Portobello

Portobello S.A and subsidiaries

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MANAGEMENT REPORT - 2011

Portobello S.A. (BM&FBOVESPA - code: PTBL3), leader in the ceramic tile sector in Latin America, listed in the traditional segment of BOVESPA from 1991 to 2008, when it was included in the New Market, presents its results of operations for the year ended December 31, 2011. The Company's financial and operating information below is being presented on a consolidated basis and in reais, unless otherwise stated. This information is presented in accordance with accounting practices adopted in Brazil, including the standards issued by the Brazilian Accounting Pronouncements Committee (CPCs) and the International Financial Reporting Standards (IFRS). The comparisons made in this release take into consideration the years 2010 and 2009.

2011 HIGHLIGHTS

- Net revenue reached R$ 587 million, 15% higher than in 2010;
- Sales revenue in the domestic market increased 15% when compared with 2010 and 7% when compared with the industry index (ABRAMAT), which grew 8%;
- Gross profit totaled R$ 186 million , a 14% increase in relation to 2010.

SIGNIFICANT EVENT

On December 23, 2011, Portobello S/A signed with Eliane S/A - Revestimentos Cerâmicos, a Memorandum of Understanding establishing the terms and conditions for a possible merger intended to unite their businesses and integrate their operations. Disclosure was made on the same date through a significant event sent to the Brazilian Securities Commission (CVM) and to BM&FBOVESPA.

Portobello and Eliane are traditional manufacturers of ceramic tiles and aggregate together nearly 90 years of experience in the development of recognized quality products. Strongly present in the domestic market and operating in over 70 countries, they present considerable complementation between their products and the markets served.

The examinations which were expected to take as long as March 31, 2012, are being carried out as planned; the Administrative Council of Economic Defense (CADE) is assessing the impacts of the intended merger. This merger will potentialize investment capacity, so as to meet the increasing demand of the Brazilian market and its exporting competitiveness, as well as to create other consolidation opportunities, both in the ceramic sector and in the larger construction materials segment.

Message from Management

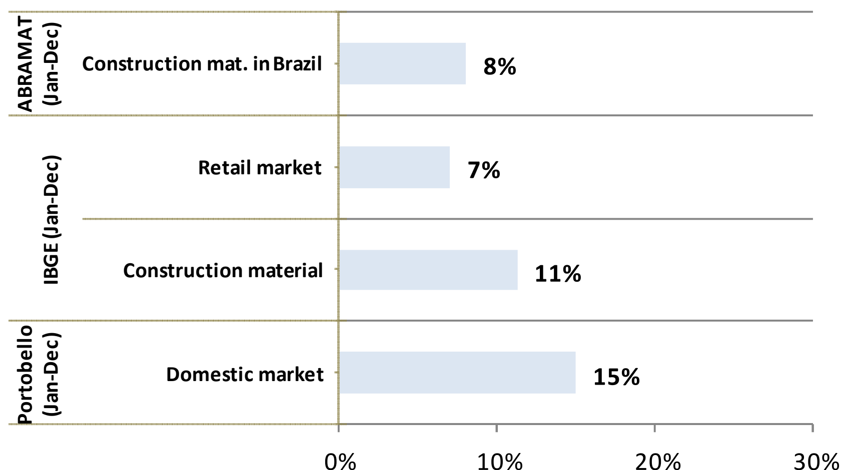
The continued growth of the domestic market led the Company to focus that market. The development of new products, increased investments and aggressive sales operations translated into market share gains brought about by sales growth of 15% while the sector grew by 8%. Such performance has consolidated Portobello's position as Innovation and Design leader and contributed to ratify the excellent moment the Company is experiencing.

We overcame a very challenging first half year caused by the heavy rains and floods at the Company's site. We also put forth great effort to overcome the logistics challenges arising mainly from our growth. Operating income also received the increase in provisions for contingencies, required to meet decisions at the legal and civil spheres.

Operating adjustments were put into practice, including changes in the manufacturing structure when it was necessary to stop production for a certain time, which had a negative impact on income. These operating efforts, associated with the initiatives for recovering margins, mitigated the net impact in 2011 and created ideal conditions for the Company to continue to be confident as to the good results to be reaped in the following years.

Therefore, notwithstanding the evolution of gross operating profit, the Company' earnings before interest and taxes (EBIT) dropped by 13% mainly due to extraordinary and nonrecurring expenses incurred in logistics, legal provisions and the bad weather that affected our industrial facilities and inventories. These extraordinary and nonrecurring expenses totaled R$ 14.6 million, of which (i) R$ 7 million in logistics expenses; (ii) plant shutdown R$ 3.6 million; (iii) increase in legal contingencies and other R$ 4 million. In addition to sales increases, the Company presented working capital and indebtedness reductions.

Net Revenue Performance - 12M11/12M10



The evolution of the 2011 results confirms the effects expected from the initiatives already implemented and those being implemented, as follows: (i) outsourcing of the production of items with lower margin; (ii) continuity of the plans for reduction of costs and manufacturing losses; (iii) sales growth in Portobello Shop stores that present growing profitability and mix; (iv) growing limitation of export, increasingly more focused on countries and products of greater profitability; and (v) reduction of working capital, as a result of optimized inventories in the last months, resulting in gains in the Company's operating margins and net profitability.

Outlook

- Portobello expects the continuity of the strong demand for construction materials, also influenced by the exemption from Excise Tax (IPI) up to the end of 2012, as an incentive of the Government for civil construction, although lower than in 2011;

- The Company believes and has been directing its efforts to increase its market share and focus on the domestic market;

- Continuous productivity growth with consequent decreases in production costs and increase in quality. The probable inflationary pressures on the costs of inputs should be neutralized by gains in productivity that the Company expects to obtain with the administrative measures in progress and budgeted investments;

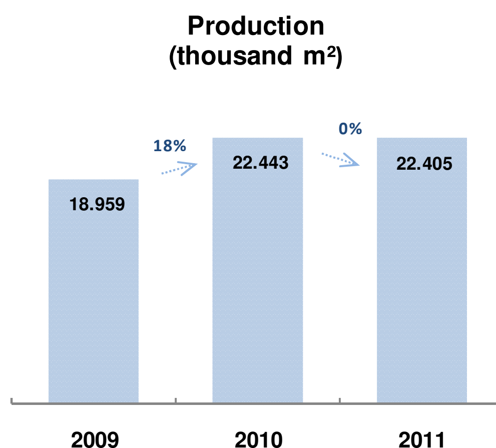
- The Company will continue to work in commercial actions to reduce the need for working capital arising from inventories of work in process and finished goods, as well as in internal actions to minimize its challenges in the logistics area;

- Portobello believes that the recent governmental measure to increase the import tax for technical porcelains will reduce the distortions in the market of this important segment;

- Return on investment in business management system with full implementation up to the first quarter of 2013.

Production Performance

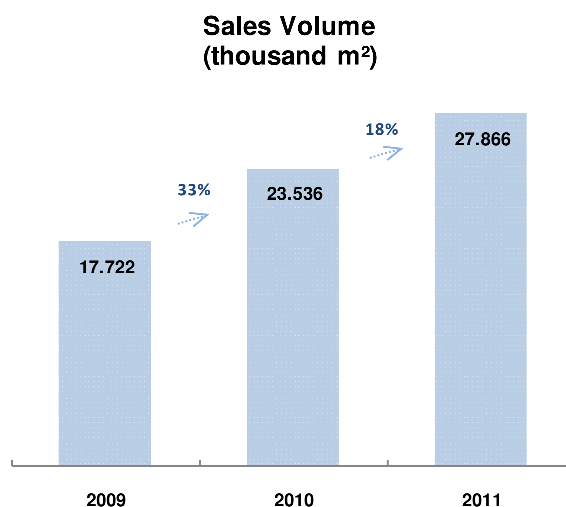
In 2011, production totaled 22.405 thousand m², equivalent to 2010, due to the efforts to reduce the need for working capital through reduction of work in process and finished goods inventories.



The strategy of complementing the line of products through purchases from third parties was maintained.
Of the total volume available for sale in 2011, own production accounted for 81% and third-party production accounted for 19%. In the same period of the prior year they corresponded to 87% and 13%, respectively.

Sales Performance

The strong performance of sales in the period was positively impacted by the growth of the physical sales volume in the domestic market, of 19% in 2011. This was a result of the actions intended to reduce the foreign market share and to focus on the Brazilian market. Therefore, sales in the domestic market in relation to total sales corresponded to 92%, same percentage as in 2010. The physical volume of exports represented 8% of total sales for the year and the same percentage as in the previous year.



(*) The increasing difference between production and sales volumes arises from the production outsourcing that the Company has been carrying out in the last 3 years.

Distribution

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

Domestic market: The three distribution channels are:

Portobello Shop Retail - Franchises that serve the Company's customers in the retail market through franchised stores under the Portobello Shop and Empório Portobello names**.** With 106 stores located in 93 cities, this channel is the largest Brazilian network of stores specialized in ceramic tiles.

Multi-brand Resale - Responsible for the customers who are resellers of construction material, distributing the Company's products in the retail market.

Engineering - Represented by specialized teams that serve civil construction companies and real estate development companies.

Foreign market: This is represented by sales to several countries through the Company's own teams or independent representatives. Exports in 2011 were limited to more profitable markets and decreased in percentage of total sales, in accordance with previously determined plans.

Operating performance	2009	%NOR	2010	%NOR	2011	%NOR
Net operating revenue	380,208	100%	511,415	100%	586,806	100%
Domestic market	344,504	91%	470,428	92%	543,279	93%
Foreign market	35,704	9%	40,987	8%	43,527	7%
(-) Cost of sales	(274,990)	72%	(347,971)	68%	(400,653)	68%
(=) Gross operating profit	105,218	28%	163,444	32%	186,153	32%

* NOR= Net operating revenue

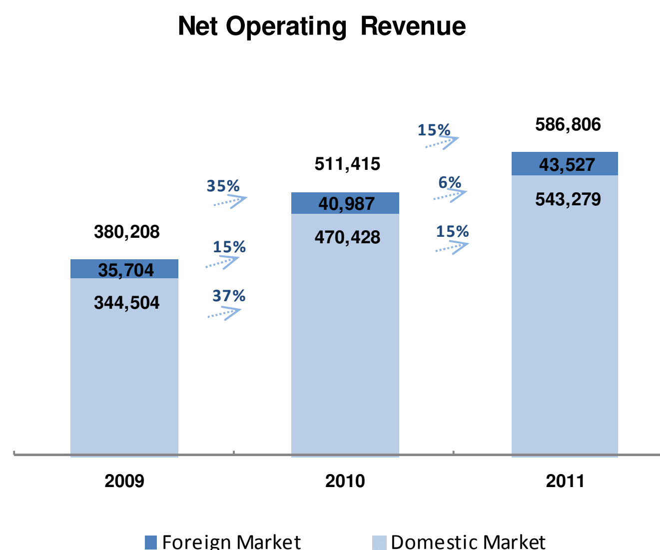
Economic and financial performance

Consolidated results of operations	2009	2010	2011	Variation % 2011 x 2010
Net operating revenue	**380,208**	**511,415**	**586,806**	**15%**
Gross operating profit	**105,218**	**163,444**	**186,153**	**14%**
Gross margin	*28%*	*32%*	*32%*	*0 p.p.*
Selling expenses	(55,330)	(75,754)	(97,452)	29%
General and administrative	(15,119)	(16,985)	(18,675)	10%
Other operating income (expenses), net	16,229	42	(8,307)	-
EBIT	**50,998**	**70,747**	**61,719**	**-13%**
EBIT margin	*13%*	*14%*	*11%*	*-3 p.p.*
Finance result and other gains (losses), net	(18,887)	(27,349)	(24,617)	-10%
Operating profit	**32,111**	**43,398**	**37,102**	**-15%**
Income tax and social contribution	(7,199)	(2,669)	(12,164)	356%
Profit for the period from continuing operations	24,912	40,729	24,938	-39%
Profit for the period from discontinued operations *	(5,745)	(8,425)	(548)	-93%
Profit for the year	**19,167**	**32,304**	**24,390**	**-24%**
Net margin	*5%*	*6%*	*4%*	*-2 p.p*
EBITDA (*)	**67,520**	**87,509**	**77,637**	**-11%**
EBITDA margin	*18%*	*17%*	*13%*	*-4 p.p*

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

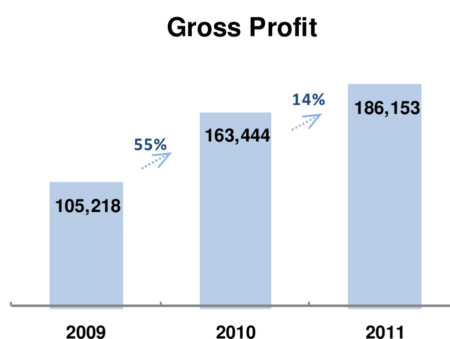
Net Revenue

Net revenue grew 15% in 2011, when compared with the prior year, reaching R$ 587 million, 93% of which obtained in the domestic market. The 15% increase in the domestic market was equally shared by the Engineering, Multi-brand Resale and Portobello Shop channels.



Gross Profit

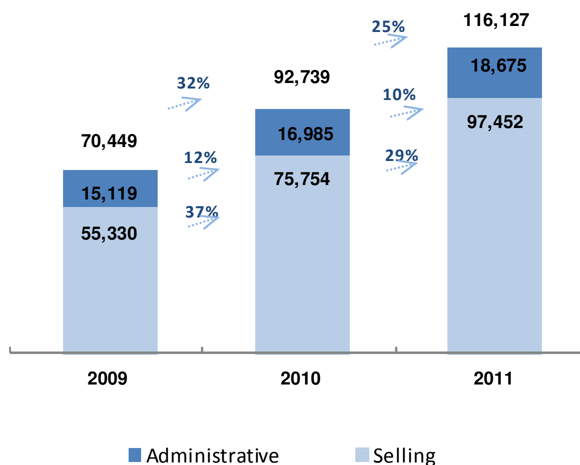
Gross profit reached R$ 186 million in 2011 and increase of 14% over the previous year as a result of the increase in sales.



Operating Expenses

Selling expenses totaled R$ 97 million in 2011, corresponding to an increase of 29% as compared with the same period of 2010. This increase resulted basically from higher nonrecurring (extraordinary) expenses in the logistics area, due to the bad weather that affected inventories and required storage and distribution adjustments.

Administrative expenses totaled R$ 19 million in 2011 and increased 10% when compared with the year ended December 31, 2010, resulting from, (i) higher personnel expenses, and (ii) higher expenses with third party services, such as consulting services, but remained below the operating growth, generating efficiency gains.



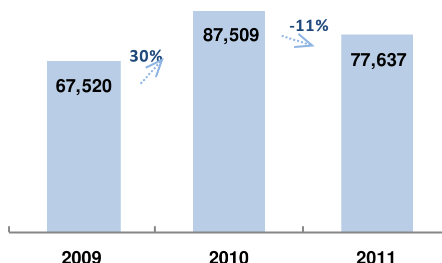
Other operating income (expenses), net:

In 2011, the Company recognized net operating expense of R$ 8,3 million, a large part of which refers to (i) increase in the provision for contingencies related to court decisions on civil and labor claims unfavorable to the Company and (ii) fixed costs related to the idle portion, recognized directly in income for the second quarter, as the Company did not operate at its normal production capacity due to industrial reengineering of its production lines. In the same period of 2010, other operating expenses were practically annulled by the complement of receivables from Eletrobrás, R$ 9 million recognized under "other operating expenses".

EBITDA

EBITDA, earnings before interest, taxes, depreciation and amortization, profit attributable to non-controlling interests and loss for the period from discontinued operations totaled R$ 78 million in 2011.

Total net finance income (expense) included other net gains and losses related to exchange rate effects on receivables and on accounts payable to suppliers.

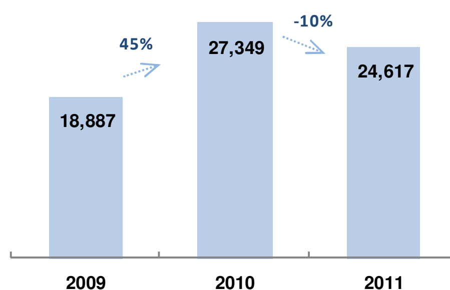


EBITDA	2009	2010	2011	Variation % 2011 x 2010
Profit attributable to the Company's stockholders	19,161	32,295	24,381	-25%
Other gains (losses), net	8,722	1,358	(4,630)	-441%
Net finance income (costs)	10,165	25,991	29,247	13%
Depreciation, amortization and depletion	16,522	16,762	15,918	-5%
Income tax and social contribution	7,199	2,669	12,164	356%
Profit attributable to non-controlling interests	6	9	9	0%
Loss for the period from discontinued operations	5,745	8,425	548	-93%
(=) EBITDA from continuing operations (*)	67,520	87,509	77,637	-11%
% of net revenues	18%	17%	13%	-4 p.p

(*) According to CPC/IFRS, discontinued operations are not part of the operating profit (loss).

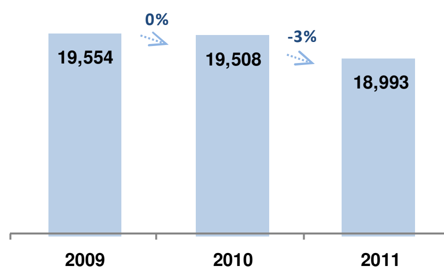
Finance income (expense) and other gains (losses), net

Net finance income in 2011, plus net gains (losses) (composed by exchange variation on receivables and operating payables) presented a reduction from R$ 27,349 to R$ 24,617, affected by lower indebtedness and reduction in the cost of debt.



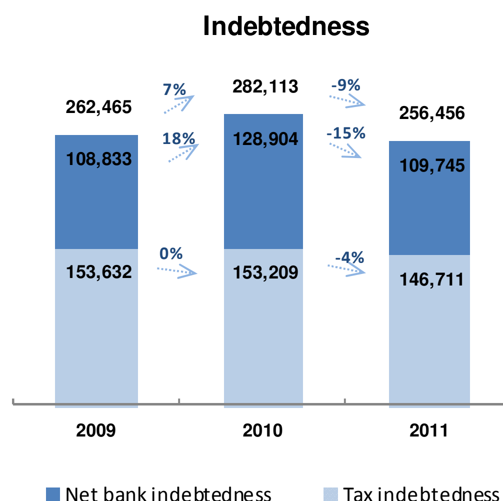
Investments

In 2011, investments were maintained at the levels defined by management. Investments of R$ 19 million focused on improvements in the manufacturing process aimed at higher productivity and investments in logistics, both related to storage and acquisition and implementation of management systems.



Indebtedness / Capital Structure

Total indebtedness in December 2011 decreased by R$ 26 million, 9% lower when compared with the same period in 2010, due to better operating income obtained in recent years, as well as the reduction of the need for working capital. At December 31, 2011 net bank indebtedness amounted to R$ 110 million, against R$ 129 million at December 31, 2010, while tax indebtedness decreased by 4% when compared with December 2010.



Net bank indebtedness	2009	2010	2011
Current	92,871	97,584	79,600
Non-current	28,859	45,242	40,210
(=) Total bank indebtedness	121,730	142,826	119,810
Cash and cash equivalents and marketable securities	12,897	13,922	10,065
(=) Total net bank indebtedness	108,833	128,904	109,745

Financial leverage	2009	2010	2011
Net bank indebtedness	108,833	128,904	109,745
Tax indebtedness	153,632	153,209	146,711
EBITDA (last 12 months)	67,520	87,509	77,637
(=) Net bank indebtedness / EBITDA	1.6	1.5	1.4
(=) Net bank and tax indebtedness / EBITDA	3.9	3.2	3.3

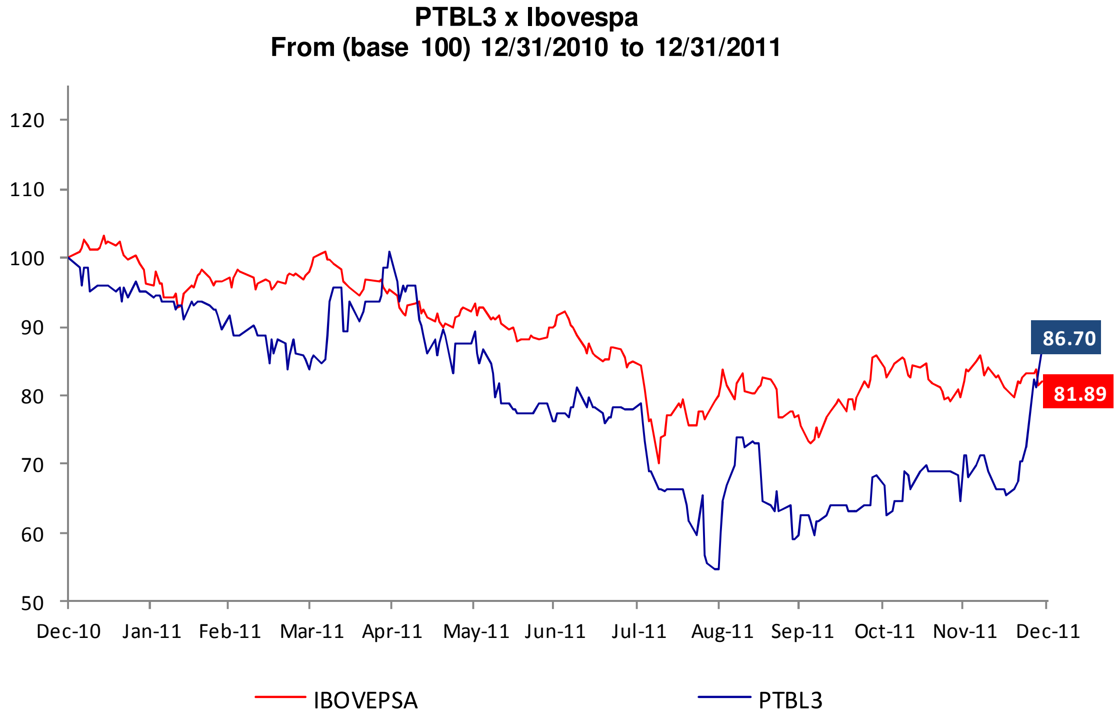
As mentioned in Note 12, the Company has receivables, backed by contract, from the related party Refinadora Catarinense S/A, arising from the favorable outcome on the lawsuit filed against the National Treasury (IPI Premium Credit). These receivables are guaranteed by a final and unappealable decision and have already been converted into bonds to pay court-ordered debts, paid annually for a period of 10 years. The first of the ten installments, in the amount of R$ 10,097, was received by Portobello in August 2011 and, as permitted by the contract, with application of discount. At December 31, 2011 these receivables amount to R$ 93,780 and, when deducted from total indebtedness, total R$ 162,676, or a Net Debt (bank and tax) / EBITDA ratio of 2.1.

Human Resources

Consolidated personnel at December 31, 2011 comprised 2,284 staff, 2,122 of whom were own personnel, 122 outsourced, 12 interns and 28 temporary workers. In 2010 personnel comprised 2,502 staff, 2,342 of whom were own personnel, 108 outsourced, 17 interns and 35 temporary workers. The reduction of 218 staff was caused by the implementation of the lean manufacturing program and the optimization of workstations to increase productivity.

Capital Markets

The quotation for the common shares of Portobello (PTBL3) at December 31, 2011 was R$ 1.76, a devaluation of 13% in the last 12 months, while in the same period the Ibovespa recorded a devaluation of 18%. At December 31, 2011, the market value of Portobello was R$ 280 million.



Awards in 2011

- *17o. Prêmio PINI* award - elected the best company in the categories "Best Suppliers of the National Construbusiness" and "Ceramic Tile";

- *Prêmio Top de Marketing ADVB/SC 2011* award - elected one of the 10 outstanding companies for expanding its marketing strategy beyond the traditional boundaries, investing in digital marketing;

  Indication for the *Prêmio Top of Mind 2011 Casa&mercado* award - with the questions *"Qual a primeira marca que lhe vem à cabeça quando se fala em revestimentos cerâmicos?"* (What is the first brand that comes to your mind when you think about ceramic tiles?) and *"Qual a primeira marca que lhe vem à cabeça quando se fala loja de piso de revestimento em geral?"* (What is the first brand that comes to your mind when you think about general tile floor?);

- *Marcas de Destaques do Século XXI - Editora Empreendedor (Outstanding Brands of the 21st Century)*, the survey conducted with personalities of the business, marketing and communications worlds cited Portobello as one of the companies from the State of Santa Catarina that will stand out in this second decade of the 21st Century;

- *Prêmio Empresa Cidadã ADVB/SC 2011 - 13a. edição* award, in the Environment Preservation category with the Portobello Sustainability case: - Todos comprometidos com o futuro (All committed to the future) - for the recognition of social responsibility well succeeded initiatives in the Environment Preservation, Community Participation and Cultural Development areas;

- *Prêmio ABF 2011 - Destaque Franchising e Selo Excelência em Franchising (SEF)* award - Portobello receives the stamp for the 6th time;

- *Prêmio Expressão de Ecologia, 18o. edição* award, highest environment award in the South region of Brazil. With the Portobello Sustainability case: - Todos comprometidos com o futuro the Company was the winner in the Environment Management category promoted by Editora Expressão;

- *Prêmio Marcas do Século 21* award. Homage to 21 brands from the State of Santa Catarina that have most risen in the 21st Century. Promoted by Editora Empreendedor.

Portobello's Management Composition

Executive Board

Name	Position
Cesar Gomes Júnior	Chief Executive Officer
Cláudio Ávila da Silva	Vice-President
Rildo Pinheiro	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 Office
Plínio Villares Musetti	Member	
Francisco Amaury Olsen	Member	Independent
Glauco José Côrte	Member	Independent
Mailson Ferreira da Nóbrega	Member	Independent
Mário José Gonzaga Petrelli	Member	Independent
Maurício Levi	Member	Independent
Rami Naum Goldfajn	Member	Independent

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

(A free translation of the original in Portuguese)

Portobello S.A.

Report of independent auditors on the financial statements at December 31, 2011

(A free translation of the original in Portuguese)

Report of independent auditors on the individual and consolidated financial statements

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

We have audited the accompanying financial statements[1] of Portobello S.A. ("Company" or "Parent Company") comprising the balance sheet at December 31, 2011 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

We have also examined the consolidated financial statements of Portobello S.A. and subsidiaries ("Consolidated") comprising the consolidated balance sheet at December 31, 2011 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, as well as a summary of significant accounting practices and other explanatory information.

Management's responsibility for the financial statements

The Company's management is responsible for the preparation and adequate presentation of these individual financial statements in accordance with accounting practices adopted in Brazil and of these consolidated financial statements in accordance with the international financial reporting standards (IFRS) issued by the International Accounting Standards Board (IASB) and the accounting practices adopted in Brazil, as well as for the internal controls which it has established as necessary to allow for the preparation of these financial statements free from significant misstatements, whether caused by fraud or error.

Independent auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit conducted in accordance with Brazilian and international auditing standards. These standards require that the auditor comply with ethical demands and that the audit be planned and performed to obtain reasonable assurance that the financial statements are free from significant misstatements.

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

In making those risks assessments, the auditor considers internal controls relevant to the preparation and adequate presentation of the Company's financial statements to plan the audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Company's internal controls. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion on the individual financial statements

In our opinion, the individual financial statements referred to above present fairly, in all material respects, the financial position of Portobello S.A. at December 31, 2011, the performance of its operations and its cash flows for the year end ended, in accordance with the accounting practices adopted in Brazil.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Portobello S.A. and its subsidiaries at December 31, 2011, the consolidated performance of its operations and its consolidated cash flows for the year then ended, in accordance with the international financial reporting standards (IFRS) issued by the International Accounting Standards Board (IASB) and the accounting practices adopted in Brazil.

Emphasis

As described in note 2.1, the individual financial statements were prepared in accordance with the accounting practices adopted in Brazil. In the case of Portobello S.A., these practices differ from IFRS, applicable to the separate financial statements only with respect to the evaluation of the investments in subsidiaries, associates and jointly-controlled subsidiaries which is made under the equity method, since for IFRS purposes it would be made at cost or fair value. Our opinion is not qualified in connection with this matter.

Portobello S.A.

Other matters

Supplementary information - statements of value added

We have also reviewed the parent company and consolidated statements of value added for the year ended December 31, 2011, prepared under the responsibility of the Company's management, whose presentation is required by the Brazilian corporate law for publicly-held companies, and as supplementary information under IFRS, which does not require the presentation of the statement of value added. These statements have been submitted to the same audit procedures described above and, in our opinion, are adequately presented, in all material respects, in relation to the financial statements taken as a whole.

Florianópolis, March 29, 2012

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

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

Portobello S.A and subsidiaries

Balance sheets
Years ended December 31, 2011 and 2010

All amounts in thousands of reais unless otherwise stated

(A free translation of the original in Portuguese)

Assets	Note	Parent Company December 31, 2011	Parent Company December 31, 2010	Consolidated December 31, 2011	Consolidated December 31, 2010
Current assets					
Cash and cash equivalents	8	8,091	8,719	10,065	12,802
Trade receivables	9	104,303	95,996	107,867	101,491
Securities		-	1,120	-	1,120
Inventories	10	90,553	93,276	90,553	93,745
Advances to suppliers		2,894	1,758	1,685	747
Taxes recoverable	11	1,382	1,362	1,530	1,939
Income tax and social contribution recoverable	15	699	-	1,152	215
Dividends receivable		477	10,567	-	-
Prepaid expenses		399	127	491	193
Receivables from subsidiaries	42	38,405	33,784	-	-
Other		1,902	1,702	2,580	2,275
		249,105	248,411	215,923	214,527
Non-current assets					
Long-term receivables					
Trade receivables	9	-	357	-	357
Receivables from subsidiaries	42	3,728	3,666	-	-
Receivables from other related parties	12	93,780	94,667	93,780	94,667
Judicial deposits	13	7,924	8,011	7,961	8,043
Receivables from Eletrobrás	14	31,059	26,131	31,059	26,131
Taxes recoverable	11	1,762	1,455	1,762	1,455
Deferred income tax and social contribution	15	25,280	29,309	25,280	29,309
Tax assets	16	11,823	10,590	11,823	10,590
Actuarial assets	29	3,837	1,764	3,837	1,764
Other	18	519	57	1,061	583
		179,712	176,007	176,563	172,899
Investments	19				
Investments in subsidiaries		480	480	-	-
Other investments		198	198	215	226
Property, plant and equipment	20	177,312	177,459	178,052	178,226
Intangible assets	21	4,658	1,437	4,749	1,544
		182,648	179,574	183,016	179,996
		362,360	355,581	359,579	352,895
Total assets		611,465	603,992	575,502	567,422

Liabilities and equity	Note	Parent Company December 31, 2011	Parent Company December 31, 2010	Consolidated December 31, 2011	Consolidated December 31, 2010
Current liabilities					
Trade payables	22	97,488	86,777	97,980	87,689
Loans and financing	23	79,600	97,584	79,600	97,584
Tax liabilities payable in installments	24	20,731	15,739	21,773	16,552
Taxes and contributions	26	3,761	2,070	4,313	2,682
Income tax and social contribution payable	15	63	590	541	1,049
Dividends payable		-	-	11	11
Provisions for contingencies	27	988	6,322	1,015	6,345
Advances from customers		17,245	14,189	17,325	14,659
Social and labor obligations		15,868	14,498	16,780	15,334
Provision for loss on investment	19	38,582	33,738	-	-
Other		5,031	7,120	6,065	9,370
		279,357	278,627	245,403	251,275
Non-current liabilities					
Loans and financing	23	39,354	44,434	40,210	45,242
Provisions for contingencies	27	39,017	25,493	39,062	25,499
Debt to related parties	42	-	8,484	-	-
Private pension plan	29	3,118	3,469	3,118	3,469
Deferred income tax and social contribution	15	40,973	44,303	40,973	44,303
Tax liabilities payable in installments	24	123,236	134,062	124,938	136,657
Provision for loss on investment	19	4,620	4,256	-	-
Other		-	-	-	141
		250,318	264,501	248,301	255,311
Equity, capital and reserves attributed to controlling stockholders	30				
Subscribed capital		112,957	112,957	112,957	112,957
Capital reserve		267	267	267	267
Revaluation reserve		45,292	46,872	45,292	46,872
Carrying value adjustments		(2,988)	429	(2,988)	429
Accumulated deficit		(73,738)	(99,661)	(73,738)	(99,699)
		81,790	60,864	81,790	60,826
Non-controlling interests		-	-	8	10
		81,790	60,864	81,798	60,836
Total liabilities and equity		611,465	603,992	575,502	567,422

Portobello S.A and subsidiaries

Statement of income
Years ended December 31, 2011 and 2010
All amounts in thousands of reais unless otherwise stated (A free translation of the original in Portuguese)

	Note	Parent Company		Consolidated	
		Accumulated at December 31, 2011	Accumulated at December 31, 2010	Accumulated at December 31, 2011	Accumulated at December 31, 2010
Continuing operations					
Revenue	31	547,960	481,288	586,806	511,415
Cost of sales		(401,156)	(355,081)	(400,653)	(347,971)
Gross profit		146,804	126,207	186,153	163,444
Operating (expenses) income					
Selling expenses		(82,496)	(61,409)	(97,452)	(75,754)
General and administrative expenses		(14,205)	(12,480)	(18,675)	(16,985)
Other operating income		14,526	18,478	11,354	15,245
Other operating income	33	9,896	18,478	6,724	15,245
Other gains (losses), net	34	4,630	-	4,630	-
Other operating expenses		(14,571)	(16,483)	(15,031)	(16,561)
Other operating expenses	33	(14,571)	(15,125)	(15,031)	(15,203)
Other gains (losses), net	34	-	(1,358)	-	(1,358)
Equity in the earnings of subsidiaries	19	10,028	904	-	-
		(86,718)	(70,990)	(119,804)	(94,055)
Profit before finance result and taxes		60,086	55,217	66,349	69,389
Finance result	35				
Finance income		11,983	13,071	12,592	13,818
Finance income		17,760	13,071	18,369	13,818
Foreign exchange variations, net		(5,777)	-	(5,777)	-
Finance costs		(41,275)	(39,208)	(41,839)	(39,809)
Finance costs		(41,275)	(41,096)	(41,839)	(41,697)
Foreign exchange variations, net		-	1,888	-	1,888
		(29,292)	(26,137)	(29,247)	(25,991)
Profit before taxation		30,794	29,080	37,102	43,398
Income tax and social contribution on net income	15				
Current		(5,752)	(4,376)	(11,465)	(10,069)
Deferred		(699)	7,400	(699)	7,400
		(6,451)	3,024	(12,164)	(2,669)
Profit for the year from continuing operations		24,343	32,104	24,938	40,729
Discontinued operations					
Profit for the year from discontinued operations	36	**-**	**-**	**(548)**	**(8,425)**
Profit for the year		**24,343**	**32,104**	**24,390**	**32,304**
Profit attributable to					
Owners of the Company		24,343	32,104	24,381	32,295
Non-controlling interests		-	-	9	9
Quantity per lot of one thousand shares outstanding on the balance sheet date		159,009	159,009	159,009	159,009
Basic and diluted earnings (loss) for the year per share - R$	37	0.15309	0.20190	0.15333	0.20310
From continuing operations		0.15309	0.20190	0.15683	0.25614
From discontinued operations		-	-	(0.00345)	(0.05298)

Portobello S.A and subsidiaries

Statement of comprehensive income
Years ended December 31, 2011 and 2010

All amounts in thousands of reais unless otherwise stated (A free translation of the original in Portuguese)

	Note	Parent Company		Consolidated	
		Accumulated December 31, 2011	Accumulated December 31, 2010	Accumulated December 31, 2011	Accumulated December 31, 2010
Profit for the year		**24,343**	**32,104**	**24,390**	**32,304**
Other comprehensive income (loss)		**(4,997)**	**(274)**	**(4,997)**	**(274)**
Realization of revaluation reserve	30	(1,580)	(1,857)	(1,580)	(1,857)
Actuarial gain	29	879	168	879	168
Exchange variation of subsidiary located abroad	19	(4,296)	1,415	(4,296)	1,415
Total comprehensive income for the year		19,346	31,830	19,393	32,030
Comprehensive income for the year attributable to:					
Owners of the Company		19,346	31,830	19,384	32,021
Non-controlling interests		-	-	9	9

Portobello S.A and subsidiaries

Statement of cash flows
Years ended December 31, 2011 and 2010
All amounts in thousands of reais unless otherwise stated (A free translation of the original in Portuguese)

	Note	Parent Company		Consolidated	
		Accumulated December 31, 2011	Accumulated December 31, 2010	Accumulated December 31, 2011	Accumulated December 31, 2010
Net cash provided by (used in) operating activities		31,643	(11,678)	41,503	(6,849)
Cash provided by operating activities	38	51,024	8,291	66,611	18,290
Interest paid		(12,860)	(16,985)	(12,878)	(16,985)
Income tax and social contribution paid		(6,521)	(2,984)	(12,230)	(8,154)
Net cash provided by (used in) investing activities		3,083	(10,286)	(17,700)	(12,645)
Purchases of property, plant and equipment		(14,030)	(12,972)	(14,089)	(13,227)
Purchases of intangible assets		(3,611)	(5)	(3,611)	(18)
Dividends received		21,030	5,909	-	-
Proceeds from sale of permanent assets	33	-	600	-	600
(Granted to)/Received from related parties		(306)	(3,818)	-	-
Net cash provided by financing activities		(35,354)	23,669	(26,711)	23,649
Loans and financing		114,878	264,151	114,891	264,208
Payments of loans and financing		(141,602)	(240,559)	(141,602)	(240,559)
Received from (payment to) related companies		(8,630)	77	-	-
Effect of exchange variation on cash and cash equivalents		-	-	171	29
Increase (decrease) in cash and cash equivalents		(628)	1,705	(2,737)	4,184
Opening balance of cash and cash equivalents	8	8,719	7,014	12,802	8,618
Closing balance of cash and cash equivalents	8	8,091	8,719	10,065	12,802

Portobello S.A and subsidiaries

Statement of changes in equity
Years ended December 31, 2011 and 2010
All amounts in thousands of reais unless otherwise stated

(A free translation of the original in Portuguese)

Parent Company	Note	Paid-up capital	Capital reserve	Accumulated deficit	Other comprehensive income	Total equity
At December 31, 2009		112,957	267	(133,622)	47,575	27,177
Profit for the year		-	-	32,104	-	32,104
Other comprehensive income						
Realization of revaluation reserve	30	-	-	1,857	(1,857)	-
Actuarial gain	29.1	-	-	-	168	168
Exchange variation of subsidiary located abroad	19	-	-	-	1,415	1,415
Total comprehensive income for the year		-	-	1,857	(274)	1,583
At December 31, 2010		112,957	267	(99,661)	47,301	60,864
Profit for the year		-	-	24,343	-	24,343
Other comprehensive income						
Realization of revaluation reserve	30	-	-	1,580	(1,580)	-
Actuarial gain	29.1	-	-	-	879	879
Exchange variation of subsidiary located abroad	19	-	-	-	(4,296)	(4,296)
Total comprehensive income for the year		-	-	1,580	(4,997)	(3,417)
At December 31, 2011		112,957	267	(73,738)	42,304	81,790

Portobello S.A and subsidiaries

Statement of changes in equity
Years ended December 31, 2011 and 2010

All amounts in thousands of reais unless otherwise stated **(continued)**

Consolidated	Note	Paid-up capital	Capital reserve	Accumulated deficit	Other comprehensive income	Sub-total	Non-controlling interests	Total equity
At December 31, 2009		112,957	267	(133,851)	47,575	26,948	1	26,949
Profit for the year		-	-	32,295	-	32,295	9	32,304
Other comprehensive income								
Realization of revaluation reserve	30	-	-	1,857	(1,857)	-	-	-
Actuarial gain	29.1	-	-	-	168	168	-	168
Exchange variation of subsidiary located abroad	19	-	-	-	1,415	1,415	-	1,415
Total comprehensive income for the year		-	-	1,857	(274)	1,583	-	1,583
At December 31, 2010		112,957	267	(99,699)	47,301	60,826	10	60,836
Capital transactions with partners		-	-	-	-	-	(11)	(11)
Profit for the year		-	-	24,381	-	24,381	9	24,390
Other comprehensive income								
Realization of revaluation reserve	30	-	-	1,580	(1,580)	-	-	-
Actuarial gain	29.1	-	-	-	879	879	-	879
Exchange variation of subsidiary located abroad	19	-	-	-	(4,296)	(4,296)	-	(4,296)
Total comprehensive income for the year		-	-	1,580	(4,997)	(3,417)	-	(3,417)
At December 31, 2011		112,957	267	(73,738)	42,304	81,790	8	81,798

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

Portobello S.A and subsidiaries

Statement of value added
Years ended December 31, 2011 and 2010
All amounts in thousands of reais unless otherwise stated (A free translation of the original in Portuguese)

	Note	Accumulated December 31, 2011	Accumulated December 31, 2010	Accumulated December 31, 2011	Accumulated December 31, 2010
Revenue		693,437	621,755	729,881	648,896
Sale of products and services		684,164	599,245	728,884	634,768
Other income		9,624	22,479	1,643	14,678
Change in the provision for doubtful trade receivables	9	(351)	31	(646)	(550)
Inputs acquired from third parties		(370,502)	(327,056)	(379,729)	(332,479)
Cost of sales and services		(293,940)	(243,875)	(292,832)	(226,627)
Materials, energy, outsourced services and other		(76,607)	(83,121)	(86,185)	(96,497)
Impairment/recovery of assets		45	(60)	(164)	(930)
Result from discontinued operations	36	-	-	(548)	(8,425)
Gross valued added		322,935	294,699	350,152	316,417
Retentions		(15,855)	(16,405)	(15,918)	(16,762)
Depreciation and amortization	20 and 21	(15,855)	(16,405)	(15,918)	(16,762)
Net value added generated		307,080	278,294	334,234	299,655
Value added received through transfer		33,955	27,820	24,537	27,668
Equity in the earnings of subsidiaries	19	10,028	904	-	-
Finance income		23,927	26,916	24,537	27,668
Total value added to distribute		341,035	306,114	358,771	327,323
Distribution of value added		341,035	306,114	358,771	327,323
Personnel		97,210	81,474	103,421	88,874
Direct remuneration		82,626	69,665	87,966	76,048
Benefits		8,312	6,943	8,812	7,600
Government Severance Indemnity Fund for Employees (FGTS)		6,272	4,866	6,643	5,226
Taxes and contributions		164,257	132,738	175,230	143,885
Federal		86,243	65,078	97,187	76,074
State		77,756	67,485	77,756	67,594
Municipal		258	175	287	217
Remuneration of third party capital		55,225	59,798	55,730	62,260
Interest		48,590	54,992	49,198	55,708
Rentals		6,635	4,806	6,532	6,552
Remuneration of own capital		24,343	32,104	24,390	32,304
Profits reinvested		24,343	32,104	24,381	32,295
Non-controlling interests on profits reinvested		-	-	9	9

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

1 General information

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

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

The Company also holds investments in the following subsidiaries: (i) Portobello América, which was established to sell Portobello products in the North American market, and, at December 31, 2011 is classified as a discontinued operation, as described in note 36; (ii) Mineração Portobello, which supplies about 72% of the raw materials used in the production of ceramic tiles; (iii) PBTech, which was incorporated with the objective of providing civil construction companies a differentiated service, with sales of products and services; and (iv) Portobello Shop, which manages Portobello Shop and Empório Portobello franchised stores specialized in ceramic tiles, being the only franchised ceramic tile chain in Brazil, with 106 stores.

On December 23, 2011, Portobello S/A signed with the Eliane S/A - Revestimentos Cerâmicos company a Memorandum of Understanding establishing the terms and conditions for a possible merger intended to unite their businesses and integrate their operations. Disclosure was made on the same date through a significant event sent to the Brazilian Securities Commission (CVM) and to the Commodities Futures Exchange São Paulo Stock Exchange (BM&FBOVESPA). See note 43.

The issue of these consolidated financial statements was authorized by the Board of Directors on March 29, 2012.

2 Summary of significant accounting policies

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

2.1 Basis of presentation

The financial statements were prepared under the historical cost convention, as modified by the revaluation in 2006 of land, buildings and improvements and financial assets and liabilities measured at fair value through profit or loss.

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

(a) Consolidated financial statements

The consolidated financial statements were prepared and are presented in accordance with accounting practices adopted in Brazil, including the pronouncements issued by the Brazilian Accounting Pronouncements Committee (CPCs).

The consolidated financial statements were also prepared and are being presented in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

(b) Parent company financial statements

The individual financial statements of the Parent Company were prepared in accordance with accounting practices adopted in Brazil, issued by the Brazilian Accounting Pronouncements Committee (CPCs), and are disclosed together with the consolidated financial statements.

2.2 Consolidation

2.2.1 Consolidated financial statements

(a) Subsidiaries

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

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

	Percentage of voting capital	
	December 31, 2011	December 31, 2010
Portobello América, Inc.	100.00	100.00
PBTech Com. Serv. Revest. Cer. Ltda.	99.94	99.94
Portobello Shop S.A.	99.90	99.90
Mineração Portobello Ltda.	99.76	99.76

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

The reconciliation between the equity and the profit for the years presented of the Company and Consolidated is as follows:

	Equity		Profit	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Parent Company	81,790	60,864	24,343	32,104
Unrealized inventory profit	-	(38)	-	(38)
Reversal of unrealized profit	-	-	38	229
Consolidated excluding non-controlling interests	81,790	60,826	24,381	32,295

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

(b) Transactions and non-controlling interests

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

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

2.2.2 Parent company financial statements

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

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

2.3 Segment information

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

2.4 Foreign currency translation

(a) Functional currency and presentation currency

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

(b) Transactions and balances

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

(c) Subsidiaries

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

2.5 Cash and cash equivalents

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

2.6 Financial assets

2.6.1 Classification

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

(a) Loans and receivables

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

(b) Financial assets held to maturity

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

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

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

(d) Available-for-sale financial assets

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

2.6.2 Recognition and measurement

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

2.6.3 Offsetting financial instruments

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

2.7 Derivative financial instruments and hedging activities

The Company and its subsidiaries do not have derivative financial instruments and hedging activities.

2.8 Impairment of financial assets

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

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

i) significant financial difficulty of the issuer or obligor;
ii) a breach of contract, such as a default or delinquency in interest or principal payments;
iii) it becomes probable that the debtor will enter bankruptcy or other financial reorganization;
iv) the disappearance of an active market for that financial asset because of financial difficulties; or
v) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

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

2.9 Trade receivables

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

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

2.10 Inventories

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

2.11 Judicial deposits

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

2.12 Receivables from Eletrobrás

Receivables from Eletrobrás arise from the undisputed amount involved in an ongoing lawsuit and are recognized based on calculations of the Federal Court accounting department, restated by the inflation rate plus 12% p.a.

2.13 Investments

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

A provision for loss on investments is recorded when there are losses on investments in subsidiaries that exceed their carrying amount. The Company classifies the provision in non-current liabilities, under "Provision for loss on investments", with a corresponding entry in the statement of income, as "Equity in the loss of subsidiaries". The provision for loss on investment in the subsidiary Portobello América, which is under the process of business discontinuation, is classified in current liabilities.

Other investments are recognized at historical cost and adjusted by a provision for impairment, if there is indication of any loss (note 19).

2.14 Property, plant and equipment

Property, plant and equipment are stated at deemed cost, less accumulated depreciation. The corresponding entries to these revaluations are recorded in a specific account in equity and in deferred taxes under non-current liabilities. As permitted by CPC Pronouncement 13 - First-time adoption of Law 11638/07, the Company opted to maintain the revaluation reserve up to its total realization.

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 20).

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

2.15 Intangible assets

Intangible assets relate to trademarks and patents, expenses with the implementation of the management system and software, rights to explore mineral resources and goodwill. Intangible assets are stated at acquisition or formation cost, net of accumulated amortization and impairment losses, when applicable. The amortization is calculated using annual rates applied on the straight-line method, as mentioned in note 22, based on the defined useful life for the assets, as follows:

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

(a) Intangible asset being developed, its useful life is still to be defined.

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

The Company and its subsidiaries test an intangible asset with an indefinite useful life for impairment by comparing its recoverable amount with the corresponding carrying amount, on an annual basis or whenever there is an indication that the intangible asset may be losing its economic substance, as determined by CPC 01 - Impairment of Assets. The book amounts at December 31, 2011 are judged to approximate their fair values.

2.16 Leases

Leases of property, plant and equipment in which the Company and its subsidiaries assume all ownership risks and benefits are classified as finance leases under "Loans and financing". These finance leases are recorded as a financed purchase, recognizing at the beginning of the lease a property, plant and equipment item and a financing liability (lease) at fair value and subsequently at amortized cost. Property, plant and equipment acquired in finance leases are depreciated at the rates disclosed in note 20.

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

2.17 Impairment of non-financial assets

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

2.18 Trade payables

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

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

2.19 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, that is, plus charges and interest proportional to the period elapsed ("*pro rata temporis*").

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

2.20 Provisions for contingencies,contingent assets and liabilities

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

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

Contingent assets are not recognized, except when the Company deems the gain practically certain or when there are current guarantees or judicial unappealable favorable decisions.

2.21 Current and deferred income tax and social contribution

The current income tax and social contribution expenses are calculated based on the rates of 25% for income tax and 9% for social contribution 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, and deferred tax liabilities relate to revaluations of property, plant and equipment and also to temporary differences. The recognition of tax assets takes into consideration the expectation of future taxable income and they are calculated based on the rates established by current tax legislation. The amount recorded is considered realizable based on estimates prepared by the Company.

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

2.22 Employee benefits

(a) Private pension plan

The Company sponsors a benefit plan with characteristics of a defined contribution plan; however, it offers a minimum retirement benefit for length of service or age (defined benefit components). A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not have sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is different from a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary.

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

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

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

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

(b) Profit-sharing plan

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

2.23 Share capital

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

2.24 Share issue costs

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

2.25 Dividend distribution

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

2.26 Revenue recognition

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

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

(a) Sales of goods - wholesale

The Company manufactures and sells a range of ceramic tiles in the wholesale market. Sales of goods are recognized when the Company has delivered products to the wholesaler, who has full discretion over the channel and price to resell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery does not occur until: (i) the products have been shipped to the specified location; (ii) the risks of obsolescence and loss have been transferred to the wholesaler; (iii) the wholesaler has accepted the products in accordance with the sales contract; and (iv) the acceptance provisions have lapsed or the Company has objective evidence that all criteria for acceptance have been satisfied.

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

(b) Royalty income

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

(c) Interest income

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

2.27 Result from discontinued operations

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

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

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

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

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

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

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

- IFRS 12 - "Disclosure of interests in other entities ", addresses disclosures requirements for all types of interests in other entities, including joint arrangements, associations, specific purpose interests and other interests not accounted for.

- IFRS 13 - "Fair value measurement ", issued in May 2011. The objective of IFRS 13 is to enhance fair value measurement consistency and reduce its complexity, providing a more precise definition and a single fair value measurement source and its disclosure requirements for use in IFRS. The requirements, which are

quite aligned between IFRS and US GAAP, do not increase the use of fair value accounting, but provide guidance as how to apply it when its use is required or allowed by other IFRS or US GAAP standards.

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

3 Critical accounting estimates and judgments

3.1 Critical accounting estimates and assumptions

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

(a) Review of useful life and impairment of assets

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

(b) Provisions for contingencies

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

(c) Provisions for inventory losses

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

(d) Deferred income tax and social contribution

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

(e) Private pension plan

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (benefit) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The appropriate discount rate is determined at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension

obligations. In determining the appropriate discount rate, Management considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension obligation.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 29.

(f) Discontinued operation

The Company recognizes the discontinuation of subsidiaries through the approval of the Board of Directors, and records provisions based on past expectations of the liquidation value, recording the estimated fair value of the loss on business discontinuation.

3.2 Critical judgments in applying the entity's accounting policies

(a) Receivables from Eletrobrás

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

(b) Credits from related parties with guarantees

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

(c) Payment in installments MP 470

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

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

(d) ICMS tax benefits

The Company has an ICMS tax incentive, the PRODEC - Program of Development for Companies of the Santa Catarina State, described in note 23((h). The Federal Supreme Court (STF) has handed down Direct Action decisions declaring that various state laws which have granted ICMS tax benefits without previous agreement between States are unconstitutional. Although the Company has no ICMS tax incentives being judged by the STF, it has been following, together with its legal advisors, the evolution of this issue in the courts to establish possible impacts in its operations and consequent effects on the financial statements.

4 Financial risk management

4.1 Financial risk factors

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

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

(a) Market risk

(i) Foreign exchange risk

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

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

	In reais			
	Parent Company		Consolidated	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Trade receivables	13,782	10,201	13,782	10,201
Receivables from subsidiaries	38,405	33,784	-	-
Provision for loss on investments	(38,582)	(33,738)	-	-
Trade payables, net of advances	(9,631)	(5,166)	(9,631)	(5,166)
Loans and financing	(44,347)	(27,698)	(44,347)	(27,698)
Commissions	(703)	(602)	(703)	(602)
Net liability exposure	(41,076)	(23,219)	(40,899)	(23,265)

		In foreign currency			
		Parent Company		Consolidated	
		December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Trade receivables	euro	77	214	77	214
Trade payables, net of advances	euro	(1,619)	(554)	(1,619)	(554)
Loans and financing	euro	(441)	(686)	(441)	(686)
Commissions	euro	(8)	(26)	(8)	(26)
		(1,991)	(1,052)	(1,991)	(1,052)
Trade receivables	U.S. dollar	6,451	4,869	6,451	4,869
Receivables from subsidiaries	U.S. dollar	20,474	20,276	-	-
Provision for loss on investments	U.S. dollar	(20,568)	(20,248)	-	-
Trade payables, net of advances	U.S. dollar	(3,036)	(2,362)	(3,036)	(2,362)
Loans and financing - FINIMP	U.S. dollar	(12,980)	-	(12,980)	-
Loans and financing - Other	U.S. dollar	(10,089)	(14,624)	(10,089)	(14,624)
Commissions	U.S. dollar	(386)	(310)	(386)	(310)
		(20,134)	(12,399)	(20,040)	(12,427)

The strategy adopted to mitigate foreign exchange exposure of the Company's assets and liabilities is to maintain a net liability exchange exposure at amounts that approximate the exports for around 15 months, and, accordingly, providing a natural hedge in its cash flow.

(ii) Cash flow and fair value interest rate risk

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

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

(b) Credit risk

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

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

(c) Liquidity risk

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

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

At December 31, 2011, the Company has an excess of current liabilities over current assets of R$ 30,252 (R$ 30,216 at December 31, 2010) and of R$ 29,480 (R$ 36,748 at December 31, 2010) in the consolidated statements. Management plans to reverse this situation through:

- Restructuring of the debt, aiming at extending the indebtedness profile, obtaining a grace period for payments and the reduction of the financial cost of borrowing. The restructuring is in progress and, so far, has resulted in a decrease in the excess of current liabilities over current assets mentioned above.

- Implementation of measures to strengthen the operating and financial areas in order to improve profit margins, such as: (i) increase in productivity and reduction of costs; (ii) replacement of existing equipment by others with higher productivity; (iii) launching of innovative products; (iv) reduction of the product portfolio aiming at increased productivity; (v) concentration of exports in more profitable markets; (vi) outsourcing of the production of items with lower profit margin: and (vii) increase in the sales of franchised stores, all benefitting the Company's operating efficiency and profitability.

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

	Parent Company							
	At December 31, 2011				At December 31, 2010			
	Loans and financing	Trade payables	Tax liabilities payable in installments	Total	Loans and financing	Trade payables	Tax liabilities payable in installments	Total
Less than one year	79,600	98,105	20,731	198,436	97,584	86,821	15,739	200,144
Between 1 and 2 years	31,133	-	36,722	67,855	31,308	-	31,478	62,786
Between 2 and 5 years	10,860	-	26,394	37,254	11,787	-	31,738	43,525
Over 5 years	1,632	-	60,120	61,752	3,609	-	70,846	74,455
Total	123,225	98,105	143,967	365,297	144,288	86,821	149,801	380,910

	Consolidated							
	At December 31, 2011				At December 31, 2010			
	Loans and financing	Trade payables	Tax liabilities payable in installments	Total	Loans and financing	Trade payables	Tax liabilities payable in installments	Total
Less than one year	79,600	98,597	21,773	199,970	97,584	87,733	16,552	201,869
Between 1 and 2 years	31,068	-	37,953	69,021	32,129	-	33,102	65,231
Between 2 and 5 years	10,838	-	26,538	37,376	11,777	-	32,210	43,987
Over 5 years	2,575	-	60,447	63,022	3,606	-	71,345	74,951
Total	124,081	98,597	146,711	369,389	145,096	87,733	153,209	386,038

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

(i) Sensitivity analysis of changes in interest rates

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

At December 31, 2011, Management defined for the probable scenario a CDI rate of 10.87% and TJLP of 6.00%. The probable rates were stressed by 25% and 50%, for the possible and remote scenarios, respectively.

	Consolidated in Reais							
	December 31, 2011	Risk	Probable		Possible (25%)		Remote (50%)	
Transaction			%	R$	%	R$	%	R$
Loans - working capital	(22,696)	CDI increase	10.87%	(2,467)	13.59%	(3,084)	16.31%	(3,702)
Loans - Export credit note	(10,386)	CDI increase	10.87%	(1,129)	13.59%	(1,411)	16.31%	(1,693)
Loans - 4131	(11,111)	CDI increase	10.87%	(1,208)	13.59%	(1,510)	16.31%	(1,812)
Loans - Exim Pre-shipment TJ 462	(2,514)	TJLP increase	6.00%	(151)	7.50%	(188)	9.00%	(226)
Total	(46,707)			(4,955)		(6,193)		(7,433)

(ii) Sensitivity analysis of changes in foreign exchange rates

At December 31, 2011, the Company had assets and liabilities denominated in foreign currency and, for sensitivity analysis purposes, adopted as the probable scenario the future market rate in effect during the period of preparation of these financial statements. The probable rates were stressed by 25% and 50%, for the possible and remote scenarios, respectively.

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

	Consolidated in Reais						
	December 31, 2011	Probable		Possible (25%)		Remote (50%)	
		US$ rate	Gain (loss)	US$ rate	Gain (loss)	US$ rate	Gain (loss)
Trade receivables	13,782	1.8758	-	2.3448	3,446	2.8137	6,891
Trade payables, net of advances	(9,631)	1.8758	-	2.3448	(2,408)	2.8137	(4,815)
Loans and financing	(44,347)	1.8758	-	2.3448	(11,087)	2.8137	(22,174)
Commissions	(703)	1.8758	-	2.3448	(176)	2.8137	(352)
Net liability exposure	(40,899)	1.8758	-	2.3448	(10,225)	2.8137	(20,450)

4.2 Capital risk management

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

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

The gearing ratios at December 31, 2011 were as follows:

	Parent Company		Consolidated	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Loans and financing	118,954	142,018	119,810	142,826
Tax liabilities payable in installments	143,967	149,801	146,711	153,209
Less: Cash and cash equivalents	(8,091)	(8,719)	(10,065)	(12,802)
Receivables from other related parties	(93,780)	(94,667)	(93,780)	(94,667)
Marketable securities	-	(1,120)	-	(1,120)
Net debt	161,050	187,313	162,676	187,446
Total equity	81,790	60,864	81,798	60,836
Total capital	242,840	248,177	244,474	248,282
Gearing ratio (%)	66	75	67	75

The Company has available and unused credit facilities totaling R$ 24,355 at December 31, 2011.

4.3 Fair value estimation

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.

The carrying values less provision for doubtful trade receivables and payables are assumed to reasonably approximate their fair values, and therefore estimation is not necessary.

The Company and its subsidiaries adopted CPC 40/IFRS 7 for financial instruments that are measured in the balance sheet at fair value; this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 - inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Financial assets and liabilities of the Company and its subsidiaries, measured at fair value, were classified in level 2 of the fair value hierarchy, as shown in the table below:

	Parent Company				Consolidated			
	Book value		Fair value		Book value		Fair value	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Assets								
Receivables								
Financial investments	-	3,013	-	3,013	-	6,026	-	6,026
Marketable securities	-	1,120	-	1,120	-	1,120	-	1,120
Total	-	4,133	-	4,133	-	7,146	-	7,146
Liabilities								
Other financial liabilities								
Loans and financing	118,954	142,018	118,954	142,018	119,810	142,826	119,810	142,826
Total	118,954	142,018	118,954	142,018	119,810	142,826	119,810	142,826

5 Financial instruments by category

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

	Parent Company		Consolidated	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Assets as per balance sheet				
Receivables				
Cash and cash equivalents	8,091	8,719	10,065	12,802
Trade receivables	104,303	96,353	107,867	101,848
Total	112,394	105,072	117,932	114,650
Held to maturity				
Marketable securities	-	1,120	-	1,120
Total	-	1,120	-	1,120
Liabilities as per balance sheet				
Other financial liabilities				
Trade payables	97,488	86,777	97,980	87,689
Loans and financing	118,954	142,018	119,810	142,826
Tax liabilities payable in installments	143,967	149,801	146,711	153,209
Total	360,409	378,596	364,501	383,724

6 Credit quality of financial assets

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

	Parent Company		Consolidated	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Trade receivables				
Counterparties without external credit rating				
Group 1	14,018	10,780	14,628	11,466
Group 2	87,350	81,148	91,148	86,310
Group 3	5,746	7,018	5,996	7,464
Total	107,114	98,946	111,772	105,240
Cash at bank and short-term bank deposits (not including cash on hand)				
AAA (bra)	6,169	2,136	7,654	2,263
AA+ (bra)	116	5,887	120	9,186
A+ (bra)	36	-	36	-
A (bra)	16	-	16	-
AA- (bra)	1,163	458	1,166	461
BBB (bra)	4	-	4	-
Other	587	238	1,069	892
Total	8,091	8,719	10,065	12,802
Loans to related parties				
Group 3	896	745	-	-
Total	896	745	-	-

The customer risk internal classification is described below:

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

The rating of financial institutions with which the Company carried out transactions during the period is as follows:

Counterparty	Fitch	Moody's	S&P
Banco ABC Brasil S.A.	AA-(bra)	Aa1.br	-
Banco Alfa	AA-(bra)	Aaa.br	-
Banco Bradesco S.A.	AAA(bra)	Aaa.br	brAAA
Banco Daycoval S.A.	A+ (bra)	-	-
Banco do Brasil S.A	AAA(bra)	-	-
Banco Fibra S.A.	A (bra)	-	-
Banco Industrial e Comercial S.A.	A+ (bra)	-	-
Banco Indusval S.A.	BBB(bra)	-	-
Banco Itaú S.A.	AAA(bra)	Aaa.br	brAAA
Banco Safra	AA+(bra)	Aaa.br	-
Banco Sofisa S.A.	A (bra)	-	-
Caixa Econômica Federal	AAA(bra)	-	-
HSBC Bank Brasil S.A.	-	Aaa.br	-

7 Derivative financial instruments

The Company and its subsidiaries do not have derivative financial instruments.

8 Cash and cash equivalents

	Parent Company		Consolidated	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Checking account	8,091	5,706	10,065	6,776
Financial investments	-	3,013	-	6,026
Total	8,091	8,719	10,065	12,802

9 Trade receivables

	Parent Company		Consolidated	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Receivables from third parties:				
Customers - domestic market	92,074	87,603	96,732	93,897
Customers - foreign market	13,782	10,201	13,782	10,201
	105,856	97,804	110,514	104,098
Receivables from related parties:				
Entities related to management	1,258	1,142	1,258	1,142
	1,258	1,142	1,258	1,142
Impairment of trade receivables:				
Provision for doubtful trade receivables	(2,728)	(2,377)	(3,822)	(3,176)
Present value adjustment	(83)	(216)	(83)	(216)
	(2,811)	(2,593)	(3,905)	(3,392)
Total	104,303	96,353	107,867	101,848
Current	104,303	95,996	107,867	101,491
Non-current	-	357	-	357

The changes in the provision for doubtful trade receivables are as follows:

	Parent Company	Consolidated
At December 31, 2010	2,377	3,176
Provision for (reversal of) impairment of trade receivables (a)	351	646
At December 31, 2011	2,728	3,822

(a) The changes in the provision for doubtful trade receivables are presented at the net amount of provisions and reversals.

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

(a) Aging of trade receivables

	Parent Company		Consolidated	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Not yet due - non-current	211	444	211	444
Not yet due - current	97,069	89,700	100,256	93,846
Overdue up to 30 days	6,551	3,177	6,622	3,657
Overdue from 31 to 60 days	300	1,009	300	1,262
Overdue from 61 to 90 days	309	519	309	725
Overdue from 91 to 180 days	311	1,093	311	2,204
Overdue from 181 to 360 days	606	736	1,668	736
Overdue for more than 360 days	1,757	2,268	2,095	2,366
Total	107,114	98,946	111,772	105,240

(b) Aging of trade receivables - impaired and not impaired

	Parent Company							
	December 31, 2011				December 31, 2010			
	Trade notes falling due not impaired	Overdue not impaired	Overdue impaired *	Total	Trade notes falling due not impaired	Overdue not impaired	Overdue impaired *	Total
Not yet due - non-current	-	-	211	211	444	-	-	444
Not yet due - current	96,851	-	218	97,069	89,700	-	-	89,700
Overdue up to 30 days	-	6,529	22	6,551	-	3,177	-	3,177
Overdue from 31 to 60 days	-	289	11	300	-	1,009	-	1,009
Overdue from 61 to 90 days	-	213	96	309	-	507	12	519
Overdue from 91 to 180 days	-	307	4	311	-	1,077	16	1,093
Overdue from 181 to 360 days	-	197	409	606	-	655	81	736
Overdue for more than 360 days	-	-	1,757	1,757	-	-	2,268	2,268
Total	96,851	7,535	2,728	107,114	90,144	6,425	2,377	98,946

* The provision for impaired trade notes is based on each customer's situation and guarantees.

	Consolidated							
	December 31, 2011				December 31, 2010			
	Trade notes falling due not impaired	Overdue not impaired	Overdue impaired *	Total	Trade notes falling due not impaired	Overdue not impaired	Overdue impaired*	Total
Not yet due - non-current	-	-	211	211	444	-	-	444
Not yet due -current	100,038	-	218	100,256	93,846	-	-	93,846
Overdue up to 30 days	-	6,600	22	6,622	-	3,657	-	3,657
Overdue from 31 to 60 days	-	289	11	300	-	1,262	-	1,262
Overdue from 61 to 90 days	-	213	96	309	-	603	122	725
Overdue from 91 to 180 days	-	307	4	311	-	1,597	607	2,204
Overdue from 181 to 360 days	-	503	1,165	1,668	-	655	81	736
Overdue for more than 360 days	-	-	2,095	2,095	-	-	2,366	2,366
Total	100,038	7,912	3,822	111,772	94,290	7,774	3,176	105,240

* The provision for impaired trade notes is based on each customer's situation and guarantees. .

The Company's receivables are pledged in guarantee of certain loans and financing, as described in note 23, as a percentage of the remaining debt balance. At December 31, 2011, trade receivables pledged in guarantee were R$ 38,606 (R$ 53.345 at December 31, 2010).

10 Inventories

	Parent Company		Consolidated	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Finished products	76,693	82,945	77,888	84,444
Work in process	8,777	7,216	8,777	7,216
Raw and consumption materials	7,412	8,489	7,412	8,489
Provision for loss on inventories	(7,895)	(10,441)	(9,090)	(11,471)
Imports in transit	5,566	5,067	5,566	5,067
Total	90,553	93,276	90,553	93,745

11 Taxes recoverable

	Parent Company		Consolidated	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Current				
ICMS	389	236	389	273
IPI (a)	892	930	892	930
IRRF/CSRF	-	84	4	458
Other	101	112	245	278
Total	1,382	1,362	1,530	1,939
Non-current				
ICMS on property, plant and equipment	1,762	1,455	1,762	1,455
Total	1,762	1,455	1,762	1,455

ICMS - Value-added Tax on Sales and Services
IPI - Excise Tax
IRRF/CSRF - Withholding Income Tax/Withholding Social Contribution
PIS/COFINS - Social Integration Program/Social Contribution on Revenues

(a) The reduction in the percentages of IPI rates charged on the products manufactured and sold by Portobello S.A., originally prescribed by Decree 7032 of December 14, 2009, was extended for the third time, in accordance with Decree 7.542 of August 2, 2011, and will be maintained up to December 31, 2012. This measure generates credits which are used quarterly to offset federal taxes payable.

12 Receivables from other related parties

From 2001 to 2003, the Company purchased from related party Refinadora Catarinense S.A. ("Refinadora") tax credits against the National Treasury, arising from an injunction seeking refund of the IPI premium credits. The Company used these credits to settle federal taxes. 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.

In 2009, the Federal Supreme Court (STF) issued a decision determining that this incentive ended on October 4, 1990, and therefore the credit can no longer be used. Consequently, the Company applied for the installment payment program established by Law 11941/09, including the debt arising from the credit obtained from Refinadora.

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

Upon requesting the installment payment program established by Law 11941/09, the Company and Refinadora entered into an agreement confirming these credits as guarantees and able to settle all the tax debt installments. At December 31, 2011, which also arise from lawsuit 87.00.00967-9, total R$ 93,780 (R$ 94,667 at December 31, 2010) and are monetarily restated by the Special System for Settlement and Custody (SELIC) rate, as prescribed by the agreement.

It should be pointed out that the credits offered in payment have already been changed to a court-ordered debt and the Company received, in August 2011, R$ 8,505 related to the first of the total 10 annual installments, as established in the agreement.

Refinadora Catarinense S.A. was a parent company in the past and currently has the same stockholders, and remains financially responsible for the payment of the obligation.

13 Judicial deposits

The Company and its subsidiaries are parties to labor, civil and tax lawsuits (see note 27) and are discussing such matters at the administrative and judicial levels, which, when applicable, are supported by judicial deposits. These are recorded at the original amount plus the savings account basic remuneration rates, Reference Rate (TR) + 0.5% per month.

Judicial deposits are presented according to the nature of the related claims:

	Parent Company		Consolidated	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Civil	-	6	-	6
Labor	5,994	5,989	6,031	6,021
Tax	1,930	2,016	1,930	2,016
Total	7,924	8,011	7,961	8,043

14 Receivables from Eletrobrás

With the objective of obtaining reimbursement of a compulsory loan paid through invoices for electrical energy from 1977 to 1993, based on Law 4156/62, the Company filed a legal action against Centrais Elétricas Brasileira S.A. - Eletrobrás.

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

The Federal Court determined that the Court Accounting Department calculate the amount due to the Company. The accounting department then calculated the amount of R$ 12,064 on February 1, 2006. The Company recognized the amount calculated by the legal experts and maintained these amounts restated at the National Consumer Price Index (INPC) plus 12% p.a. On September 30, 2010, the balance recorded was R$ 15,613, before restatement.

The Federal Court accounting department reviewed the calculation and presented new amounts, determining the net amount of R$ 24,749. In September 2010, the Company recognized the difference between the amounts previously calculated and the current calculation made by the Federal Court accounting department, totaling R$ 9,136, recorded under "Other operating income". At December 31, 2011, the balance of the asset was R$ 31,059 (R$ 26,131 at December 31, 2010).

15 Income tax and social contribution

(a) Income tax and social contribution

The Company adopts the annual taxable income tax method. Accordingly, during the year the prepayments are recorded in current assets and the provision in current liabilities, up to the annual calculation at the end of the year.

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

	Current Assets				Current Liabilities			
	Parent Company		Consolidated		Parent Company		Consolidated	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Income tax	513	-	628	144	(63)	(415)	(435)	(732)
Social contribution	186	-	524	71	-	(175)	(106)	(317)
Total	699	-	1,152	215	(63)	(590)	(541)	(1,049)

(b) Deferred income tax and social contribution

Deferred taxes are calculated on income tax and social contribution losses and on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.
The current tax rates of 25% for income tax and 9% for social contribution are used to calculate deferred taxes.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available to utilize temporary differences and/or tax losses, considering projections of future results of operations based on internal assumptions and future economic scenarios, which may, therefore, suffer changes.

The deferred tax calculation bases are as follows:

	Parent company and consolidated	
	December 31, 2011	December 31, 2010
Deferred income tax and social contribution - Assets	25,280	29,309
Tax losses	6,477	8,953
Temporary differences - assets	18,803	20,356
Portobello pension plan	(244)	590
Adjustment to present value of trade receivables	28	73
Provision for adjustment to market value	2,998	3,064
Provision for contingencies	5,446	5,568
Provision for PIS with ICMS reduction	1,454	936
Provision for COFINS with ICMS reduction	6,702	4,314
Provision for doubtful trade receivables	928	808
Provision for profit sharing	-	946
Provision for contingencies of IPI premium credit - SIMAB	-	1,896
Other temporary differences - assets	1,491	2,161
Deferred income tax and social contribution - Liabilities	(40,973)	(44,303)
Temporary differences - liabilities	(40,973)	(44,303)
Revaluation reserve	(18,470)	(19,007)
Receivables from Eletrobrás	(10,560)	(8,885)
Recognition of IPI premium credit - phase II	(4,020)	(3,601)
Discount to present value - Prodec*	(1,452)	(772)
Adjustment to present value of trade payables	(210)	(15)
Depreciation adjustment (to the useful lives of assets)	(4,778)	(4,778)
Exchange rate adjustment	(1,483)	(7,245)
Deferred income tax and social contribution - net	(15,693)	(14,994)

*Prodec - Program of Development for Companies of the State of Santa Catarina

The deferred taxes on tax losses and temporary differences will be used as follows:

	Parent company and consolidated	
	Deferred taxes	
	December 31, 2011	December 31, 2010
Deferred tax asset to be recovered in:		
2011	-	10,828
2012	11,433	6,878
2013	2,669	2,230
2014	9,000	6,363
2015	1,089	1,114
2016	1,089	-
Over 5 years	-	1,896
	25,280	29,309
Deferred tax liability to paid in:		
2011	-	(537)
2012	(537)	(537)
2013	(15,328)	(13,039)
2014	(537)	(537)
2015	(537)	(537)
2016	(537)	-
Over 5 years	(23,497)	(29,116)
	(40,973)	(44,303)
Total	(15,693)	(14,994)

The net changes in the deferred taxes in the year ended December 31, 2011 are as follows:

	Parent company and consolidated
At December 31, 2010	(14,994)
Tax losses	(2,475)
Temporary differences - assets	(1,554)
Temporary differences - liabilities	2,793
Revaluation reserve	537
At December 31, 2011	(15,693)

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

	Parent company and consolidated	
	2011	2010
	Charged/(credited) to profit/loss	
Deferred tax asset		
Tax losses	(2,475)	8,187
Portobello pension plan	(834)	(526)
Adjustment to present value	(45)	73
Provision for adjustment to market value	(66)	575
Provisions for contingencies	(122)	744
PIS calculation basis reduced as a result of ICMS elimination effects	518	430
COFINS calculation basis reduced as a result of ICMS elimination effects	2,388	1,980
Provision for doubtful trade receivables	119	(11)
Provision for profit sharing	(946)	946
Provision for contingencies of IPI premium credit - SIMAB	(1,896)	1,896
Provision for financial investments	-	(2,103)
Other temporary differences	(670)	292
Total	(4,029)	12,483
Realization of revaluation reserve	537	631
Provision for contingencies - Eletrobrás	(1,676)	(5,586)
Contingent assets - IPI premium credit - phase II	(419)	(1,299)
Adjustment to present value - liability	(875)	(15)
Adjustment to present value - asset	-	(591)
Depreciation adjustment (to the useful lives of assets)	-	(1,961)
Cash basis exchange variations	5,763	(98)
(-) Valuation allowance	-	3,836
Total	3,330	(5,083)
	(699)	7,400

(c) Income tax and social contribution expense

The income tax and social contribution expense for the year ended December 31, 2011 is as follows:

	Parent Company		Consolidated	
	2011	2010	2011	2010
Current tax				
Current tax on profit for the year	(5,752)	(4,376)	(11,465)	(10,069)
Total current tax	(5,752)	(4,376)	(11,465)	(10,069)
Deferred tax				
Generation and reversal of temporary differences	(699)	7,400	(699)	7,400
Total deferred tax	(699)	7,400	(699)	7,400
Income tax and social contribution expense	(6,451)	3,024	(12,164)	(2,669)

	Parent Company		Consolidated	
	2011	2010	2011	2010
Profit before tax	30,794	29,080	37,102	43,398
Tax calculated based on the standard tax rates	(10,470)	(9,886)	(12,614)	(14,755)
Equity in the earnings of subsidiaries	3,410	306	-	-
Non-deductible expenses for tax purposes	435	(1,604)	363	(1,673)
Depreciation of revalued assets	(537)	(536)	(537)	(536)
Tax credits on tax losses and temporary differences	1,011	7,344	924	6,895
Deferred income tax and social contribution	(699)	7,400	(699)	7,400
Income tax and social contribution - "*Lei do Bem*" benefit (a)	399	-	399	-
Tax expense	(6,451)	3,024	(12,164)	(2,669)

(a) "*Lei do Bem*" - Law 11196/2005 (art. 17 to 26) and Decree 5798/2006

The Brazilian legislation grants tax benefits for research and development activities, when included in the legal concept of 'technological innovation'. The tax benefit granted by the legislation for companies included in the technological innovation area is the exclusion, from the calculation of taxable income and social contribution calculation basis, of the percentage of 60% to 80% of the amount corresponding to the sum of expenditures made in the calculation period on technological research and development of technological innovation.

16 Tax assets

The Company filed a lawsuit requesting the recognition of the IPI Premium credit for different calculation periods. Lawsuit 1987.0000.645-9, referring to the period from April 1, 1981 to April 30, 1985, was decided in the Company's favor and is at the sentence execution phase, with the related amounts already determined by the Federal Court accounting department. Accordingly, in November 2009, the Company recognized the undisputed amount equivalent to R$ 11,823 restated through December 31, 2011 (R$ 10,590 at December 31, 2010).

17 Contingent assets

Contingent assets refer to lawsuits 1998.34.00.029022-4 and 1984.00.020114-0 and also are related to the recognition of tax benefits of the "IPI premium credit". These lawsuits are in the execution phase. However, as the amounts owed by the Federal Government have not yet been calculated by the Federal Justice Department, they cannot be recorded as assets. The Company's legal consultants estimate credits of R$ 54,605 and R$ 1,848, respectively, net of provisions.

With respect to lawsuit 1998.34.00.029022-4, the Company is waiting for a final judgment for settlement of the decision. With respect to lawsuit 1984.00.020114-0, the Company will offset the amounts against the IPI due, as soon as the IPI rate is increased, according to Decree 7394 of December 15, 2010.

18 Other long-term receivables

	Parent Company		Consolidated	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Escrow deposits	-	-	542	526
Other	519	57	519	57
Total	519	57	1,061	583

19 Investments

(a) Investments in subsidiaries

The Company controls four companies. Investments are recorded in permanent assets as investments in subsidiaries and in liabilities as provision for loss on investments.

	Investments	Provision for loss on investments
At December 31, 2010	480	(37,994)
Equity in the earning (loss)	10,940	(912)
Exchange variations	-	(4,296)
Proposed dividends	(10,940)	-
At December 31, 2011	480	(43,202)
Current	-	38,582
Non-current	480	4,620

In 2011, the provision for loss of R$ 912 (R$ 9,663 in December 31, 2010) on investments that presented net capital deficiency and the equity in earnings of subsidiaries arising from the interest in Portobello Shop S.A. of R$ 10,940 (R$ 10,567 at December 31, 2010), were recorded under "Equity in the earnings of subsidiaries" with a net effect of R$ 10,028 (R$ 904 at December 31, 2010).

In the same period the Company recorded losses of R$ 4,296 (gains of R$ 1,415 at December 31, 2010) arising from the translation of the foreign currency financial statements of its subsidiary Portobello América, Inc., from the U.S. dollar to the real. The losses are recorded as "Carrying value adjustments" in equity, and were caused by the 13% appreciation of the U.S. dollar between December 2010 and December 2011.

The subsidiaries are closely-held companies, in which the Parent Company's share of the assets, liabilities and profit for the period are as follows:

	Country of incorporation	Ownership percentage	Assets	Liabilities	Revenue	Profit/ (loss)
At December 31, 2010						
Portobello América Inc.	United States	100.00%	2,000	35,738	14,521	(8,125)
PBTech Ltda.	Brazil	99.94%	1,952	5,262	3,865	(968)
Portobello Shop S/A	Brazil	99.90%	17,024	16,544	40,652	10,567
Mineração Portobello Ltda.	Brazil	99.76%	471	1,417	2,260	(570)
At December 31, 2011						
Portobello América Inc.	United States	100.00%	592	37,990	586	(548)
PBTech Ltda.	Brazil	99.94%	1,237	2,328	179	(255)
Portobello Shop S/A	Brazil	99.90%	6,076	5,596	42,907	10,940
Mineração Portobello Ltda.	Brazil	99.76%	451	604	1,981	(109)

(b) Other investments

At December 31, 2011 the Company has a balance of R$ 198 (R$ 198 at December 31, 2010), relating to its interest of 11.72% in the INFRAGÁS - Infraestrutura de Gás para a Região Sul S.A. company, which has the specific purpose of enabling the implementation of infrastructure for the supply of natural gas to the states in the south region of Brazil. This balance, plus the Amazon Investment Fund (FINAM) recorded in subsidiary Mineração Portobello, represent the consolidated balance of R$ 215 (R$ 226 at December 31, 2010).

20 Property, plant and equipment

(a) Analysis

		Parent Company				Consolidated	
		December 31, 2011			December 31, 2010	December 31, 2011	December 31, 2010
	Annual average depreciation rate	Cost	Accumulated depreciation	Net	Net	Net	Net
Land		11,111	-	11,111	11,111	11,488	11,488
Buildings, constructions and improvements	4%	93,335	(12,969)	80,366	79,515	80,523	79,680
Machinery and equipment	10%	270,656	(200,342)	70,314	78,442	70,314	78,442
Furniture and fittings	10%	8,166	(7,140)	1,026	811	1,156	1,015
Computers	20%	12,782	(11,393)	1,389	844	1,406	865
Other	20%	219	(171)	48	45	107	45
Construction in progress (a)		13,058	-	13,058	6,691	13,058	6,691
Total		409,327	(232,015)	177,312	177,459	178,052	178,226

Management opted to maintain the value of revalued property, plant and equipment because this balance approximates the fair value and deemed cost, since the last revaluation was in 2006, (see note 30b).

As established by the Technical Interpretation ICPC 10 issued by the CPC and approved by CVM Deliberation 619/09, in 2008 the Company reviewed and changed the useful lives of its property, plant and equipment based on a technical appraisal of the Engineering department, and these rates were maintained in 2009, 2010 and 2011.

(b) Changes in property, plant and equipment

	December 31, 2010	Parent Company				December 31, 2011
	Net	Additions*	Transfers	Depreciation	Disposals	Net
Land	11,111	-	-	-	-	11,111
Buildings, constructions and improvements	79,515	2	3,533	(2,684)	-	80,366
Machinery and equipment	78,442	1,311	2,789	(12,226)	(2)	70,314
Furniture and fittings	811	454	-	(239)	-	1,026
Computers	844	697	146	(297)	(1)	1,389
Other	45	22	-	(19)	-	48
Construction in progress	6,691	12,837	(6,468)	-	(2)	13,058
						-
Total	177,459	15,323	-	(15,465)	(5)	177,312

* Additions to property, plant and equipment were paid for with funds available and financing obtained from suppliers.

	December 31, 2010	Consolidated				December 31, 2011
	Net	Additions*	Transfers	Depreciation	Disposals	Net
Land	11,488	-	-	-	-	11,488
Buildings, constructions and improvements	79,680	2	3,533	(2,692)	-	80,523
Machinery and equipment	78,442	1,311	2,789	(12,226)	(2)	70,314
Furniture and fittings	1,015	454	-	(274)	(39)	1,156
Computers	865	697	146	(301)	(1)	1,406
Other	45	81	-	(19)	-	107
Construction in progress	6,691	12,837	(6,468)	-	(2)	13,058
Total	178,226	15,382	-	(15,512)	(44)	178,052

* Additions to property, plant and equipment were paid for with funds available and financing obtained from suppliers.

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

	Parent Company		Consolidated	
	2011	2010	2011	2010
Cost of sales	14,253	14,229	14,253	14,229
Selling expenses	840	762	887	1,064
Administrative expenses	372	345	372	345
Total	15,465	15,336	15,512	15,638

The Company is lessee in finance leases of equipment as follows:

	December 31, 2011			December 31, 2010		
	Cost	Accumulated depreciation	Net balance	Cost	Accumulated depreciation	Net balance
Computers	311	(149)	162	332	(108)	224
Other	-	-	-	46	(13)	33
Total	311	(149)	162	378	(121)	257

The Company leases various assets under non-cancellable finance lease agreements. The lease terms are for at most two years, and ownership of the assets is then transferred to the Company.

21 Intangible assets

(a) Analysis

	Annual average amortization rate	Parent Company				Consolidated	
		December 31, 2011			December 31, 2010	December 31, 2011	December 31, 2010
		Cost	Accumulated amortization	Net	Net	Net	Net
Software	20%	12,358	(11,907)	451	437	451	448
Right to explore mineral resources	20%	1,000	(350)	650	850	659	864
Trademarks and patents		150	-	150	150	152	152
Goodwill		-	-	-	-	80	80
Management system (a)		3,407	-	3,407	-	3,407	-
Total		16,915	(12,257)	4,658	1,437	4,749	1,544

(a) Refers to expenses on acquisition and implementation of business management systems, also named Value Chain Management System, comprising mainly the Oracle, WMS, Demantra and Inventory Optimization systems, and the developments made in the value chain management process. The expenses will be amortized through the conclusion of the acquisitions and implementations in accordance with the future benefit term estimated by the Company's management.

(b) Changes in intangible assets

	December 31, 2010	Parent Company		December 31, 2011
	Net	Additions*	Amortizations	Net
Software	437	204	(190)	451
Right to explore mineral resources	850	-	(200)	650
Trademarks and patents	150	-	-	150
Management system	-	3,407	-	3,407
Total	1,437	3,611	(390)	4,658

* The additions to intangible assets were paid for with funds available.

	December 31, 2010	Consolidated		December 31, 2011
	Net	Additions*	Amortization	Net
Software	448	204	(201)	451
Right to explore mineral resources	864	-	(205)	659
Trademarks and patents	152	-	-	152
Goodwill	80	-	-	80
Management system	-	3,407	-	3,407
Total	1,544	3,611	(406)	4,749

* The additions to intangible assets were paid for with funds available.

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

	Parent Company		Consolidated	
	2011	2010	2011	2010
Cost of sales	252	419	256	436
Selling expenses	2	3	14	41
Administrative expenses	136	647	136	647
Total	390	1,069	406	1,124

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

	2012	2013	2014	2015
Software	142	77	26	8
Right to explore mineral resources	203	203	203	50
Total	345	280	229	58

The items Trademarks and patents and Goodwill, totaling R$ 232, are not being amortized since they have no defined useful life. Part of the software under development, totaling R$ 198, and the value chain management system, totaling R$ 3,407, will be amortized after their implementation.

22 Trade payables

	Parent Company		Consolidated	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Suppliers	98,105	86,821	98,597	87,733
Domestic market	88,463	81,319	88,955	82,231
Foreign market	9,642	5,502	9,642	5,502
Present value adjustment	(617)	(44)	(617)	(44)
Total	97,488	86,777	97,980	87,689

23 Loans and financing

	Maturity	2011 charges	Parent Company		Consolidated	
			December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Current						
Foreign currency						
Suppliers credit		VC+5.41% p.a.[1]	4,278	6,655	4,278	6,655
Advance on export contracts			-	1,791	-	1,791
Prepayment (a)		VC+6.48% p.a.[1]	5,769	4,627	5,769	4,627
FINIMP (b)		VC+3.28% p.a.[1]	24,349	-	24,349	-
Total foreign currency		VC + 4.08% p.a.	34,396	13,073	34,396	13,073
Local currency						
Exim Pre-shipment TJ 462 (c)		12.80% p.a.	2,014	1,523	2,014	1,523
Exim Pre-shipment PSI			-	24,671	-	24,671
FINEP (d)		8.00% p.a.	1,992	29	1,992	29
Export credit notes (e)		13.95% p.a.	7,053	-	7,053	-
4131 (f)		13.47% p.a.	11,111	-	11,111	-
Finance lease		27.97% p.a.	38	136	38	136
Advance on credit notes (g)		15.49% p.a.	5,489	-	5,489	-
Working capital		13.73% p.a.[1]	17,507	58,152	17,507	58,152
Total local currency		13.63% p.a.	45,204	84,511	45,204	84,511
Total current			79,600	97,584	79,600	97,584
Non-current						
Foreign currency						
Suppliers credit	Oct/2016	VC+5.70% p.a.[1]	7,610	12,935	7,610	12,935
Prepayment (a)	Dec/2013	VC+5.98% p.a.[1]	2,341	1,690	2,341	1,690
Total foreign currency		VC + 5.77% p.a.	9,951	14,625	9,951	14,625
Local currency						
Exim Pre-shipment TJ 462 (c)	Mar/2013	12.80% p.a.	500	2,500	500	2,500
PRODEC (h)	Aug/2015	4.00% p.a. + UFIR	9,952	4,725	9,952	4,725
FINEP (d)	Sep/2018	8.00% p.a.	11,285	13,248	11,285	13,248
Export credit note (e)	Mar/2013	13.95% p.a.	3,333	-	3,333	-
Finance lease			-	38	-	38
Working capital	Mar/2017	13.54% p.a.[1]	4,333	9,298	5,189	10,106
Total local currency		7.68 % p.a.	29,403	29,809	30,259	30,617
Total non-current liabilities			39,354	44,434	40,210	45,242
Total			118,954	142,018	119,810	142,826

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

(a) Prepayment - In 2010, the Company signed export prepayment agreements totaling US$ 4,780. The agreements have terms of up to 24 months and are collateralized by receivables of Portobello Shop S.A. and Portobello S.A. In 2011, the Company signed export prepayment agreements totaling U$ 5,651. The agreements have terms of up to 30 months and are collateralized by receivables of Portobello Shop S.A and Portobello S.A.

(b) FINIMP (special credit lines for the import of capital assets, machinery, equipment and services) - From April to December 2011, the Company entered into several FINIMP contracts, amounting to US$ 12,980 with an average rate of 3.28% p.a., payable over 6 months, with payments made at the end of each contract. These contracts were collateralized by receivables of Portobello S.A. in the average amount of 40% of the debt due in conformity with the contract.

(c) Exim Pre-shipment TJ 462 (type of financing with BNDES funds that is used as an advance for the manufacture of export products) - In April 2010, the Company signed a "BNDES - Exim Pre-shipment TJ-462" agreement in the amount of R$ 4,000 subject to TJLP plus 6.80% p.a. The amount is payable over 3 years, with a 1-year grace period and divided into 24 monthly and consecutive installments. This loan is

collateralized by receivables of Portobello S.A. in the amount of 72% of the balance due in conformity with the contract.

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

(e) NCE - Export Credit Note - In September 2011, the Company entered into an export credit note agreement with Banco Itaú, in the amount of R$ 10,000, with interest of 3.04% p.a. and 100% of CDI, payable in 3 installments, the first of which on March 19, 2012, the second on September 17, 2012, and the last on March 21, 2013. Receivables of Portobello S.A. were pledged in guarantee for 60% of the debt balance.

(f) 4131 (type of loan in foreign currency) - In March 2011, the Company entered into a 4131 contract with Banco Itaú, in the amount of R$ 9,999 with interest of 2.57%% p.a. and 100% of CDI, for 18 months, payable at the end of the contract. This loan is collateralized by receivables of Portobello S.A. in the amount of 60% of the balance due.

(g) Private Agreement on Advance of Credit Notes - In December 2011, the Company entered into an Advance on Credit Notes agreement with Banco Fibra in the amount of R$ 5,489 million with interest of 15.49% p.a. and a term of 5 months. This agreement has no restrictive clauses.

(h) PRODEC - Program of Development for Companies of Santa Catarina State - In July 2009, the Company was granted a State of Santa Catarina Special Tax Financing Regime. The balance was adjusted to present value based on the official SELIC rate (10.91% p.a. at December 31, 2011).

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

Loans and financing at December 31, 2011 do not have restrictive covenants.

The other loans are mainly guaranteed by mortgages on properties, pledges of equipment and receivables of the parent company (note 9) and of a subsidiary (note 42), sureties of the controlling stockholders and of a subsidiary and finished product inventories of R$ 10,420.

The long-term loans fall due as follows:

	Parent Company		Consolidated	
Maturity in	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
2012	-	16,301	-	17,109
2013	19,128	13,485	19,128	13,485
2014	8,957	6,192	8,957	6,192
2015	5,254	2,511	5,254	2,511
2016	2,580	2,511	2,580	2,511
2017	1,963	1,962	1,963	1,962
2018	1,472	1,472	2,328	1,472
Total	39,354	44,434	40,210	45,242

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

	Consolidated	
	December 31, 2011	December 31, 2010
Six months or less	33,485	32,033
From 6 to 12 months	19,164	22,993
From 1 to 5 years	37,550	39,835
Over 5 years	856	5,117
Total	91,055	99,978

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

	Parent Company		Consolidated	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Reais	74,607	114,320	75,463	115,128
Euro	1,074	1,540	1,074	1,540
U.S. dollars	43,273	26,158	43,273	26,158
Total	118,954	142,018	119,810	142,826

The fair value of the outstanding borrowings approximates their book values as the impact of discounting to present value is not significant. The fair values are based on discounted cash flows using a rate based on the borrowing rate of 8.71% (11.52% at December 31, 2010).

Finance lease payables are as follows:

	Parent company and consolidated	
	December 31, 2011	December 31, 2010
Gross finance lease liabilities - minimum lease payments		
Less than one year	39	150
More than one year and less than five years	-	39
Total	39	189
Future finance charges on finance leases	(1)	(15)
Present value of finance lease liabilities	38	174
The present value of finance lease liabilities is as follows:		
Less than one year	38	136
More than one year and less than five years	-	38
Total	38	174

24 Tax liabilities payable in installments

	Tax liabilities	Request for installment payment		December 31, 2011	December 31, 2010
		Date	No. of installments not yet due		
Portobello S.A.	INSS	Dec/09	35	8,987	10,809
	IPI	Dec/09	35	6,083	7,419
	PIS	Mar/09	26	310	413
	COFINS	Mar/09	26	1,426	1,903
	IRPJ	Mar/09	26	2,265	3,022
	CSLL	Mar/09	26	842	1,124
	LAW 11941/09 (a)	Nov/09	154	124,054	125,111
Total Parent Company				143,967	149,801
Current				20,731	15,739
Non-current				123,236	134,062
PBTech Ltda.	LAW 11941/09 (a)	Nov/09	13	169	309
Portobello Shop S.A.	INSS	Nov/09	37	735	889
	COFINS	Mar/09	29	107	144
	IRPJ	Mar/09	29	821	1,095
	CSLL	Mar/09	29	298	397
	LAW 11941/09 (a)	Nov/09	157	614	574
Total subsidiaries				2,744	3,408
Total consolidated				146,711	153,209
Current				21,773	16,552
Non-current				124,938	136,657

INSS - National Institute of Social Security
IRPJ - Corporate Income Tax
CSLL - Social Contribution on Net Income

The installments fall due as follows:

	Parent Company		Consolidated	
Maturity	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
2011	-	15,739	-	16,552
2012	20,731	15,739	21,773	16,551
2013	20,869	15,739	21,742	16,551
2014	15,852	13,650	16,211	13,994
2015	8,798	9,044	8,846	9,108
2016	8,798	9,044	8,846	9,108
2017	8,798	9,044	8,846	9,108
2018	8,798	9,044	8,846	9,108
2019	8,798	9,044	8,846	9,108
2020	8,798	9,044	8,846	9,108
2021	8,798	9,044	8,846	9,108
2022	8,798	9,044	8,846	9,108
2023	8,798	9,044	8,846	9,108
2024	7,333	7,538	7,371	7,589
Total	143,967	149,801	146,711	153,209

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

In May and June 2011, the Company concluded the process of consolidation of the installment program established by Law 11941/09, started with the application for the Tax Recovery Program in November 2009.

Between the application date and the Consolidation the Company paid the minimum installment of R$ 395, as permitted by legislation. During this period, and more precisely in the consolidation, it made decisions that had a positive economic impact of R$ 3,013, of which R$ 3,613 in other operating income and R$ 600 in finance costs. The main impact was due to the non-confirmation of the transfer of debts denied in the installment program of Provisional Measure (MP) 470 to the installment program of Law 11941 (see note 25).

After the consolidation, the Company is required to pay monthly installments of R$ 1,198 without delay exceeding three months and it must discontinue any lawsuit and waive any alleged right on which the referred lawsuits are based, under penalty of immediate cancellation of the installment payment and the consequent loss of the benefits established by Law 11941/09. The termination of lawsuits filed against the tax assessments does not affect the proceedings in course in the judicial sphere, mentioned in note 16.

25 Tax debts law 12249/10 (MP 470 and MP 472)

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

In June 2010, when the Provisional Measure was converted into Law 12249/10, the use of tax credits arising from tax losses existing at December 31, 2009 was authorized. The Company used this benefit and recorded in the second quarter R$ 3,252 (see note 33) thus considering the installment payment program as concluded.

PGFN partially denied the request in June 2010 claiming the need of withdrawal from lawsuits challenging the credit. The Company requested the withdrawal/waiver of only the assessments received from SRF. However, the Attorney General's Office of the National Treasury of the State of Santa Catarina understood that the withdrawal/waiver should be extended to the declaratory actions seeking the recognition of IPI premium credits, mentioned in note 16. The Company's Legal Department is adopting measures against the decision of the PGFN in order to dismiss the demand of withdrawal/waiver of these declaratory suits. This procedure is supported by an opinion issued by the law firm Demarest Almeida, defending that, in relation to debts included in the installment program established by Law 12249/10, the Company is not obliged to withdraw the declaratory suits, which differs from the procedure established by Law 11941/09. The Company's legal department understands as virtually certain a favorable outcome in the various legal levels available to reconsider the unfavorable decisions based on the merits of the case.

In the remote event that PGFN's decision will be held through the last level, the impact on the Company's results would be a loss of R$ 21,846, considering the non-acknowledgement of the debt, the inexistence of the benefits and the maintenance of the debts as contingent liabilities. This possible tax liability will be offset by the credits arising from lawsuit 1998.34.00.029022-4, as mentioned in note 17.

26 Taxes and contributions

	Parent Company		Consolidated	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
IRRF	1,034	860	1,225	1,065
ICMS	1,985	537	1,985	539
PIS	116	105	158	156
COFINS	533	485	727	720
Other	93	83	218	202
Total	3,761	2,070	4,313	2,682

27 Provisions for contingencies

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

The analysis of the provisions is as follows:

Provisions	Parent Company		Consolidated	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Civil	4,416	3,193	4,488	3,222
Labor	9,654	11,442	9,654	11,442
Tax	25,935	17,180	25,935	17,180
Total	40,005	31,815	40,077	31,844
Current	988	6,322	1,015	6,345
Non-current	39,017	25,493	39,062	25,499

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

Changes in the provisions are as follows:

	Parent Company			Total
	Civil	Labor	Tax	
At December 31, 2010	3,193	11,442	17,180	31,815
Charged (credited) to the statement of income:	3,254	5,110	8,755	17,119
Additional provisions	3,785	5,892	6,894	16,571
Reversal due to lack of use	(531)	(932)	-	(1,463)
Unwinding of discount	-	150	1,861	2,011
Reversal due to realization	(2,031)	(6,898)	-	(8,929)
At December 31, 2011	4,416	9,654	25,935	40,005

	Consolidated			Total
	Civil	Labor	Tax	
At December 31, 2010	3,222	11,442	17,180	31,844
Charged (credited) to the statement of income:	3,298	5,110	8,755	17,163
Additional provisions	3,844	5,892	6,894	16,630
Reversal due to lack of use	(546)	(932)	-	(1,478)
Unwinding of discount	-	150	1,861	2,011
Reversal due to realization	(2,032)	(6,898)	-	(8,930)
At December 31, 2011	4,488	9,654	25,935	40,077

Comments on civil, labor and tax lawsuits:

Civil

The Company and its subsidiaries are defendants in 102 civil lawsuits (142 civil lawsuits at December 31, 2010) 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 tangible damages. When applicable, judicial deposits were made (note 13).

In 2011, the provision for civil contingencies increased by R$ 1,266, affected by the provisions and realizations for the period. The net provisions made in 2011 totaled R$ 3,298 (see note 33), among which the provisions of lawsuits 023.01.061025-4, 072.99.000298-7 and 482.01.2006.012016-2 in the amounts of R$ 1,737, R$ 603 and R$ 473, respectively. Other provisions are diluted among various lawsuits which totaled R$ 485. Also in 2011, certain provisions totaling R$ 2,032 were realized, including lawsuit 072.99.000298-7 in the amount of R$ 1,530. The amount of R$ 506 is distributed among various lawsuits settled in 2011.

The civil contingent liabilities are described in note 28.

Labor

The Company and its subsidiary Portobello Shop S.A. are defendants in 70 labor claims (91 claim at December 31, 2010), brought by former employees and third parties. The claims refer to the payment of termination amounts, premiums, overtime, salary equalization, monetary adjustment of the Government Severance

Indemnity Fund for Employees (FGTS), compensation for pain and suffering and tangible damage from occupational accidents/disease. The provisions are reviewed by management based on the opinion of the legal advisors. Some lawsuits are backed by judicial deposits (note 13).

In 2011, certain events changed substantially the provision for labor contingencies, resulting in a decrease of R$ 1,788 in comparison with December 31, 2010. A portion of this decrease arose from the unfavorable decision received by the Company, which, at March 31, 2011 reversed the amount of R$ 5,559 relating to the provision for labor lawsuit 158600-62.2006.05.0029, to accounts payable, until the calculations are determined by the labor courts and a portion arose from lawsuit 0234000-44.1998.5.05.0003, which reversed about R$ 955 and was closed in September 2011. The remaining R$ 384 refer to various labor claims. Also in this period, certain events changed the provision for labor contingencies, net of reversal due to lack of use and the unwinding of discount in the amount of R$ 5,110, which decreased the effect of the reversal mentioned above, but had impact on the increase in operating expenses, as described in note 33.

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

These contingent liabilities are disclosed in note 28.

Tax

(a) INSS on Cooperatives

The Company filed lawsuits (injunction) against the INSS, which required the payment of the social contribution set forth in article 22, item IV of Law 8212/91, with the wording provided by Law 9,879/99.

The Company alleges that in the course of its activities it contracts cooperatives of several labor areas to provide specialized services, which makes it subject to the payment of the contribution. The Company believes that the payment of the contribution is not constitutional, since it does not respect the principles of legality, equality and protection to the cooperatives. A preliminary injunction was requested to declare the right of not paying the social contribution, as well as offsetting the amounts that had been unduly paid. At December 31, 2011 the balance of the provision was R$ 1,948 (R$ 1,741 at December 31, 2010).

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

On April 16, 2008, the Company was granted Injunction 2008.34.00.011286-4, to exclude the ICMS from the calculation basis of the PIS and COFINS federal contributions. As from the date of this injunction, the Company calculates and pays PIS and COFINS without including the ICMS in the calculation basis.

The balances of the provisions for tax contingencies related to the exclusion of PIS and COFINS contributions from the ICMS calculation basis amount to R$ 23,987 at December 31, 2011 (R$ 15,439 at December 31, 2010).

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

28 Contingent liabilities

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

	Parent Company		Consolidated	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Civil	767	650	787	674
Labor	9,323	5,226	9,323	5,226
Total	10,090	5,876	10,110	5,900

In 2011, the Company was summoned in a public civil action filed by the Labor Public Prosecutor Office - Records. 1753-28.2011.5.12.0040 - in the approximate amount of R$ 18,000, classified as a contingent liability in the third quarter of 2011. On November 18, 2011, based on the court decision to grant in part the requests of the Labor Public Prosecutor Office, the amount of the action was restricted to R$ 4,000, thus reducing contingent liabilities at December 31, 2011.

The legal advisors classify this lawsuit as a contingent liability since an adverse judgment for the Company is not probable and, as a result, an outflow of resources to settle the obligation will not be necessary.

29 Employee benefits

29.1 Private pension plan

Since November 1, 1997, the Company and its subsidiaries sponsor the Portobello Prev benefit plans, managed by BB Previdência - Fundo de Pensão Banco do Brasil, which includes 44 participants. The plan has the characteristics of a defined contribution plan; however it provides a minimum retirement benefit for length of service or age.

At December 31, 2011, 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$ 3,118 (R$ 3,469 at December 31, 2010) and is provided in long-term liabilities. The Company will pay the related special reserve amount when each participant in these conditions becomes eligible.

The actuarial evaluation restated through December 31, 2011, presents a surplus of R$ 3,837 (surplus of R$ 1,764 at December 31, 2010), recorded in non-current assets under "Actuarial assets". The amounts recognized in the balance sheet are as follows:

	Parent Company and Consolidated	
	December 31, 2011	December 31, 2010
Fair value of the plan's assets	42,305	39,270
Present value of financed obligations	(38,468)	(37,506)
Actuarial assets (liabilities), net	3,837	1,764

Changes in the fair value of the assets of the benefit plan and of the benefit obligations defined during the year are as follows:

Parent Company and Consolidated		
Fair value of the plan's assets	2011	2010
At January 1	39,270	30,904
Benefits paid during the year	(1,103)	(547)
Contributions made by participants in the year	870	841
Contributions made by the sponsor in the year	1,589	1,451
Income expected from the assets in the year	4,036	3,843
Assets - gain/ (loss)	(2,357)	2,778
At December 31	42,305	39,270

Parent Company and Consolidated		
Defined benefit obligation	2011	2010
At January 1	37,506	31,043
Gross cost of current service (with interest)	1,446	766
Interest on actuarial obligation	3,855	3,634
Benefits paid during the year	(1,103)	(547)
Liabilities - (gain)/ loss	(3,236)	2,610
At December 31	38,468	37,506

At December 31, 2011, the Company recorded actuarial gains of R$ 879 (R$ 168 at December 31, 2010) as other comprehensive income in equity, under "Carrying value adjustments".

	Parent company and consolidated	
	2011	2010
Actuarial obligation gains /(losses)	3,236	(2,610)
Plan asset gains/(losses)	(2,357)	2,778
Actuarial gains/(losses)	879	168

The amounts recognized in the statements of income under "Other operating income (expenses)", related to the management of the assets are:

	Parent company and consolidated	
	2011	2010
Cost of current service (with interest)	(1,446)	(766)
Interest on actuarial obligations	(3,855)	(3,634)
Income expected from the assets of the plan	4,036	3,843
Contributions from participants in the year	870	841
Income (expenses), net*	(395)	284

* Note 33

At December 31, 2011 the Company also recognized revenue of R$ 1,589 (R$ 1,185 at December 31, 2010), related to the payments made by the sponsor during the year, as an asset for employee benefit plan purposes (see note 33).

The main actuarial assumptions used were as follows:

	Parent company and consolidated	
Economic and financial assumptions	December 31, 2011	December 31, 2010
Annual interest rate	10.28% p.a. nominal (inflation+5.53%p.a.real)	11.04% p.a. nominal (inflation+5.75%p.a. real)
Long-term income from assets	10.28%	11.04%
Long-term inflation	4.50%	5.00%
Salary growth projection	6.59% p.a. (inflation+2% p.a. real)	8.15% p.a. (inflation+3%p.a. real)
Plan benefit growth projection	0.00% p.a.	0.00% p.a.
Factor for determining the actual value over time (salaries)	0.98	1.00
Factor for determining the actual value over time (benefits)	0.98	1.00

	Parent company and consolidated	
Biometric and demographic assumptions	December 31, 2011	December 31, 2010
Turnover assumption	Null	As shown below[1]
Overall mortality table	AT-2000	AT-2000
Disability mortality table	EXP. IAPC	IAPB-57
Disability table	Hunter and Álvaro Vindas	Álvaro Vindas
Retirement	Eligibility	Probability of retirement [2]
Family composition before retirement		
Probability of being married	100% [3]	90% of participants
Age difference of active participants	Men 5 years older than women	Men 4 years older than women
Number of dependent children	- [4]	2 children
Age of children	- [4]	(Age of the participant-20)/2
Family composition after retirement	Actual family	Actual composition of the group

(1) Turnover assumption: Turnover varies in accordance with the length of service (TS) and the salary bracket: 0-10 SM: 0.45 / (TS+1); 10-20 SM: 0.30 / (TS+1); over 20 SM: 0.15 / (TS+1), where SM corresponds to the minimum salary in effect (R$ 510.00 at December 31, 2010 and R$ 465.00 at December 31, 2009)

(2) Probability of retirement: 50% on the first date of eligibility to Early Retirement, 10% per year up to the date of first eligibility to Normal Retirement and 100% on the date for first eligibility to Normal Retirement.

(3) Probability that on the date of death a death pension benefit to the life dependent will be generated.

(4) In view of the regulation provisions, as 100% of the benefits are considered to be family quotas, the Company opted not to use children in the standard family as a life dependent is used for 100% of deaths.

29.2 Employee Benefit Expenses

	Parent Company		Consolidated	
	2011	2010	2011	2010
Remuneration	69,546	58,684	74,693	63,399
Benefits				
Private pension plan	695	641	950	889
FGTS	6,160	4,753	6,530	5,113
Other	7,467	6,170	7,702	6,374
Total	83,868	70,248	89,875	75,775

30 Equity

(a) Share capital

(full amounts, not rounding figures)

The Company has a subscribed and paid-up capital of R$ 112,957,487 comprising 159,008,924 common shares with no par value.

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

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

At December 31, 2011 there were 61,992,547 shares outstanding in the market, corresponding to 38.99% of the total shares issued (112,655,178 at December 31, 2010, corresponding to 70.85% of the total). Shares outstanding in the market comprise all securities available for trading in the market, excluding those held by the controlling stockholders and members of the Board of Directors and the Executive Board.
The stockholders' agreement signed on April 15, 2011 formalized their adjustments related to the rules and procedures that will regulate the exercise of the Company's power among them and that reduced the percentage of outstanding shares.

(b) Revaluation reserve

This reserve was recorded due to the revaluation of land, buildings and improvements, based on the appraisal report prepared by 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 reserve is being realized proportionally to the depreciation of revalued constructions and improvements with a corresponding entry to retained earnings, net of tax effects. The same amount of realization of revaluation reserve is recorded in the statement of income for the year, as depreciation of the revalued assets.

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

Considering the surplus credited to the revaluation reserve approved by the Extraordinary General Meeting of stockholders held on December 29, 2006, the balance of the revaluation of the Company's assets, net of deferred taxes, amounted to R$ 45,292 at December 31, 2011 (R$ 46,872 at December 31, 2010), the depreciation charge on the revaluation, net of deferred IRPJ and CSLL liabilities, for the year ended December 31, 2011 was R$ 1,580 (R$ 1,857 at December 31, 2010), and the balance of deferred IRPJ and CSLL on the revaluation reserve recorded in non-current liabilities was R$ 18,470 (R$ 19,007 at December 31, 2010), see note 15(b).

The Company opted to maintain the revaluation reserve at December 31, 2006 up to its full realization, in accordance with Law 11638/07.

(c) Accumulated deficit

	Parent company	Consolidated
At December 31, 2010	(99,661)	(99,699)
Realization of revaluation reserve	1,580	1,580
Profit for the year (excluding non-controlling interests)	24,343	24,381
At December 31, 2011	(73,738)	(73,738)

31 Revenue

The reconciliation between gross sales revenue and net revenue, presented in the income statement for the year ended December 31, 2011, is as follows:

	Parent company		Consolidated	
	2011	2010	2011	2010
Gross sales revenue	702,241	614,284	745,384	648,582
Deductions from gross revenue	(154,281)	(132,996)	(158,578)	(137,167)
Returns	(136,204)	(117,957)	(140,499)	(122,566)
Sales taxes	(18,077)	(15,039)	(18,079)	(14,601)
Net sales revenue	547,960	481,288	586,806	511,415
Domestic market	513,914	443,960	543,279	470,428
Foreign market	34,046	37,328	43,527	40,987

32 Expenses by nature

Costs of sales and selling and administrative expenses for the year ended December 31, 2011 are as follows:

	Parent company		Consolidated	
	2011	2010	2011	2010
Changes in inventories of finished products and work in process	(1,028)	(14,771)	(1,028)	(14,771)
Direct production costs (raw materials and inputs)	201,913	197,909	200,027	196,198
Overhead expenses (including maintenance)	29,627	33,784	29,627	33,784
Cost of goods resold	86,725	57,597	88,101	58,185
Transportation of goods sold	2,672	2,888	2,672	2,888
Salaries, social charges and employee benefits	103,717	87,172	110,937	93,714
Third-party labor and services	14,556	15,824	20,865	19,034
Amortization and depreciation	15,720	16,050	15,782	16,407
Rental and operating leasing	6,626	4,798	6,626	4,870
Sales commissions	11,927	9,840	11,927	9,840
Marketing and publicity	7,112	4,652	10,925	6,949
Other selling expenses	15,672	11,470	17,579	11,764
Other administrative expenses	2,618	1,757	2,740	1,848
Total	497,857	428,970	516,780	440,710

33 Other operating income and expenses, net

Other operating income and expenses in the parent company and consolidated financial information, for the years ended December 31, 2011 and 2010 were as follows:

	Parent company		Consolidated	
	2011	2010	2011	2010
Other operating income				
Related party service revenue	3,187	3,251	-	-
Third-party service revenue	886	452	886	452
Profit sharing, balance net of reversal	252	-	252	-
Consolidation of installment payment of Law 11941/09 (note 24(a))	3,613	-	3,613	-
Complement of Eletrobrás compulsory loan (note 14)	-	9,136	-	9,136
Use of tax credits as per MP 470 (note 25)	-	3,252	-	3,252
Sale of property, plant and equipment	-	600	-	600
Credit of ICMS on property, plant and equipment	-	398	-	398
Actuarial restatement (note 29.1)	1,589	1,185	1,589	1,185
Other revenue	369	204	384	222
Total	9,896	18,478	6,724	15,245
Other operating expenses				
Provision for labor contingencies (note 27)	(5,110)	(2,791)	(5,110)	(2,791)
Provision for civil contingencies (note 27)	(3,254)	(1,475)	(3,298)	(1,490)
Cost of idleness (a)	(3,610)	-	(3,610)	-
Expenses to adapt installations (b)	(1,180)	-	(1,180)	-
Taxes on other revenues	(532)	(361)	(532)	(361)
Actuarial restatement (note 29.1)	(395)	-	(395)	-
Write-off of tax deposits and expenses on lawsuits	(374)	-	(374)	-
Migration of debts of MP 470 to Law 11941 (note 24(a))	-	(5,577)	-	(5,577)
Consolidation of installment payment of Law 11941/09 (note 24(a))	-	-	(225)	-
Profit sharing	-	(2,783)	-	(3,155)
Provision for inventory adjustments	-	(925)	-	-
Cost of property, plant and equipment sold/disposed off	-	(321)	(39)	(321)
Municipal taxes and fees (c)	-	(207)	-	(207)
Indemnity payable on third-party agreement	-	(121)	-	(757)
Write-off of taxes recoverable	-	-	(128)	-
Other expenses	(116)	(564)	(140)	(544)
Total	(14,571)	(15,125)	(15,031)	(15,203)
Total, net	(4,675)	3,353	(8,307)	42

(a) During the second quarter of 2011, the production volume was reduced as part of the Company's strategic actions to align its inventory levels. Therefore, part of the fixed costs incurred in the period was immediately recognized in profit for the period in order to prevent the measurement of finished products at a value above its normal cost. The accounting treatment is in accordance with CPC 16.

(b) Expenses incurred with the adaptation of installations for the storage and final destination of industrial waste in order to be in line with environmental rules.

(c) Request for installment payment of municipal taxes denied in the second quarter of 2010.

34 Other gains (losses), net

The net exchange variation recorded under "Other gains (losses), net" in the Parent company and Consolidated financial statements for the year ended December 31, 2011 is as follows:

	Parent Company and Consolidated	
	2011	2010
Foreign exchange variations, net		
Trade receivables	5,849	(1,562)
Trade payables	(1,211)	202
Commissions	(8)	2
Total	4,630	(1,358)

35 Finance result

The Parent Company and Consolidated finance results for the years ended December 31, 2011 and 2010 are as follows:

	Parent Company		Consolidated	
	2011	2010	2011	2010
Finance income				
Interest	1,486	565	1,874	1,278
Interest on tax credits	-	169	-	169
Discounts received	177	121	273	155
Restatement of Eletrobrás compulsory loan (note 14)	4,928	3,137	4,928	3,137
Restatement of tax assets (note 16(a))	1,233	929	1,233	929
Restatement of receivables from related parties (note 12)	9,189	7,886	9,189	7,886
Restatement of judicial deposits for tax and labor claims	18	220	18	220
Present value adjustment of trade receivables (note 9)	145	-	145	-
Present value adjustment of trade payables (note 22)	584	44	584	44
Consolidation of installment payment of Law 11941 (note 24(a))	-	-	125	-
Total	17,760	13,071	18,369	13,818
Finance costs				
Interest	(16,325)	(22,133)	(16,530)	(22,359)
Finance charge on taxes	(15,104)	(13,586)	(15,414)	(13,877)
Discount of provision for contingencies (note 27)	(1,861)	(1,051)	(1,861)	(1,051)
Commissions and service fees	(1,337)	(2,084)	(1,357)	(2,111)
Discounts/bank expenses	(3,397)	(574)	(3,397)	(574)
Discounts granted	(1,260)	(497)	(1,270)	(550)
Tax on Financial Transactions (IOF)	(588)	(869)	(592)	(870)
Income tax on financial transactions	(692)	-	(692)	-
Consolidation of installment payment of Law 11941 (note 24(a))	(600)	-	(600)	-
Finance lease liabilities	(13)	(86)	(13)	(86)
Present value adjustment of trade receivables (note 9)	(12)	(216)	(12)	(216)
Present value adjustment of trade payables(note 22)	(11)	-	(11)	-
Other	(75)	-	(90)	(3)
Total	(41,275)	(41,096)	(41,839)	(41,697)
Foreign exchange variations, net *				
Financial investments	-	202	-	202
Loans and financing	(5,777)	1,686	(5,777)	1,686
Total	(5,777)	1,888	(5,777)	1,888
Total, net	(29,292)	(26,137)	(29,247)	(25,991)

* Effect of the 13% appreciation of the U.S. dollar in 2011.

36 Result from discontinued operations

On August 17, 2010, the Board of Directors approved the discontinuation of the operations of the subsidiary Portobello América, taking into account that the demand in the North American market will be stable over the coming years. The sale of assets is in progress and the main assets and liabilities of this unit, as well as the result from discontinued operations for the year ended December 31, 2011, are summarized as follows:

Assets	December 31, 2011	December 31, 2010	Liabilities	December 31, 2011	December 31, 2010
Current assets	592	2,000	Current liabilities	39,174	36,038
Cash and banks	477	632	Trade payables	9	299
Trade receivables	49	1,158	Social and labor obligations	17	58
Inventories	-	160	Rent payable	743	1,897
Other	66	50	Debts with related parties	38,405	33,784
			Equity	(38,582)	(34,038)
Total assets	592	2,000	Total liabilities	592	2,000

No groups were classified as held for sale at December 31, 2011 and 2010.

The result from discontinued operations is presented on a consolidated basis. Accordingly, in addition to the result of the subsidiary Portobello América, Inc., (note 19), it also considers the Company's share in the discontinued operations.

Result from discontinued operations	2011	2010
Net revenue	586	14,469
Cost of products (services)	(534)	(13,535)
Gross profit	52	934
Selling, general and administrative expenses	(565)	(7,829)
Finance result	(35)	(79)
Other operating expenses	-	(1,448)
Loss before taxation	(548)	(8,422)
Deferred income tax and social contribution	-	(3)
Net result from discontinued operations	(548)	(8,425)

37 Earnings per share

(a) Basic

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

	Parent Company		Consolidated	
	2011	2010	2011	2010
Profit attributable to the Company's stockholders	24,343	32,104	24,381	32,295
Weighted average number of common shares	159,009	159,009	159,009	159,009
Basic earnings per share - R$	0.15	0.20	0.15	0.20
Profit from continuing operations	24,343	32,104	24,929	40,720
Result from discontinued operations	-	-	(548)	(8,425)
Weighted average number of common shares	159,009	159,009	159,009	159,009
Earnings per share from continuing operations	0.15309	0.20190	0.15678	0.25609
Loss per share from discontinued operations	-	-	(0.00345)	(0.05298)

The Company did not have during 2011 any shares held in treasury. The last share issue occurred in 2007. Therefore, the weighted average number of shares is equal to the total comprising the share capital (note 30), which is represented by a single class of common shares.

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

(b) Diluted

Diluted earnings per share are equal to basic earnings per share since the Company does not have contracts or any financial instrument that entitles the holder to common shares.

38 Cash provided by operating activities

		Parent Company		Consolidated	
	Note	2011	2010	2011	2010
Profit/loss for the year before taxation		30,794	29,080	37,102	43,398
		-	-	-	-
Adjustments		18,378	42,084	35,484	45,467
Depreciation and amortization	20 e 21	15,855	16,405	15,918	16,762
Equity in the earnings of subsidiaries	19	(10,028)	(904)	-	-
Unrealized foreign exchange variations		1,309	108	7,641	587
Provision of inventories to market value	10	(2,546)	2,326	(2,381)	3,008
Provision for doubtful trade receivables	9	351	(31)	646	550
Provision for contingencies	27	6,329	8,226	6,372	8,237
Provision for labor liabilities		750	2,135	871	2,105
Other provisions		361	225	361	228
Residual cost of property, plant and equipment and intangible assets disposals	20 and 21	5	352	44	579
Other operating income and expenses, net	33	(7,450)	(5,737)	(7,597)	(5,364)
Complement of Eletrobrás compulsory loan		-	(9,136)	-	(9,136)
Tax liabilities payable in installments	24 and 25	(3,613)	2,325	(3,388)	2,325
ICMS on Property, plant and equipment		-	(398)	-	(398)
Actuarial asses		(1,194)	(1,185)	(1,194)	(1,185)
Municipal taxes and fees		-	207	-	207
Profit sharing		(2,783)	2,783	(3,155)	3,155
Proceeds from sale of property, plant and equipment		-	(600)	-	(600)
Other		140	267	140	268
Restatements		(1,289)	676	(990)	988
Eletrobrás compulsory loan	14	(4,928)	(3,137)	(4,928)	(3,137)
Tax assets	16	(1,233)	(929)	(1,233)	(929)
Receivables from other related parties	12	(9,189)	(7,886)	(9,189)	(7,886)
Judicial deposits	13	(18)	(220)	(18)	(220)
Present value adjustment of trade payables	22	(573)	(44)	(573)	(44)
Discount of provision for contingencies	27	1,861	1,051	1,861	1,051
Present value adjustment of trade receivables	9	(133)	216	(133)	216
Other		(2,000)	(1,737)	(2,001)	(1,737)
Finance charges on tax liabilities payable in installments		14,924	13,362	15,224	13,674
Finance costs arising from tax liabilities payable in installments	24	600	-	475	-
Discount on credits received		1,592	-	1,592	-
Other revenue and finance costs		-	-	(43)	-
Provision for interest on loans		12,539	18,303	12,575	17,787
		-	-	-	-
Changes in assets and liabilities		1,852	(62,873)	(5,975)	(70,575)
(Increase)/decrease in trade receivables	9	(7,441)	(31,533)	(5,839)	(31,578)
Increase/(decrease) in advances from customers		3,057	(4,484)	2,666	(5,594)
(Increase)/decrease in marketable securities		1,120	3,159	1,120	3,159
(Increase)/decrease in inventories	10	5,269	(27,378)	5,577	(25,761)
(Increase)/decrease in other assets		(491)	1,753	(194)	1,428
(Increase)/decrease in judicial deposits	13	(259)	(5,770)	(264)	(5,607)
(Increase)/decrease in receivables from related parties		8,505	-	8,505	-
(Increase)/decrease in non-current assets		(537)	295	(546)	356
Increase/(decrease) in trade payables		10,968	20,868	10,533	19,694
(Increase)/decrease in advances to suppliers		(1,136)	362	(938)	1,374
Increase/(decrease) in tax liabilities payable in installments	24	(17,745)	(15,697)	(18,708)	(16,421)
Increase/(decrease) in tax liabilities		1,234	1,084	951	1,242
Increase/(decrease) in labor liabilities		620	1,659	473	1,621
Increase/(decrease) in other payables		333	208	(1,270)	(6,920)
Increase/(decrease) in other non-current payables		(1,645)	(7,399)	(8,041)	(7,568)
Cash provided by operating activities		51,024	8,291	66,611	18,290

The main non-cash item in the years ended December 31, 2011 and 2010 was the foreign exchange variation in the foreign subsidiary.

39 Segment information

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

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

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

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

The segment information provided to the Executive Board on the reportable segments for the year ended December 31, 2011 is as follows:

	2011		
Continuing operations	Brazil	Other countries	Total
Revenue	543,279	43,527	586,806
Cost of sales	(363,620)	(37,033)	(400,653)
Gross profit	179,659	6,494	186,153
Operating income (expenses), net			
Selling, general and administrative expenses	(110,478)	(5,649)	(116,127)
Other operating income (expenses), net	(7,727)	(580)	(8,307)
Other gains (losses), net	4,309	321	4,630
	(113,896)	(5,908)	(119,804)
Operating profit (loss) before finance result	65,763	586	66,349
% on revenue	12%	1%	11%

	2010		
Continuing operations	Brazil	Other countries	Total
Revenue	470,428	40,987	511,415
Cost of sales	(313,994)	(33,977)	(347,971)
Gross profit	156,434	7,010	163,444
Operating income (expenses), net			
Selling, general and administrative expenses	(88,564)	(4,175)	(92,739)
Other operating income (expenses), net	39	3	42
Other gains (losses), net	(1,249)	(109)	(1,358)
	(89,774)	(4,281)	(94,055)
Operating profit (loss) before finance result	66,660	2,729	69,389
% on revenue	14%	7%	14%

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

40 Commitments

(a) Capital commitments

Costs contracted but not yet incurred referring to property, plant and equipment at December 31, 2011 amount to R$ 2,500.

(b) Operating lease commitments

Operating leases refer to vehicles. The minimum future payments on non-cancelable operating leases, in total and for each period, are the following:

	Consolidated	
	December 31, 2011	December 31, 2010
Less than one year	530	472
More than one year and less than five years	290	277
Total	820	749

41 Insurance

At December 31, 2011, the insurance cover against fire, robbery, collision and sundry risks for property, plant and equipment and inventories as well as for loss of profits is considered sufficient by management to cover any losses.

	Parent Company and Consolidated
Insurance coverage	2012
Fire/lighting/explosion of any type	84,000
Electrical damages	3,600
Riots	1,000
Windstorms/smoke with vehicle impact	25,000
Civil liability - operations	500
Civil liability - employer	500
Loss of profits - windstorm with impact	16,000
Loss of profits - basic	35,115

The policy is effective from November 15, 2011 to November 15, 2012, when the Company intends to enter into a new insurance contract.

42 Related party transactions

The transactions of purchase and sale of products, raw materials and contracting of services, as well as financial transactions of loans between the Parent company and the subsidiaries are as follows:

		Parent Company	
		Assets (liabilities)	
	Nature	December 31, 2011	December 31, 2010
Transactions with subsidiaries			
Portobello América, Inc.	Receivables from subsidiaries - Trade receivables	38,405	33,784
	Dividends receivable	477	10,567
Portobello Shop S.A.	Payables to subsidiary	-	(8,484)
	Receivables from subsidiaries - Trade receivables	2,832	2,921
PBTech Com. Serv. Cer. Ltda.	Receivables from subsidiaries - Loan	896	745
Mineração Portobello Ltda.	Advances to suppliers	1,232	1,020
Transactions with related parties			
Refinadora Catarinense S.A.	Receivables	93,780	94,667
	Receivables	478	538
Solução Cerâmica Com. Ltda.	Advances from customers	(569)	(627)
	Receivables	780	604
Flooring Revest. Cer. Ltda.	Advances from customers	(198)	(60)
		138,113	135,675

		Parent Company	
		Income (expenses)	
	Nature	2011	2010
Transactions with subsidiaries			
Portobello América, Inc.	Sale of products	-	7,441
Portobello Shop S.A.	Service rendering	6,100	6,098
	Cost of services rendered	(2,923)	(2,858)
PBTech Com. Serv. Cer. Ltda.	Sale of products	92	2,271
Mineração Portobello Ltda.	Purchase of products	(1,884)	(1,711)
Transactions with related parties			
Solução Cerâmica Com. Ltda.	Sale of products	12,238	10,368
Flooring Revest. Cer. Ltda.	Sale of products	5,950	627
FHM Consult., Adm. e Part. Ltda.	Corporate advisory	-	(300)
Gomes Participações Societárias Ltda.	Rent	(178)	-
		19,395	21,936

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

Receivables from the subsidiary Portobello Shop were pledged in guarantee of the Company's loans totaling R$ 2,743 at December 31, 2011. The subsidiary is also guarantor of the Company in some financing transactions.

Related-party transactions

Portobello Shop has receivables and revenue from services relating to royalties of three franchisees that are related parties. The Franchising network includes one subsidiary of the Company and two related companies. The transactions are described below:

		Assets (liabilities)			Income (expenses)	
	Nature	December 31, 2011	December 31, 2010	Nature	2011	2010
Transactions with subsidiaries						
PBTech Com. Serv. Cer. Ltda.	Trade receivables	7	11	Royalties	26	558
Transactions with related parties						
Solução Cerâmica Com. Ltda.	Trade receivables	291	323	Royalties	3,098	2,735
Flooring Revest. Cer. Ltda.	Trade receivables	81	160	Royalties	1,517	167
		379	494		4,641	3,460

Key management remuneration

The remuneration of key management personnel, comprising members of the Executive Board, Board of Directors, Statutory Audit Board and management for the years ended December 31, 2011 is as follows:

	Parent Company		Consolidated	
	2011	2010	2011	2010
Fixed remuneration				
Salaries	6,000	5,024	7,113	6,062
Fees	1,836	1,809	3,001	2,982
Variable remuneration	2,888	903	3,381	1,071
Short-term direct and indirect benefits				
Private pension plan	444	488	668	719
Other	826	726	1,037	917
Severance benefits	251	-	251	-
	12,245	8,950	15,451	11,751

The Annual General Meeting of stockholders held on April 28, 2011 approved for that year the global remuneration of the Board of Directors at the maximum amount of R$ 5,100 (R$ 4,320 approved on April 19, 2010) and also determined the monthly remuneration of each member of the Statutory Audit Board as 10% of the directors' remuneration.

43 Significant event

In compliance with CVM Instruction 358/02, Portobello S.A., a corporation based in the city of Tijucas, State of Santa Catarina, at Rodovia BR 101, Km 163 ("Portobello"), and Eliane S.A. - Revestimentos Cerâmicos, a corporation based in the city of Cocal do Sul, State of Santa Catarina, at Rua Maximiliano Gaidzinski, no. 245 ("Eliane"), announce that they have signed on December 23, 2011, together with the controlling stockholders of Eliane, Max - Administração de Bens e Participações Ltda., IARA - Participações Ltda., ARIELI Administração de Bens Ltda., B7 Participações Ltda., Tasso Participações Ltda. and VIGA Participações Ltda., a Memorandum of Understanding ("Memorandum") establishing the terms and conditions for a possible merger between Portobello and Eliane intended to unite their businesses and integrate their operations ("Merger").

Portobello and Eliane are traditional manufacturers of ceramic tiles and aggregate together nearly 90 years of experience in the development of products of recognized quality. Strongly present in the domestic market and operating in over 70 countries, they present considerable complementation between their products and the markets served. In 2011, the companies reached net sales of R$ 1.1 billion and produced 60 million square meters of ceramic tiles.

If implemented, this merger will allow for the use of the complementation and synergies of the operations of Portobello and Eliane, which will result in the leading company in the ceramic tile sector in Brazil and one of the largest worldwide.

Portobello, which will adopt a new name, will be the company resulting from this Merger. It will continue to be a publicly-held company listed in the New Market segment of BMF&BOVESPA.

The Merger's structuring shall be, in principle, carried out through the exchange of Portobello shares for shares held by the stockholders of Eliane, through the merger of Eliane or of its shares into Portobello.

The interests of Portobello and Eliane in the company (enterprise value) resulting from the Merger were evaluated to be 55% and 45%, respectively. Considering the existing debts and other adjustments of the companies, the equity value is estimated at 80% for Portobello and 20% for Eliane, to be adjusted after the completion of the due diligences on March 31, 2012.

The companies will follow a system of exclusivity to prepare the structure and negotiate the Merger. The system of exclusivity shall be in effect for the duration of the Memorandum, plus 30 days from its expiry or rescission.

As required by law, the Merger shall be submitted to the approval of the Administrative Council of Economic Defense (CADE).

When the Merger goes into effect, the controlling stockholders of Eliane shall become part of Portobello's stockholders agreement, which shall be amended and consolidated to reflect the Merger, forming a single Controlling Block.

Portobello and Eliane will keep their stockholders and the market informed of the progress of the Merger process, as required by CVM Instruction 358/02 and other applicable regulations.

The due diligences, which are expected to take as long as March 31, 2012, are being carried out as planned. The Administrative Council of Economic Defense (CADE) is assessing the impacts of the intended merger. Both Portobello and Eliane believe that this merger will potentialize the investment capacity and will thus be able to meet the increasing demand of the Brazilian market and its exporting competitiveness. It will also create other consolidation opportunities, both in the ceramic sector and in the larger construction materials segment.

(A free translation of the original in Portuguese)

Portobello

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STATUTORY AUDIT COMMITTEE'S OPINION

The Statutory Audit Committee Portobello S.A., in compliance with the legal and statutory provisions, examined the Financial Statements for the year ended December 31, 2011, comprising: balance sheet, statement of income, statement of changes in equity, statement of comprehensive income, statements of cash flows, statements of value added, notes to the financial statements, as well as the Management Report and the Accountant's Opinion. The consolidated financial statements were also examined. After these examinations and Management's clarifications, the Statutory Audit Committee, also based on the unqualified opinion of the PriceWaterHouseCoopers Auditores Independentes auditors issued in March 2012, is of the opinion that the referred financial statements adequately reflect, in all material respects, the financial position of Portobello S.A. and the result of its operations, and are, therefore, in condition to be submitted to the appreciation and decision of the Stockholders.

Tijucas, March 29, 2012.

Haroldo Pabst

Maro Marcos Hadlich Filho

Rodrigo Sancovsky