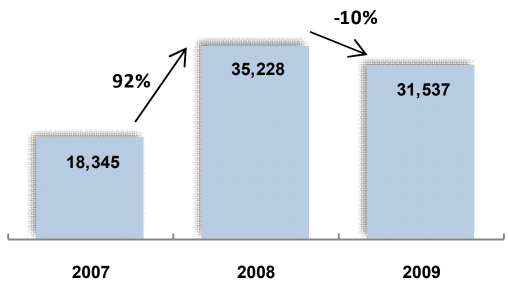
EBIT	Accumulated 2007	2008	2009
Gross profit	111,787	132,740	112,014
Selling expenses	(72,675)	(76,036)	(66,741)
General and administrative expenses	(18,375)	(17,330)	(16,093)
Other operating expenses (revenues)	(29,324)	3,056	12,955
(=) EBIT	(8,587)	42,430	42,135
Other non-recurring revenues	26,932	(7,202)	(10,598)
(=) ADJUSTED EBIT	18,345	35,228	31,537
% of net revenue	5%	9%	8%

* Adjusted EBIT: comprises adjustments of non-recurring items during the period. In 2009, non-recurring revenues related to tax credits, provision for civil and labor contingencies, recognition of contingent assets and the installment payment program according to Law 11941 and MP 470. The Adjusted EBIT is not a measure of financial performance, in accordance with accounting practices adopted in Brazil and should not be considered in isolation, as an alternative to net income, as a measure of operating performance, as an alternative to operating cash flows, or as a measure of liquidity.

EBIT



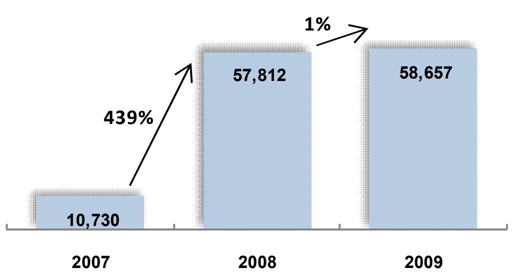
Adjusted EBIT



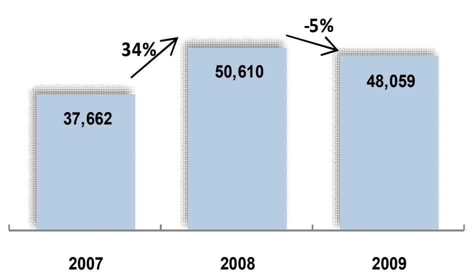
EBITDA	Accumulated 2007	2008	2009
Net income (loss) for the period	(39,408)	(9,352)	16,570
Financial result, net	18,454	40,227	21,148
Depreciation, amortization and depletion	19,317	15,382	16,522
Income tax and social contribution	12,456	11,548	4,411
Minority interest	(89)	7	6
Non-operating results	-	-	-
(=) EBITDA	10,730	57,812	58,657
Other non-recurring revenues	26,932	(7,202)	(10,598)
(=) ADJUSTED EBITDA	37,662	50,610	48,059
% of net revenue	10%	12%	12%

* Adjusted EBITDA: The adjusted EBITDA comprises the operating result plus the net financial (income) expenses and depreciation and amortization, and excludes non-recurring effects, which are not part of the normal business of the Company. In 2009, non-recurring revenues are related to tax credits, provision for civil and labor contingencies, recognition of contingent assets and the installment payment program in accordance with Law 11941 and MP 470. The Adjusted EBITDA is not a measure of financial performance according to the accounting practices adopted in Brazil and should not be considered in isolation, as an alternative to net income, as a measure of operating performance, an alternative to operating cash flows, or as a measure of liquidity. The Adjusted EBITDA is not affected by the restructuring of debt, fluctuations in interest rates, alterations in the tax burden or levels of depreciation and amortization.

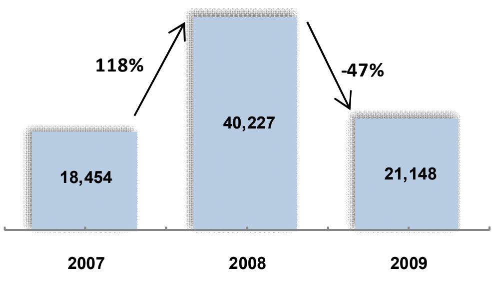
EBITDA



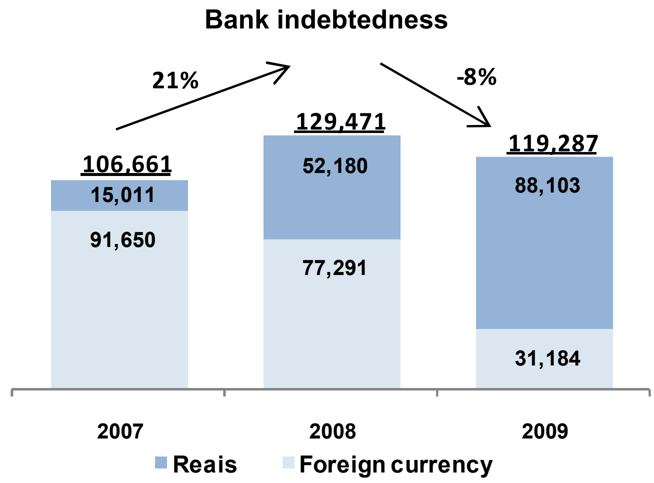
Adjusted EBITDA



Net Financial Expenses



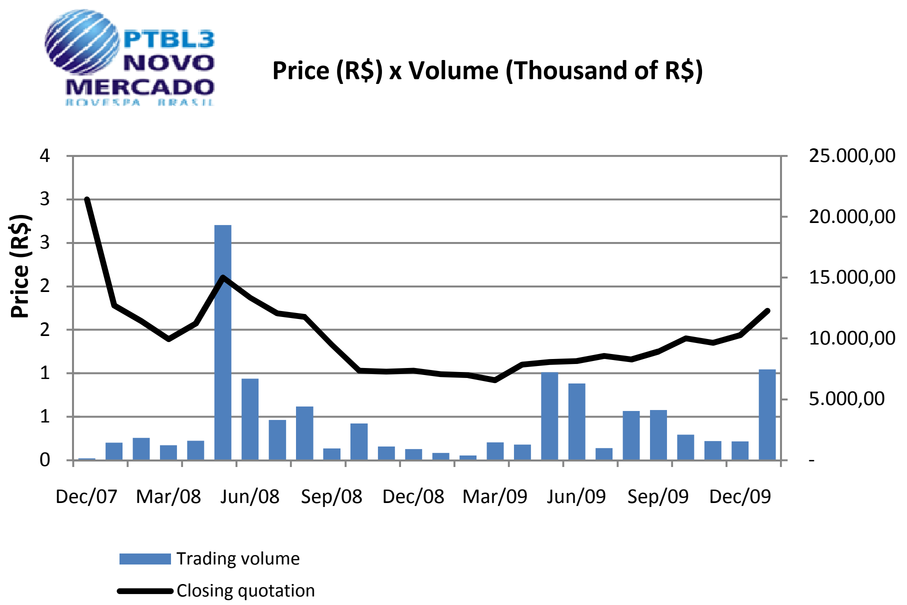
The decrease in financial expenses was due to the foreign exchange variation, reduction in charges and interest on taxes payable in installments and decrease in the balance of loans and financing.



FINANCIAL INDICATORS	Accumulated 2007	2008	2009
Net revenue	394,832	408,581	401,979
Gross profit	111,787	132,740	112,014
Adjusted EBITDA	37,662	50,610	48,059
Adjusted EBIT	18,345	35,228	31,537
Net income (loss)	(39,408)	(9,352)	16,570
Gross margin	28%	32%	28%
EBITDA margin	10%	12%	12%
Net margin	-10%	-2%	4%

SHARE PERFORMANCE

The quotation of PORTOBELLO shares increased 67%, from R$ 1.03 at December 31, 2008 to R$ 1.72 at January 31, 2010. The traded volume increased from R$ 903 thousand to R$ 7,464 thousand.



HUMAN RESOURCES

Consolidated personnel at the end of the quarter comprised 1,883 professionals, 1,762 of which own personnel, 107 outsourced and 14 interns.

PROSPECTS

The civil construction market in Brazil has excellent prospects for 2010. According to ABRAMAT, the sales volume may increase more than 15% this year as compared to 2009. In line with this positive scenario, the Company is expanding its production capacity by 16%, through the installation of a new production line for ceramic tiles, which should occur in this first quarter of 2010.

OTHER SIGNIFICANT INFORMATION

The Company is committed to resolve certain issues through the Market Arbitration Chamber of the São Paulo Stock Exchange (BOVESPA), pursuant to a Commitment Clause included in its by-laws.

In accordance with CVM Instruction 381, of January 14, 2003, the Company informs that its independent audits are performed by PricewaterhouseCoopers Auditores Independentes, which does not provide any other type of services to the Company or its subsidiaries.

The Company Management comprises the following members:

Executive Board

Name	Position
Cesar Gomes Júnior	Chief Executive Officer
Cláudio Ávila da Silva	Vice-President
Mario A. F. Baptista	Chief 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
Plínio Villares Musetti	Member	
Mario Jose Gonzaga Petrelli	Member	Independent
Glauco José Corte	Member	Independent
Mailson Ferreira da Nóbrega	Member	Independent
Rami Naun Goldfajn	Member	Independent
Cláudio Ávila da Silva	Member	Vice-President
Francisco Amaury Olsen	Member	Independent