

Earnings Release
4Q18

PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2018
In thousands of Brazilian reais - R\$, unless otherwise stated.

Company information / Breakdown of Capital

Quantity of shares (Thousand)	Last fiscal year 12/31/2018
Paid-in capital	
Common	158,489
Preferred	0
Total	158,489
Treasury	
Common	0
Preferred	0
Total	0

PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

Account Code	Account Description	Current Year	Previous Year	Previous Year
		12/31/2018	12/31/2017	12/31/2016
1	Total Assets	1,673,176	1,306,897	1,300,544
1,01	Current Assets	544,985	520,623	529,775
1.01.01	Cash and Cash Equivalents	67,580	78,756	100,085
1.01.03	Accounts Receivable	222,065	203,703	202,658
1.01.03.01	Trade receivables	222,065	203,703	202,658
1.01.04	Inventory	206,822	179,166	185,605
1.01.06	Recoverable Taxes	8,393	14,496	16,943
1.01.06.01	Current Taxes Recoverable	8,393	14,496	16,943
1.01.08	Others current assets	40,125	44,502	24,484
1.01.08.03	Others	40,125	44,502	24,484
1,02	Non-current Assets	1,128,191	786,274	770,769
1.02.01	Long-Term Assets	658,921	336,233	330,824
1.02.01.09	Related party Credits	182,730	162,512	158,473
1.02.01.09.02	Subsidiaries credits	84,789	67,861	69,050
1.02.01.09.04	Other related party Credits	97,941	94,651	89,423
1.02.01.10	Other Non-current Assets	476,191	173,721	172,351
1.02.01.10.03	Judicial Deposits	116,949	93,470	81,693
1.02.01.10.04	Receivables - Eletrobrás	12,821	12,821	32,208
1.02.01.10.05	Recoverable Taxes	5,015	6,407	6,124
1.02.01.10.06	Tax Asset	317,506	45,969	26,735
1.02.01.10.07	Actuarial Asset	9,675	5,758	4,369
1.02.01.10.08	Interest earning bank deposits	7,251	6,938	6,451
1.02.01.10.09	Advance for future capital increase	0,000	0,000	13,976
1.02.01.10.10	Other	6,974	2,358	795
1.02.02	Investments	20,235	9,429	1,696
1.02.02.01	Ownership Interest	20,235	9,429	1,696
1.02.02.01.02	Interest in Subsidiaries	19,937	9,131	1,454
1.02.02.01.04	Other ownership interest	298	298	242
1.02.03	Property, plant and equipment	440,384	431,122	425,256
1.02.04	Intangible assets	8,651	9,490	12,993

PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

Individual financial statements/ Balance sheet – Liabilities

Account Code	Account Description	Current Year 12/31/2018	Previous Year 12/31/2017	Previous Year 12/31/2016
2	Total Liabilities	1,673,176	1,306,897	1,300,5440
2,01	Current Liabilities	382,598	403,1240	395,330
2.01.01	Social and labor obligations	31,730	27,879	24,382
2.01.02	Suppliers	112,000	112,413	98,557
2.01.03	Tax Obligations	22,750	28,463	23,927
2.01.03.01	Federal tax obligations	22,750	28,463	23,927
2.01.03.01.01	Income and social contribution tax payable	8,423	0	0,000
2.01.03.01.02	Installment payment of tax obligations	10,718	14,033	9,788
2.01.03.01.03	Taxes, rates and contributions	3,609	14,430	14,139
2.01.04	Loans and Financing	101,721	146,402	197,004
2.01.04.01	Loans and Financing	99,760	98,678	171,249
2.01.04.02	Debentures	1,961	47,724	25,755
2.01.05	Other Obligations	113,143	83,678	51,460
2.01.05.02	Other	113,143	83,678	51,460
2.01.05.02.04	Credit granting from suppliers	46	35	21,522
2.01.05.02.05	Advance from clients	17	11	12,699
2.01.05.02.06	Dividends Payable	23,438	6,002	879
2.01.05.02.07	Accounts payables from investments	10,676	19,049	0,000
2.01.05.02.08	Other	15,754	12,541	16,360
2.01.06	Provisions	1,264	4,289	0,000
2.01.06.02	Other Provisions	1,264	4,289	0,000
2.01.06.02.06	Profit share provision	6,271	4,289	0,000
2,02	Non-current Liabilities	928,470	618,725	666,766
2.02.01	Loans and Financing	492,624	365,982	388,468
2.02.01.01	Loans and Financing	198,966	238,003	214,424
2.02.01.02	Debentures	293,658	127,979	174,044
2.02.02	Other Obligations	216,488	140,722	137,864
2.02.02.02	Other	216,488	140,722	137,864
2.02.02.02.03	Suppliers	101,268	78,496	68,990
2.02.02.02.04	Related Party Payable	62,008	0	0,000
2.02.02.02.06	Installment payment of tax obligations	53,212	62,226	68,874
2.02.03	Deferred Taxes	1,965	14,186	7,603
2.02.03.01	Deferred Income and Social Contribution Taxes	1,965	14,186	7,603
2.02.04	Provisions	217,393	97,835	132,831
2.02.04.02	Other Provisions	217,393	97,835	132,831
2.02.04.02.04	Provision for loss on investments	74,534	67,717	74,515
2.02.04.02.05	Provisions for Contingencies	139,575	28,183	51,004
2.02.04.02.06	Provision for Long-term Incentive	162	1,935	7,312
2.02.04.02.07	Other LP	3,122	0,000	0
2.03	Shareholders' Equity	362,108	285,048	238,448
2.03.01	Realized Capital	140,000	130,000	119,565
2.03.04	Profit Reserves	235,960	143,988	121,129
2.03.04.01	Legal Reserves	25,141	18,426	15,219
2.03.04.05	Profit retention reserve	114,922	95,400	103,197
2.03.04.08	Additional dividend proposed	0	0,000	0,000
2.03.04.10	Profit reserve to be allocated	95,897	30,162	2,713
2.03.05	Retained Earnings/Losses	0	15,232	0,000
2.03.06	Equity valuation adjustments	-13,852	-4,172	0,000
2.03.08	Other comprehensive income	0	0,000	-2,246

PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2018
In thousands of Brazilian reais - R\$, unless otherwise stated.

Individual financial statements / Statement of income

Account Code	Account Description	Accumulated of the Current Year 01/01/2018 to 12/31/2018	Accumulated of the Prior Year 01/01/2017 to 12/31/2017	Accumulate d of the Prior Year 01/01/2016 to 12/31/2016
3,01	Income from sales of goods and/or services	954,071	929,818	926,076
3,02	Cost of goods and/or services sold	-645,055	-603,886	-64,926
3,03	Gross income	309,016	325,932	27,682
3,04	Operating expenses/income	-71,491	-187,402	-20,744
3.04.01	Sales expenses	-231,055	-204,156	-20,272
3.04.02	General and administrative expenses	-38,673	-35,251	-29,839
3.04.04	Other operating income	210,946	40,997	19,080
3.04.04.01	Other operating income	210,946	40,997	19,080
3.04.05	Other operating expenses	-39,683	-27,015	-16,501
3.04.05.01	Other operating expenses	-39,683	-27,015	-16,501
3.04.06	Equity income	26,974	38,023	22,541
3.05	Income (loss) before financial income and taxes	237,525	138,530	69,382
3,06	Financial income (loss)	-47,118	-67,811	-80,169
3.06.01	Financial income	19,817	24,165	34,642
3.06.01.01	Financial income	10,593	24,185	30,335
3.06.01.02	Net Exchange Variance	9,224	-20	4,307
3.06.02	Financial expenses	-66,935	-91,976	-114,811
3.06.02.01	Financial expenses	-66,935	-91,976	-114,811
3.06.02.02	Net Exchange Variance	0,000	0,000	0,000
3,07	Income (loss) before income tax	190,407	70,719	-10,787
3,08	Income and social contribution taxes	-56,126	-6,583	12,912
3.08.01	Current	-10,710	0,000	0,000
3.08.02	Deferred assets	-45,416	-6,583	12,912
3,09	Net income (loss) of continued operations	134,281	64,136	21,250
3,11	Consolidated Net Income/loss for the period	134,281	64,136	21,250
3.11.01	Attributed to Partners of the Parent Company	0.000	0.000	0.000
3.11.02	Attributed to Minority Partners	0.000	0.000	0.000
3,99	Earnings per share - (Reais / Shares)	0.000	0.000	0.000
3.99.01	Basic earnings per share	0.000	0.000	0.000
3.99.01.01	Common	0.000	0.000	0.000
3.99.02	Diluted Earnings per Share	0.000	0.000	0.000
3.99.02.01	Common	0.8427	0.36654	0.01341

PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2018
In thousands of Brazilian reais - R\$, unless otherwise stated.

Individual financial statements / Statement of comprehensive income

Account Code	Account Description	Accumulated of the Current	Accumulated of the	Accumulated of the Current
		Year	Current Year	Year
		01/01/2018 to 12/31/2018	01/01/2017 to 12/31/2017	01/01/2016 to 12/31/2016
4,01	Net Income for the Period	134,282	64,136	2,125
4,02	Other Comprehensive Income	-8,354	-742	5,864
4.02.01	Exchange variance of Overseas Subsidiary	0	0	-7,327
4.02.03	Actuarial Gain	2,585	261	0
4.02.04	Comprehensive Income for the Period	-10,939	-1,003	13,191
4,03	Attributed to Partners of the Parent Company	125,928	63,394	7,989

PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

Individual financial statements / Statement of cash flows - Indirect method

Account Code	Account Description	Accumulated of the	Accumulated of the	Accumulated of the
		Current Year	Prior Year	Prior Year
		01/01/2018 to 12/31/2018	01/01/2017 to 12/31/2017	01/01/2016 to 12/31/2016
6,01	Net cash from operational activities	-25,183	67,386	105,348
6.01.01	Cash generated in operations	88,877	94,186	75,425
6.01.01.01	Profit or loss for the year before taxes	190,408	70,719	-10,787
6.01.01.02	Depreciation and amortization	38,908	36,841	36,882
6.01.01.03	Equity	-26,974	-38,023	-22,541
6.01.01.04	Unrealized Exchange Variation	-15,574	7,672	-9,091
6.01.01.05	Provision for inventory at market value	2,770	-2,453	3,327
6.01.01.06	Provision Allowance for doubtful accounts	-713,000	-464	1,768
6.01.01.07	Provision for contingencies	61,671	-18,609	12,220
6.01.01.08	Provision for labor obligations	-2,742	-1,997	510
6.01.01.09	Provision for profit sharing	-4,798	-1,088	-5,262
6.01.01.10	Other provisions	1,199	-4,356	-7,322
6.01.01.11	Restatement of Eletrobrás compulsory loans	0,000	19,387	16,413
6.01.01.12	Adjustments to tax assets	-209,529	-19,234	-4,017
6.01.01.13	Other operating income (expenses)	0,000	0,000	0,000
6.01.01.13	Adjustments Other Related Party Credits	-3,290	-5,228	-4,822
6.01.01.15	Finance charges on tax installments	5,879	4,903	6,405
6.01.01.16	Decomposição de Desconto de Provisões para Contingências	0,000	0,000	0,000
6.01.01.17	Actuarial assets	-2,445	-261	-2,019
6.01.01.18	Provision for Financial Interest	46,388	51,577	61,628
6.01.01.20	Others	3,719	-5,200	2,133
6.01.02	Changes in assets and liabilities	-65,805	24,861	94,730
6.01.02.01	(Increase)/Decrease in accounts receivable	-17,649	-581	-28,331
6.01.02.02	Increase /(Decrease) in Advances from clients	6,370	-1,740	-1,033
6.01.02.04	(Increase)/Decrease in inventories	-30,426	8,892	16,156
6.01.02.05	(Increase)/Decrease in Recoverable Taxes	3,461	1,868	6,929
6.01.02.06	(Increase)/Decrease in Judicial Deposits	-23,479	-11,777	-21,794
6.01.02.07	(Increase)/Decrease in Interest earning bank deposit	-313	-487	99,853
6.01.02.08	(Increase)/Decrease in other assets	-5,183	-3,376	5,307
6.01.02.09	Increase /(Decrease) in Accounts Payable	33,188	36,967	13,155
6.01.02.10	(Increase)/Decrease in advance to suppliers	482	-1,569	-229
6.01.02.11	(Increase)/Decrease in provisions for contingencies	-4,085	-4,212	-2,291
6.01.02.12	(Increase)/Decrease in installments	-18,208	-7,306	-9,680
6.01.02.13	Increase /(Decrease) in financing of taxes	-6,726	6,081	1,462
6.01.02.14	Increase /(Decrease) in tax and labor liabilities	0,000	0,000	0,000
6.01.02.15	Increase /(Decrease) in Other payable	5,136	2,101	15,226
6.01.02.16	Increase / (decrease) in investment payables	-8,373	0,000	0,000
6.01.03	Other	-44,659	-51,661	-64,807
6.01.03.01	Interest paid	-44,659	-51,661	-64,807
6.01.03.02	Income and social contribution taxes paid	404	0,000	0,000
6,02	Net cash used in investment activities	-34,510	-2,173	8,749
6.02.01	Acquisition of property, plant and equipment	-46,844	-18,336	-20,310
6.02.02	Acquisition of intangible assets	-3,462	-1,863	-1,076
6.02.03	Receivables Dividends	32,532	15,892	14,851
6.02.04	Integralization of Capital	-16,332	0,000	-10
6.02.05	Receipt from the sale of permanent assets	0,000	-56	-44
6.02.06	Advances for future capital increase	0,000	0,000	13,345
6.02.07	Related Party Credits	-401	2,190	1,993
6,03	Net Cash from Financing Activities	48,518	-86,542	-95,773
6.03.01	Obtainment of loans and financings	412,268	117,804	109,415
6.03.02	Payment of loans and financings	-334,053	-194,237	-197,034
6.03.03	Dividends paid	-29,701	-10,109	-8,154
6,05	Increase (Decrease) in Cash and Cash Equivalents	-11,176	-21,329	18,324
6.05.01	Opening Balance of Cash and Cash Equivalents	78,756	100,085	81,761
6.05.02	Closing Balance of Cash and Cash Equivalents	67,580	78,756	100,085

PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2018
In thousands of Brazilian reais - R\$, unless otherwise stated.

Individual financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2018–12/31/2018

Account Code	Account Description	Paid-in share capital	Capital Reserves, Options Awarded and Treasury Stock	Retained Earnings		Other Comprehensive Income	Shareholders' Equity
				Profit or Reserves	Accumulated Losses		
5,01	Opening Balances	130,000	0,000	159,220	0,000	-4,172	285,048
5,03	Adjusted Opening Balances	130,000	0,000	159,220	0,000	-4,172	285,048
5,04	Shareholds transactions	0,000	0,000	-640	-17,653	0,000	-16,210
5.04.06	Dividends	0,000	0,000	0,000	-6,714	0,000	-6,714
5.04.07	Interest of own capital	0,000	0,000	-640	-10,939	0,000	-9,496
5,05	Total Comprehensive Income	0,000	0,000	0,000	134,282	-9,680	124,602
5.05.01	Net Income for the Period	0,000	0,000	0,000	134,282	0,000	134,282
5.05.02	Other Comprehensive Income	0,000	0,000	0,000	0,000	0,000	0,000
5.05.02.05	Tax Conversion Adjust	0,000	0,000	0,000	0,000	0,000	0,000
5.05.02.06	Realization of the Revaluation Reserve	0,000	0,000	0,000	0,000	-1,186	-1,186
5.05.02.07	Exchange Variance of Overseas Subsidiary	0,000	0,000	0,000	0,000	-10,939	-10,939
5.05.02.08	Actuarial (Gain) loss	0,000	0,000	0,000	0,000	2,445	2,445
5.06	Internal changes in shareholders' equity	10,000	0,000	77,380	-121,701	0,000	-34,321
5.06.04	Allocations after 2018 Annual Shareholders' Meeting - Capital increase	10,000	0,000	-10,000	0,000	0,000	0,000
5.06.05	Allocations after 2018 Annual Shareholders' Meeting - Formation of reserves	0,000	0,000	6,714	0,000	0,000	6,714
5.06.06	Allocation after 2018 Annual Shareholders' Meeting – Approval of Additional Dividends	0,000	0,000	-15,232	-25,511	0,000	-40,743
5.06.07	Formation of profit reserves to be allocated	0,000	0,000	95,898	-96,190	0,000	-292
5,07	Closing Balances	140,000	0,000	235,960	0,000	-13,852	362,108

PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2018
In thousands of Brazilian reais - R\$, unless otherwise stated.

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

Account Code	Account Description	Paid-in share capital	Capital Reserves, Options Awarded and Treasury Stock	Retained Earnings		Other Comprehensive Income	Shareholders' Equity
				Profit or Reserves	Accumulated Losses		
5,01	Opening Balances	119,565	0,000	121,129	0,000	-2,246	238,448
5,03	Adjusted Opening Balances	119,565	0,000	121,129	0,000	-2,246	238,448
5,04	Shareholds transactions	0,000	0,000	-75	-16,719	0,000	-16,794
5.04.06	Dividends	0,000	0,000	0,000	-5,618	0,000	-5,618
5.04.07	Interest of own capital	0,000	0,000	-75	-11,101	0,000	-11,176
5,05	Total Comprehensive Income	0,000	0,000	0,000	65,320	-1,926	63,394
5.05.01	Net Income for the Period	0,000	0,000	0,000	64,136	0,000	64,136
5.05.02	Other Comprehensive Income	0,000	0,000	0,000	1,184	-1,926	-742
5.05.02.05	Tax Conversion Adjust	0,000	0,000	0,000	0,000	0,000	0
5.05.02.06	Realization of the Revaluation Reserve	0,000	0,000	0,000	1,184	-1,184	-1,003
5.05.02.07	Exchange Variance of Overseas Subsidiary	0,000	0,000	0,000	0,000	-1,003	261
5.05.02.08	Actuarial (Gain) loss	0,000	0,000	0,000	0,000	261	0
5.06	Internal changes in shareholders' equity	10,435	0,000	38,166	-48,601	0,000	0
5.06.04	Allocations after 2018 Annual Shareholders' Meeting - Capital increase	10,435	0,000	-10,435	0,000	0,000	0
5.06.05	Allocations after 2018 Annual Shareholders' Meeting - Formation of reserves	0,000	0,000	15,232	-15,232	0,000	0
5.06.06	Allocation after 2018 Annual Shareholders' Meeting – Approval of Additional Dividends	0,000	0,000	3,207	-3,207	0,000	0
5.06.07	Formation of profit reserves to be allocated	0,000	0,000	30,162	-30,162	0,000	0
5,07	Closing Balances	130,000	0,000	159,220	0,000	-4,172	285,048

PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2018
In thousands of Brazilian reais - R\$, unless otherwise stated.

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

Account Code	Account Description	Paid-in share capital	Capital Reserves, Options Awarded and Treasury Stock	Retained Earnings Profit or Accumulated Reserves	Losses	Other Comprehensive Income	Shareholders' Equity
5,01	Opening Balances	99,565	0,000	139,193	0,000	-6,912	231,846
5,03	Adjusted Opening Balances	99,565	0,000	139,193	0,000	-6,912	231,846
5,04	Shareholds transactions	0,000	0,000	-883	-504	0,000	-1,387
5.04.06	Dividends	0,000	0,000	0,000	-504	0,000	-504
5.04.07	Interest of own capital	0,000	0,000	-883	0,000	0,000	-883
5,05	Total Comprehensive Income	0,000	0,000	0,000	3,323	4,666	7,989
5.05.01	Net Income for the Period	0,000	0,000	0,000	2,125	0,000	2,125
5.05.02	Other Comprehensive Income	0,000	0,000	0,000	1,198	4,666	5,864
5.05.02.05	Tax Conversion Adjust	0,000	0,000	0,000	0,000	0,000	0,000
5.05.02.06	Realization of the Revaluation Reserve	0,000	0,000	0,000	1,198	-1,198	0,000
5.05.02.07	Exchange Variance of Overseas Subsidiary	0,000	0,000	0,000	0,000	13,191	13,191
5.05.02.08	Actuarial (Gain) loss	0,000	0,000	0,000	0,000	-7,327	-7,327
5.06	Internal changes in shareholders' equity	20,000	0,000	-17,181	-2,819	0,000	0,000
5.06.04	Allocations after 2018 Annual Shareholders' Meeting - Capital increase	20	0,000	-20	0,000	0,000	0,000
5.06.05	Allocations after 2018 Annual Shareholders' Meeting - Formation of reserves	0,000	0,000	0,000	0,000	0,000	0,000
5.06.06	Allocation after 2018 Annual Shareholders' Meeting – Approval of Additional Dividends	0,000	0,000	106	-106	0,000	0,000
5.06.07	Formation of profit reserves to be allocated	0,000	0,000	2,713	-2,713	0,000	0,000
5,07	Closing Balances	119,565	0,000	121,129	0,000	-2,246	238,448

PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

Individual financial statements / Statement of added value

Account Code	Account Description	Accumulated of the	Accumulated of the	Accumulated of the
		Current Year	Prior Year	Prior Year
		01/01/2018 to 12/31/2018	01/01/2017 to 12/31/2017	01/01/2016 to 12/31/2016
7,01	Revenue	1,383,641	1,190,896	1,189,260
7.01.01	Sales of Goods, Products and Services	1,170,180	1,146,609	1,162,983
7.01.02	Other Revenue	212,749	41,904	26,787
7.01.03	Income from construction of own assets	712	1,919	1,258
7.01.04	Allowance/(Reversal of allowance) for doubtful accounts	0,000	464	-1,768
7,02	Consumables acquired from third parties	-645,537	-584,180	-618,670
7.02.01	Cost of goods and services sold	-422,684	-401,452	-451,238
7.02.02	Material, Energy, Outsourced Services and Other	-223,172	-183,452	-169,961
7.02.03	Loss/Recovery of Assets	319	724	2,529
7,03	Gross Added Value	738,104	606,716	570,590
7,04	Retentions	-38,908	-36,841	-36,882
7.04.01	Depreciation, Amortization and Depletion	-38,908	-36,841	-36,882
7,05	Net Added Value Produced	699,196	569,875	533,708
7,06	Transferred Added Value	87,216	88,755	110,310
7.06.01	Equity income	26,974	38,023	22,541
7.06.02	Financial Revenue	60,242	50,732	87,769
7,07	Total Added Value to be Distributed	786,412	658,630	644,018
7,08	Distribution of Added Value	786,412	658,630	644,018
7.08.01	Personnel	217,406	201,293	197,069
7.08.01.01	Direct Remuneration	182,086	169,899	163,025
7.08.01.02	Benefits	22,275	19,910	21,143
7.08.01.03	F.G.T.S.	13,045	11,484	12,901
7.08.02	Taxes, Duties and Contributions	314,922	263,507	265,673
7.08.02.01	Federal	164,215	115,267	113,252
7.08.02.02	State	149,937	147,542	151,804
7.08.02.03	Municipal	770	698	617
7.08.03	Interest Expenses	119,802	129,694	179,151
7.08.03.01	Interest	107,360	118,541	167,938
7.08.03.02	Rent	12,442	11,153	11,213
7.08.04	Interest earnings	134,282	64,136	2,125
7.08.04.01	Interest on own capital	7,273	11,101	0,000
7.08.04.02	Dividends	12,837	20,850	504
7.08.04.03	Retained Earnings/Loss for the Period	114,172	32,185	1,621

PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

Consolidated financial statements / Balance sheet – Assets

Account Code	Account Description	Current Year	Previous Year	Previous Year
		12/31/2018	12/31/2017	12/31/2016
1	Total Assets	1,622,155	1,252,008	1,237,360
1,01	Current Assets	563,867	522,623	535,369
1.01.01	Cash and Cash Equivalents	82,624	94,379	105,745
1.01.03	Accounts Receivable	239,463	218,412	215,379
1.01.03.01	Trade receivables	239,463	218,412	215,379
1.01.04	Inventory	213,791	179,323	185,880
1.01.06	Recoverable Taxes	10,201	15,922	19,079
1.01.06.01	Current Taxes Recoverable	10,201	15,922	19,079
1.01.06.01.01	Income taxes and contributions recoverable	627	4,050	5,017
1.01.06.01.02	Other Current Taxes Recoverable	9,574	11,872	14,062
1.01.07	Prepaid expenses	1,598	0,000	0,000
1.01.08	Others current assets	16,190	14,587	9,286
1.01.08.03	Others	16,190	14,587	9,286
1.01.08.03.01	Advances to Suppliers	7,385	5,136	2,637
1.01.08.03.02	Other	8,805	9,451	6,649
1,02	Non-current Assets	1,058,288	729,385	701,991
1.02.01	Long-Term Assets	579,070	268,926	247,847
1.02.01.09	Related party Credits	97,941	94,651	89,423
1.02.01.09.02	Subsidiaries credits	0	0,000	0,000
1.02.01.09.04	Other related party Credits	97,941	94,651	89,423
1.02.01.10	Other Non-current Assets	481,129	174,275	158,424
1.02.01.10.03	Judicial Deposits	116,980	93,501	81,742
1.02.01.10.04	Receivables - Eletrobrás	12,821	12,821	32,208
1.02.01.10.05	Recoverable Taxes	5,287	6,407	6,124
1.02.01.10.06	Tax Asset	317,506	45,969	26,735
1.02.01.10.07	Actuarial Asset	9,675	5,758	4,369
1.02.01.10.08	Interest earning bank deposits	7,251	6,938	6,451
1.02.01.10.10	Other	11,609	2,881	795
1.02.02	Investments	298	298	243
1.02.02.01	Ownership Interest	298	298	243
1.02.02.01.02	Interest in Subsidiaries	0	0	0
1.02.02.01.04	Other ownership interest	298	298	243
1.02.03	Property, plant and equipment	458,331	440,595	433,348
1.02.04	Intangible assets	20,589	19,566	20,553

PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

Consolidated financial statements / Balance sheet – Liabilities

Account Code	Account Description	Current Year 12/31/2018	Previous Year 12/31/2017	Previous Year 12/31/2016
2	Total Liabilities	1,622,155	1,252,008	1,237,360
2,01	Current Liabilities	404,068	414,310	409,155
2.01.01	Social and labor obligations	36,734	31,330	27,155
2.01.02	Suppliers	124,874	114,569	102,929
2.01.03	Tax Obligations	25,846	31,157	25,188
2.01.03.01	Federal tax obligations	25,846	31,157	25,188
2.01.03.01.01	Income and social contribution tax payable	10,315	1,758	311
2.01.03.01.02	Installment payment of tax obligations	10,793	14,126	9,857
2.01.03.01.03	Taxes, rates and contributions	4,738	15,273	15,020
2.01.04	Loans and Financing	101,721	146,402	197,004
2.01.04.01	Loans and Financing	99,760	98,678	171,249
2.01.04.02	Debentures	1,961	47,724	25,755
2.01.05	Other Obligations	113,629	86,563	56,879
2.01.05.02	Other	113,629	86,563	56,879
2.01.05.02.04	Credit granting from suppliers	45,956	35,127	21,522
2.01.05.02.05	Advance from clients	16,346	12,615	17,977
2.01.05.02.06	Dividends Payable	23,457	6,035	915
2.01.05.02.08	Other	27,759	32,786	16,465
2.01.06	Provisions	1,264	4,289	0,000
2.01.06.02	Other Provisions	1,264	4,289	0,000
2.01.06.02.06	Profit share provision	1,264	4,289	0,000
2,02	Non-current Liabilities	855,967	552,638	589,746
2.02.01	Loans and Financing	493,916	367,159	389,657
2.02.01.01	Loans and Financing	200,258	239,180	215,613
2.02.01.02	Debentures	293,658	127,979	174,044
2.02.02	Other Obligations	230,319	141,144	138,332
2.02.02.02	Other	220,319	141,144	138,332
2.02.02.02.03	Suppliers	101,268	78,496	68,990
2.02.02.02.04	Related Party Payable	62,003	0,000	0,000
2.02.02.02.06	Installment payment of tax obligations	53,574	62,648	69,342
2.02.02.02.08	Other	3,474	0,000	0,000
2.02.03	Deferred Taxes	1,965	14,186	3,250
2.02.03.01	Deferred Income and Social Contribution Taxes	1,965	14,186	3,250
2.02.04	Provisions	139,767	30,149	58,507
2.02.04.02	Other Provisions	139,767	30,149	58,507
2.02.04.02.05	Provisions for Contingencies	0,000	0,000	51,195
2.02.04.02.06	Provision for Long-term Incentive	0,000	30,149	7,312
2,03	Shareholders' Equity	362,120	285,060	238,459
2.03.01	Realized Capital	140,000	130,000	119,565
2.03.03	Revaluation Reserve	34,690	0,000	0,000
2.03.04	Profit Reserves	140,063	143,988	121,129
2.03.04.01	Legal Reserves	25,141	18,426	15,219
2.03.04.05	Profit sharing reserve	114,922	95,400	103,197
2.03.04.10	Profit reserve to be allocated	0,000	30,162	2,713
2.03.05	Retained Earnings/Losses	95,897	15,232	0,000
2.03.06	Equity valuation adjustments	-48,542	-4,172	0,000
2.03.08	Other comprehensive income	0,000	0,000	-2,246
2.03.09	Non-controlling interest	12	12	11

PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2018
In thousands of Brazilian reais - R\$, unless otherwise stated.

Consolidated financial statements / Statement of income

Account Code	Account Description	Accumulated of the	Accumulated of the	Accumulated of the
		Current Year	Current Year	Current Year
		01/01/2018 to 12/31/2018	01/01/2017 to 12/31/2017	01/01/2016 to 12/31/2016
3.01	Income from sales of goods and/or services	1,054,190	1,023,937	1,016,400
3.02	Cost of goods and/or services sold	-648,590	-606,917	-653,198
3.03	Gross income	405,600	417,020	363,202
3.04	Operating expenses/income	-161,196	-268,014	-287,394
3.04.01	Sales expenses	-285,619	-246,510	-250,744
3.04.02	General and administrative expenses	-45,458	-35,877	-37,155
3.04.04	Other operating income	211,196	41,956	17,390
3.04.04.01	Other operating income	211,196	41,956	17,390
3.04.05	Other operating expenses	-41,315	-27,583	-16,885
3.04.05.01	Other operating expenses	-41,315	-27,583	-16,885
3.05	Income (loss) before financial income and taxes	244,404	149,006	75,808
3.06	Financial income (loss)	-48,091	-68,014	-81,695
3.06.01	Financial income	20,443	24,882	35,173
3.06.01.01	Financial income	11,218	24,892	31,093
3.06.01.02	Net Exchange Variance	9,225	-10	4,080
3.06.02	Financial expenses	-68,534	-92,896	-116,868
3.06.02.01	Financial expenses	-68,534	-92,896	-116,868
3.06.02.02	Net Exchange Variance	0,000	0,000	0,000
3.07	Income (loss) before income tax	196,313	80,992	-5,887
3.08	Income and social contribution taxes	-62,001	-16,822	8,029
3.08.01	Current	-20,418	-10,239	-9,236
3.08.02	Deferred assets	-41,583	-6,583	17,265
3.09	Net income (loss) of continued operations	134,312	64,170	2,142
3.11	Consolidated Net Income/loss for the period	134,312	64,170	2,142
3.11.01	Attributed to Partners of the Parent Company	134,282	64,136	2,125
3.11.02	Attributed to Minority Partners	30	34	17
3.99	Earnings per share - (Reais / Shares)	0.8473	0.40467	0.01341
3.99.01	Basic earnings per share	0.8473	0.40467	0.01341
3.99.01.01	Common	0.8473	0.40467	0.01341
3.99.02	Diluted Earnings per Share	0.8473	0.40467	0.01341
3.99.02.01	Common	0	0	0

PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2018
In thousands of Brazilian reais - R\$, unless otherwise stated.

Consolidated financial statements / Statement of comprehensive income

Account Code	Account Description	Accumulated of the	Accumulated of the	Accumulated of the
		Current Year	Current Year	Current Year
		01/01/2018 to 12/31/2018	01/01/2017 to 12/31/2017	01/01/2016 to 12/31/2016
4,01	Net Income for the Period	134,312	64,170	2,142
4,02	Other Comprehensive Income	-8,354	-742	5,864
4.02.01	Realization of the Revaluation Reserve	0,000	0,000	0,000
4.02.02	Actuarial liability	0,000	0,000	-7,327
4.02.03	Actuarial Gain	2,585	261	0,000
4.02.04	Exchange variance of Overseas Subsidiary	-10,939	-1,003	13,191
4,03	Comprehensive Income for the Period	125,958	63,428	8,006
4.03.01	Attributed to Partners of the Parent Company	125,928	63,394	7,989
4.03.02	Attributed to Minority Partners	30	34	17

PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

Consolidated financial statements / Statement of cash flows - Indirect method

Account Code	Account Description	Accumulated of the	Accumulated of the	Accumulated of the
		Current Year	Prior Year	Prior Year
		01/01/2018 to 12/31/2018	01/01/2017 to 12/31/2017	01/01/2016 to 12/31/2016
6,01	Net cash from operational activities	5,392	102,736	138,942
6.01.01	Cash generated in operations	128,275	145,122	105,164
6.01.01.01	Profit or loss for the year before taxes	196,314	80,992	-5,887
6.01.01.02	Depreciation and amortization	43,602	40,011	39,504
6.01.01.03	Equity	0,000	0,000	0,000
6.01.01.04	Unrealized Exchange Variation	-9,986	7,670	-9,120
6.01.01.05	Provision for inventory at market value	2,770	-2,453	3,327
6.01.01.06	Provision Allowance for doubtful accounts	-446	-464	1,768
6.01.01.07	Provision for contingencies	61,671	-18,769	12,309
6.01.01.08	Provision for labor obligations	-3,225	-2,233	744
6.01.01.09	Provision for profit sharing	-4,798	-1,088	-6,552
6.01.01.10	Other provisions	1,199	-4,356	-7,099
6.01.01.11	Restatement of Eletrobrás compulsory loans	0,000	19,387	16,413
6.01.01.12	Adjustments to tax assets	-209,529	-19,234	-4,017
6.01.01.13	Adjustments Other Related Party Credits	-3,290	-5,228	-4,822
6.01.01.14	Finance charges on tax installments	5,914	4,546	6,448
6.01.01.16	Provision for Financial Interest	46,502	51,588	61,653
6.01.01.18	Actuarial assets	-2,445	0,000	-2,019
6.01.01.20	Others	4,024	-5,247	2,514
6.01.02	Changes in assets and liabilities	-82,507	17,313	105,031
6.01.02.01	(Increase)/Decrease in accounts receivable	-20,605	-2,569	-8,522
6.01.02.02	Increase /(Decrease) in Advances from clients	3,842	-5,362	2,676
6.01.02.03	(Increase)/Decrease in Financial Applications Restricted	-313	-487	99,853
6.01.02.04	(Increase)/Decrease in inventories	-37,238	9,010	16,084
6.01.02.05	(Increase)/Decrease in Recoverable Taxes	3,418	1,907	7,046
6.01.02.06	(Increase)/Decrease in Judicial Deposits	-23	-11,759	-21,818
6.01.02.07	(Increase)/Decrease in Interest earning bank deposit	0,000	-422	-422
6.01.02.08	(Increase)/Decrease in other assets	-6,169	-4,366	6,346
6.01.02.09	Increase /(Decrease) in Accounts Payable	43,906	34,751	2,840
6.01.02.10	(Increase)/Decrease in advance to suppliers	-2,249	-2,499	-584
6.01.02.11	(Increase)/Decrease in provisions for contingencies	-4,085	-4,212	-2,304
6.01.02.12	(Increase)/Decrease in installments	-14,751	-6,971	-9,744
6.01.02.13	Increase /(Decrease) in financing of taxes	-18,458	6,874	-1,530
6.01.02.14	Increase /(Decrease) in tax and labor liabilities	0,000	32,903	32,903
6.01.02.15	Increase /(Decrease) in Other payable	4,759	2,996	14,688
6.01.02.16	Increase / (decrease) in investment payables	-7,516	0,000	0,000
6.01.03	Other	-40,376	-59,699	-71,253
6.01.03.01	Interest paid	-44,659	-51,661	-64,807
6.01.03.02	Income and social contribution taxes paid	4,283	-8,038	-6,446
6,02	Net cash used in investment activities	-65,661	-27,534	-25,142
6.02.01	Acquisition of property, plant and equipment	-59,266	-25,511	-23,276
6.02.02	Acquisition of intangible assets	-6,395	-1,968	-1,821
6.02.05	Receipt from the sale of permanent assets	0,000	-55	-45
6.02.03	Receivable Dividends	0,000	0,000	0,000
6.02.04	Integralization of Capital	0,000	-48	0,000
6.02.06	Related Party Credits	0,000	0,000	0,000
6.02.07	Other Investments	0,000	0,000	0,000
6,03	Net Cash from Financing Activities	48,514	-86,568	-95,719
6.03.01	Obtainment of loans and financings	412,268	117,804	109,469
6.03.02	Payment of loans and financings	-334,053	-194,260	-197,034
6.03.03	Dividends paid	-29,701	-10,112	-8,154
6,05	Increase (Decrease) in Cash and Cash Equivalents	-11,755	-11,366	18,081
6.05.01	Opening Balance of Cash and Cash Equivalents	94,379	105,745	87,664
6.05.02	Closing Balance of Cash and Cash Equivalents	82,624	94,379	105,745

PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2018
In thousands of Brazilian reais - R\$, unless otherwise stated.

Consolidated financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2018–12/31/2018

Account Code	Account Description	Paid-in share capital	Capital Reserves, Options Awarded and Treasury Stock	Retained Earnings Profit or Accumulated Reserves	Retained Earnings Losses	Other Comprehensive Income	Shareholders' Equity	Minority interests	Consolidated Shareholders' Equity
5,01	Opening Balances	130,000	0,000	159,220	0,000	-4,172	285,048	12	285,060
5,03	Adjusted Opening Balances	130,000	0,000	159,220	0,000	-4,172	285,048	12	285,060
5,04	Shareholds transactions	0,000	0,000	-640	-17,653	0,000	-16,210	0,000	-16,210
5.04.06	Dividends	0,000	0,000	0,000	-6,714	0,000	-6,714	0,000	-6,714
5.04.07	Interest of own capital	0,000	0,000	-640	-10,939	0,000	-9,496	0,000	-9,496
5,05	Total Comprehensive Income	0,000	0,000	0,000	134,282	-9,680	124,602	29	124,631
5.05.01	Net Income for the Period	0,000	0,000	0,000	134,282	0,000	134,282	29	134,311
5.05.02	Other Comprehensive Income	0,000	0,000	0,000	0,000	0,000	0,000	0,000	-8,494
5.05.02.05	Tax Conversion Adjust	0,000	0,000	0,000	0,000	-1,186	-1,186	0,000	-1,186
5.05.02.06	Realization of the Revaluation Reserve	0,000	0,000	0,000	0,000	-10,939	-10,939	0,000	0,000
5.05.02.07	Exchange Variance of Overseas Subsidiary	0,000	0,000	0,000	0,000	0,000	0,000	0,000	0,000
5.05.02.08	Actuarial (Gain) loss	0,000	0,000	0,000	0,000	2,445	2,445	0,000	0,000
5,06	Internal changes in shareholders' equity	10,000	0,000	77,380	-121,701	0,000	-34,321	-29	-34,350
5.06.04	Allocations after 2018 Annual Shareholders' Meeting - Capital increase	10,000	0,000	-10,000	0,000	0,000	0,000	0,000	0,000
5.06.05	Allocations after 2018 Annual Shareholders' Meeting - Formation of reserves	0,000	0,000	6,714	0,000	0,000	6,714	0,000	6,714
5.06.06	Allocation after 2018 Annual Shareholders' Meeting – Approval of Additional Dividends	0,000	0,000	-15,232	-25,511	0,000	-40,743	-29	-40,772
5.06.07	Formation of profit reserves to be allocated	0,000	0,000	95,898	-96,190	0,000	-292	0,000	0,000
5,07	Closing Balances	140,000	0,000	235,960	0,000	-13,852	362,108	12	362,120

PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2018
In thousands of Brazilian reais - R\$, unless otherwise stated.

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

Account Code	Account Description	Paid-in share capital	Capital Reserves, Options Awarded and Treasury Stock	Retained Earnings		Other Comprehensive Income	Shareholders' Equity	Minority interests	Consolidated Shareholders' Equity
				Profit or Reserves	Accumulated Losses				
5,01	Opening Balances	119,565	0,000	121,129	0,000	-2,246	238,448	11	238,459
5,03	Adjusted Opening Balances	119,565	0,000	121,129	0,000	-2,246	238,448	11	238,459
5,04	Shareholds transactions	0,000	0,000	-75	-16,719	0,000	-16,794	-33	-16,827
5.04.06	Dividends	0,000	0,000	0,000	-5,618	0,000	-5,618	-33	-5,651
5.04.07	Interest of own capital	0,000	0,000	-75	-11,101	0,000	-11,176	0,000	-11,176
5,05	Total Comprehensive Income	0,000	0,000	0,000	65,320	-1,926	63,394	34	63,428
5.05.01	Net Income for the Period	0,000	0,000	0,000	64,136	0,000	64,136	34	64,170
5.05.02	Other Comprehensive Income	0,000	0,000	0,000	1,184	-1,926	-742	0,000	-742
5.05.02.05	Tax Conversion Adjust	0,000	0,000	0,000	0,000		0,000	0,000	0,000
5.05.02.06	Realization of the Revaluation Reserve	0,000	0,000	0,000	1,184	-1,184	0,000	0,000	0,000
5.05.02.07	Exchange Variance of Overseas Subsidiary	0,000	0,000	0,000	0,000	-1,003	-1,003	0,000	-1,003
5.05.02.08	Actuarial (Gain) loss		0,000	0,000	0,000	261	261	0,000	261
5,06	Internal changes in shareholders' equity	10,435	0,000	38,166	-48,601	0,000	0,000	0,000	0,000
5.06.04	Allocations after 2018 Annual Shareholders' Meeting - Capital increase	10,435	0,000	-10,435	0,000	0,000	0,000	0,000	0,000
5.06.05	Allocations after 2018 Annual Shareholders' Meeting - Formation of reserves		0,000	0,000	0,000	0,000	0,000	0,000	0,000
5.06.06	Allocation after 2018 Annual Shareholders' Meeting – Approval of Additional Dividends	0,000	0,000	15,232	-15,232	0,000	0,000	0,000	0,000
5.06.07	Formation of profit reserves to be allocated	0,000	0,000	3,207	-3,207	0,000	0,000	0,000	0,000
5.06.08	Constitution of Profit Sharing to be Approved	0,000	0,000	30,162	-30,162	0,000	0,000	0,000	0,000
5,07	Closing Balances	130,000	0,000	159,220	0,000	-4,172	285,048	12	285,060

PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2018
In thousands of Brazilian reais - R\$, unless otherwise stated.

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

Account Code	Account Description	Paid-in share capital	Capital Reserves, Options Awarded and Treasury Stock	Retained Earnings Profit or Accumulated Reserves	Retained Earnings Losses	Other Comprehensive Income	Shareholders' Equity	Minority interests	Consolidated Shareholders' Equity
5,01	Opening Balances	99,565	0,000	139,193	0,000	-6,912	231,846	10	231,856
5,03	Adjusted Opening Balances	99,565	0,000	139,193	0,000	-6,912	231,846	10	231,856
5,04	Shareholds transactions	0,000	0,000	-883	-504	0,000	-1,387	-15	-1,402
5.04.01	Capital Increase	0,000	0,000	0,000	-504	0,000	0,000	0	0
5.04.06	Dividends	0,000	0,000	0,000	0,000	0,000	-504	-15	-519
5.04.07	Interest of own capital	0,000	0,000	-883	0,000	0,000	-883	0	-883
5,05	Total Comprehensive Income	0,000	0,000	0,000	3,323	4,666	7,989	16	8,005
5.05.01	Net Income for the Period	0,000	0,000	0,000	2,125	0,000	2,125	16	2,141
5.05.02	Other Comprehensive Income	0,000	0,000	0,000	1,198	4,666	5,864	0	5,864
5.05.02.05	Tax Conversion Adjust	0,000	0,000	0,000	0,000	0,000	0,000	0	0,000
5.05.02.06	Realization of the Revaluation Reserve	0,000	0,000	0,000	1,198	-1,198	0,000	0	0,000
5.05.02.07	Exchange Variance of Overseas Subsidiary	0,000	0,000	0,000	0,000	13,191	13,191	0	13,191
5.05.02.08	Actuarial (Gain) loss	0,000	0,000	0,000	0,000	-7,327	-7,327	0	-7,327
5,06	Internal changes in shareholders' equity	20,000	0,000	-17,181	-2,819	0,000	0,000	0	0,000
5.06.04	Allocations after 2018 Annual Shareholders' Meeting - Capital increase	20,000	0,000	-20,000	0,000	0,000	0,000	0	0,000
5.06.05	Allocations after 2018 Annual Shareholders' Meeting - Formation of reserves	0,000	0,000	0,000	0,000	0,000	0,000	0	0,000
5.06.06	Allocation after 2018 Annual Shareholders' Meeting – Approval of Additional Dividends	0,000	0,000	0,000	0,000	0,000	0,000	0	0,000
5.06.07	Formation of profit reserves to be allocated	0,000	0,000	106	-106	0,000	0,000	0	0,000
5.06.08	Constitution of Profit Sharing to be Approved	0,000	0,000	2,713	-2,713	0,000	0,000	0	0,000
5,07	Closing Balances	119,565	0,000	121,129	0,000	-2,246	238,448	11	238,459

PBG S.A and subsidiaries

Interim Financial Information for the quarter ended December 31, 2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

Consolidated financial statements / Statement of added value

Account Code	Account Description	Accrued Value of the	Accrued Value of the	Accrued Value of the
		Current Year	Prior Year	Prior Year
		01/01/2018 to 12/31/2018	01/01/2018 to 12/31/2017	01/01/2016 to 12/31/2016
7,01	Revenue	1,493,418	1,294,470	1,283,902
7.01.01	Sales of Goods, Products and Services	1,290,114	1,258,421	1,272,537
7.01.02	Other Revenue	202,858	33,666	11,875
7.01.03	Income from construction of own assets	0,000	1,919	1,258
7.01.04	Allowance/(Reversal of allowance) for doubtful accounts	446	464	-1,768
7,02	Consumables acquired from third parties	-665,623	-597,446	-643,179
7.02.01	Cost of goods and services sold	-422,729	-403,318	-454,126
7.02.02	Material, Energy, Outsourced Services and Other	-242,871	-194,563	-191,582
7.02.03	Loss/Recovery of Assets	-23	435	3
7,03	Gross Added Value	827,795	697,024	640,723
7,04	Retentions	-43,608	-40,011	-39,504
7.04.01	Depreciation, Amortization and Depletion	-43,608	-40,011	-39,504
7,05	Net Added Value Produced	784,187	657,013	601,219
7,06	Transferred Added Value	60,877	51,449	88,478
7.06.02	Financial Revenue	60,877	51,449	88,478
7,07	Total Added Value to be Distributed	845,064	708,462	689,697
7,08	Distribution of Added Value	845,064	708,462	689,697
7.08.01	Personnel	247,336	223,762	216,343
7.08.01.01	Direct Remuneration	207,993	189,505	179,619
7.08.01.02	Benefits	24,384	21,288	22,293
7.08.01.03	F.G.T.S.	14,959	12,969	14,431
7.08.02	Taxes, Duties and Contributions	336,574	286,304	286,525
7.08.02.01	Federal	184,990	137,638	133,542
7.08.02.02	State	150,693	147,925	152,263
7.08.02.03	Municipal	891	741	720
7.08.03	Interest Expenses	126,842	134,226	184,687
7.08.03.01	Interest	108,992	119,485	170,194
7.08.03.02	Rent	17,850	14,741	14,493
7.08.04	Interest earnings	134,312	64,170	2,142
7.08.04.01	Interest on own capital	7,273	11,101	0,000
7.08.04.02	Dividends	12,837	20,850	504
7.08.04.03	Retained Earnings/Loss for the Period	114,172	32,185	1,621
7.08.04.04	Minority interests in retained earnings	30	34	17

CONSOLIDATED EARNINGS RELEASE 2018

Tijucas, February 14, 2019. PBG S.A. (B3 S.A. - BRASIL, BOLSA, BALCÃO: PTBL3), **Brazil's largest ceramic tile company**, is submitting its earnings release for the year ended December 31, 2018.

The financial information reported herein is derived from PBG S.A.s' consolidated financial statements, prepared in accordance with the standards issued by the Accounting Pronouncements Committee (CPC) and the International Financial Reporting Standards (IFRSs).

HIGHLIGHTS

	R\$ million	2017	2018	▲%
PERFORMANCE	Gross revenue	1,278	1,321	3,4%
	Net revenue	1,024	1,054	3,0%
	<i>Gross margin</i>	40,7%	38,5%	-2,2 p.p.
	EBITDA	189	288	52%
	<i>EBITDA margin</i>	18,5%	27,3%	8,9 p.p.
	Profit	64	134	109%
	<i>Net margin</i>	6,3%	12,7%	6,5 p.p.
	ROCE	17,1%	20,3%	3,3 p.p.
Debt	Net debt	394	472	19,7%
	Net debt-to-EBITDA	2,09	1,64	-21%
PTBL3	Quotation	5,49	5,19	-5%

- **Net Revenue of R\$1,054 billion**, up by 3% over 2017;

- **PROFIT of R\$134 million**;

- **EBITDA of R\$288 million**, up by 52% over 2017, with a margin of 27.1%. Recurring EBITDA of **R\$106 million**;

- **Reduction in Net Debt-to-EBITDA ratio to 1.6x**;

- **RETURN on Invested Capital of 20.3%**;

- Recognition of **GAINS of R\$182 million** related to the lawsuits "Plaintiff - IPI Premium Credit" and "Exclusion of ICMS from PIS and COFINS Tax Base"

TELECONFERENCE

Friday, February 22 at 2:30 p.m.

Data for connection:

Phone: +55 11 3137-8043

Password: PORTOBELLO

WEBCAST

The teleconference audio will be broadcast on the Internet, accompanied by a slide show, which will be available 30 minutes in advance at:



MANAGEMENT'S COMMENTS

Despite the ongoing instable economic scenario over the year, events such as the truckdriver's strike, the delay in definition of the political scenario and significant increases in energy costs, the Company ends 2018 posting consolidated earnings with growth, profitability and expansion of new businesses. However, the challenge of monetizing the existing assets and reaching the maturity of the new businesses remain. The focus on bringing innovative solutions with differentiated design and value to the client, increasing profitability and strengthening competitive advantages is internally maintained, in order to optimize the enterprise value and consolidate the brand leading position.

The domestic scenario and the crisis in Argentina in 2018 resulted in instability in sales projections and market volatility. Accordingly, the strategy of selling a more profitable mix of products to both markets was maintained.

Net revenue totaled R\$1.054 billion, up by 3 % over 2017, generating a gross margin of 38.5%, similar to the prior year. In the domestic market, sales grew by 2.5%, accompanying the growth in retail sales of construction materials. Exports in Brazilian reais (R\$) grew by 10%, promoted by the exchange rate variation. In US Dollar terms, exports were exposed to the effects of the crisis in Argentina and fell, totaling US\$50 million against US\$52 million in 2017.

Cash generation, as measured based on the EBITDA, totaled R\$288 million and profit reached R\$134 million in 2018 with margins of 27.1% and 12.6%, respectively. EBITDA grew by 52%, positively affected by the recognition of the extraordinary gains, such as the IPI premium credit on the lawsuit "Plaintiff" and the credit related to the "Exclusion of ICMS from PIS and COFINS Tax Base ". Should those effects be disregarded, the EBITDA margin would have been 10%. The Net Debt-to-EBITDA ratio dropped from 2.09x to 1.64x. The debt profile was extended with new debenture operations in 2018.

The Company maintains its operational improvement efforts and remains committed to its integrated retail, internationalization and brand consolidation strategy. Changes were made to the organizational structure in order to strengthen the retail culture. Integrated action teams provide greater focus on the customer and agility in response to the market. Portobello Shop maintains its plan on expanding the exhibition area. The network ended 2018 with 130 units located in almost all Brazilian states, out of which 13 are own units. The Portobello Shop stores have an area of 36,500 m² of exhibition space offering customers a combination of ceramic tiles with porcelainware, metal articles and solutions in Oficina porcelainware art.

The Pointer brand business posted solid growth throughout the year achieving a positive margin as from the second quarter. The launch of products with a democratic, innovative proposal and a design that sets them apart from traditional ceramics allowed a more distinguished product mix which combined with increased inventory turnover provided better-qualified sales at better prices. In addition, profitability was positively influenced by the use of 100% of the productive capacity of the plant in Alagoas State. The performance of that unit exceeded management expectations for 2018.

In the Officina project, the business has been gaining strength in the operation and service areas, evidencing the maturity and stabilization of the model. The solution adds a significant competitive differential to the Portobello Shop brand and business, incorporating a differentiated mix of products, offering an innovative line and customized solutions for our end customers.

In 2018 the Company had yet another notable participation in Expo Revestir, the main business platform in the national and international market for ceramic tiles, where the new collection was launched. Also in 2018, Portobello received the "*best in show*" award for the "Still Black" product. In addition, the Company has won several other awards, such from the National Association of Construction Material Merchants (Anamarco), in the category "First Place Ceramic Coating - Large Scale Clients" and, it is important to stress that Portobello was the most cited company among large retailers in the sector. In addition, the Company received the ADVB Citizen Company 2018 award in the "Community Participation" category, with the Programa Crescer.

The Company continues to believe in the growth of export sales as a strategy to diversify market risks and sustain the consolidated result, so that in the second half of 2018 the US distribution operation started with the opening of a warehouse in Florida . Also in 2018 the Company received package of incentives from the State Government of Tennessee - USA to install a distribution and production operation in the city of Baxter, in that state. The acquisition of incentives is an important step in the Company's internationalization strategy.

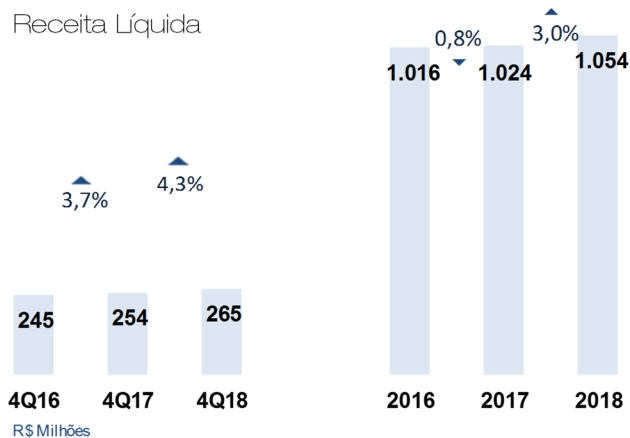
ECONOMIC AND FINANCIAL PERFORMANCE

	R\$ thousand	4Q16	4Q17	4Q18	▲%	2016	2017	2018	▲%
PERFORMANC	Gross revenue	312,765	316,868	342,976	8,2%	1,301,05	1,277,945	1,321,346	3,4%
	Net revenue	245,148	254,163	265,021	4,3%	1,016,400	1,023,937	1,054,190	3,0%
	Gross profit	88,134	99,973	90,167	-9,8%	363,202	417,020	405,600	-2,7%
	<i>Gross margin</i>	36,0%	39,3%	34,0%	-5,3 p.p.	35,7%	40,7%	38,5%	-2,2 p.p.
	EBIT	13,185	31,412	57,657	84%	75,808	149,006	244,404	64%
	<i>EBIT margin</i>	5,4%	12,4%	21,8%	9,4 p.p.	7,5%	14,6%	23,2%	8,6 p.p.
	Finance income (costs)	(12,386)	(26,563)	(16,946)	-36%	(81,695)	(68,014)	(48,091)	-29%
	Profit	5,243	4,829	28,746	495%	2,142	64,170	134,311	109%
	<i>Net margin</i>	2,1%	1,9%	10,8%	8,9 p.p.	0,2%	6,3%	12,7%	6,5 p.p.
	EBITDA	23,528	4,180	68,560	64%	115,312	189,017	288,013	52%
<i>EBITDA margin</i>	9,6%	16,4%	25,9%	9,4 p.p.	11,3%	18,5%	27,3%	8,9 p.p.	
RATIOS	Current liquidity					1,31	1,26	1,40	0,13
	Net debt					464,241	394,367	472,188	19,7%
	Net debt-to-EBITDA					4,03	2,09	1,64	(0,45)
	Net debt-to-equity					1,95	1,38	1,30	(0,08)
PTBL3	Closing quotation					2,03	5,49	5,19	-5%
	Market value					321,769	870,102	822,555	
	Monthly trading volume (R\$), Average from the past 12 months,					10,354	32,500	44,683	37%

Net revenue

The consolidated net revenue totaled R\$1.054 million in 2018, up by 3% when compared to the previous year.

	4Q16	4Q17	4Q18	?%	2016	2017	2018	?%
Net revenue	245,148	254,163	265,021	4,3%	1,016,400	1,023,937	1,054,190	3,0%
Domestic Market	210,328	209,909	228,333	8,8%	864,858	840,999	868,678	3,3%
Foreign Market	34,820	44,254	36,688	-17%	151,542	182,938	185,512	1%



Sales in the domestic market accounted for 82.5% of total revenue (83.5% in 2017) and the amount in Brazilian reais (R\$) was 2.5% higher than in 2017.

Exports posted a growth by 10%, promoted by the exchange rate variation. In US Dollar terms, exports fell, totaling US\$50 million against US\$52 million in 2017.

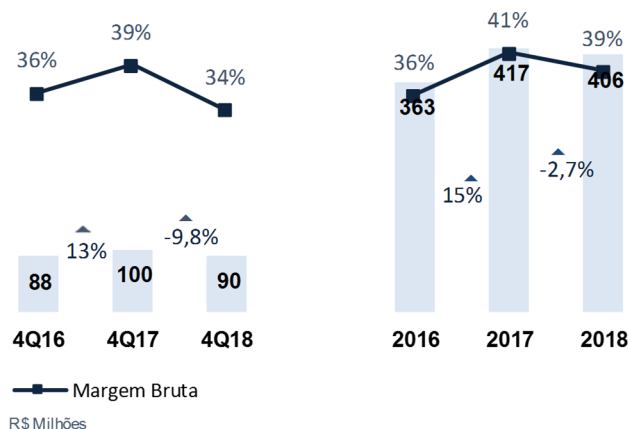
Gross Profit

In 2018 gross profit totaled R\$414 million, similarly to that achieved in 2017.

The gross margin fell from 41% to 39%. However, it remained above that of 2016, when it was 36%.

Gross margin was negatively affected by adjustments in energy input prices. Activities were implemented to mitigate these effects, such as a sales mix with more profitable products, structuring the pricing process and investments in distribution to both foreign and domestic markets.

Lucro Bruto



Operating Income (Expenses)

Selling expenses totaled R\$285 million, up by 16% when compared to 2017. The ratio to net revenue in 2018 is 27% and posts a grow by 3 p.p. This increase was due to the development of new businesses, an increase in the number of own stores, operations in the USA, and expansion of the logistic network as well as restructuring of the Company to achieve positioning, strengthening its retail operations.

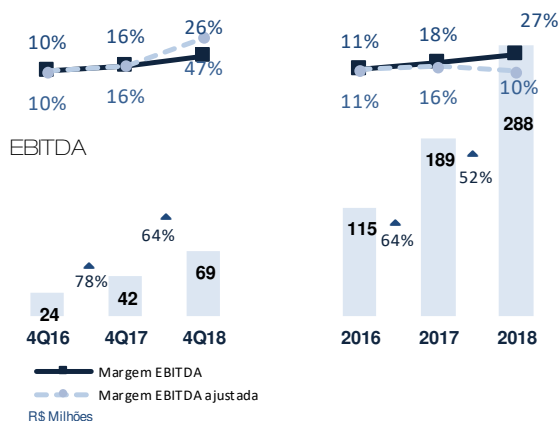
	4Q16	4Q17	%RL	4Q18	%RL	▲%	2016	%RL	2017	%RL	2018	%RL	▲%
Operating expenses	(74,949)	(68,561)	27%	(32,510)	12%	-53%	(287,394)	28%	(268,014)	26%	(161,196)	15%	-40%
Selling expenses	(66,365)	(63,023)	25%	(72,038)	27%	14%	(250,744)	25%	(246,510)	24%	(285,619)	27%	16%
General and administrative expenses	(9,972)	(11,023)	4%	(14,799)	6%	34%	(37,155)	4%	(35,877)	4%	(45,458)	4%	27%
Other income (expenses)	1,388	5,485	-2%	54,327	-20%		505	0%	14,373	-1%	169,881	-16%	

Administrative expenses totaled R\$45 million, a growth by 27% due to the preparation of the structure to meet the expansion of new businesses and digital innovation. As to net revenue, a ratio of 4.3% was achieved, 0.8% higher than the prior year. The Company is attentive of the relationship between costs and expenses and an increase in revenue to return expenses to a level adequate for its operations.

Other operating income (expenses) totaled R\$54 million in 4Q18. In 2018 this line item totaled R\$170 million and included the gains on the lawsuits (i) Plaintiff - IPI Premium Credit of R\$126 million in 2Q18 and (ii) Exclusion of ICMS from PIS and COFINS Tax Base, in the amount of R\$55 million in 4Q18.

EBITDA

	4Q16	4Q17	4Q18	%NR	▲%	jul-05	jul-05	jul-05	%RL	▲%
Profit	5,243	4,829	28,746	11%	495%	2,142	64,170	134,311	13%	109%
(+) Finance income (costs)	12,386	26,563	16,946	6,4%	-36%	81,695	68,014	48,091	4,6%	-29%
(+) Depreciation and amortization	10,343	10,383	10,903	4,1%	5%	39,504	40,011	43,609	4,1%	9%
(+) Income taxes	(4,444)	20	11,965	5%	58625%	(8,029)	16,822	62,002	6%	269%
EBITDA	23,528	41,795	68,560	26%	64%	115,312	189,017	288,013	27%	52%
(-) Reversal of Provision for Tax Risks	-	-	54,927			-	(30,042)	(181,922)		
Adjusted EBITDA	23,528	41,795	123,487	47%	195%	115,312	158,975	106,091	10%	-33%



The Company ended 2018 with EBITDA of R\$288 million and margin of 27%. The growth of 52% when compared to 2017 is due to extraordinary gains from favorable court decisions recognized in 2018.

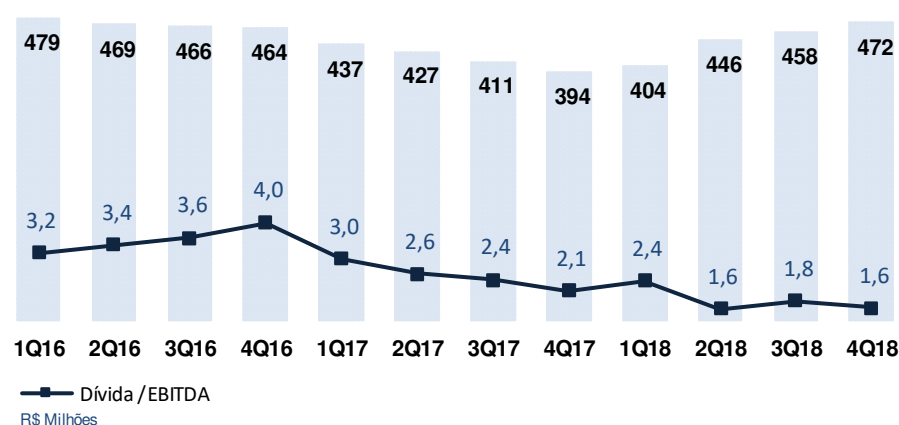
Considering only the recurring results, EBITDA would have been R\$106 million with a 10% margin.

Profit

The Company posted profit of R\$134 million, an amount significantly higher than any other prior period. This was mostly due to gains on favorable court decisions, reflecting the management’s efforts in achieving the desired results.

DEBT/ CAPITAL STRUCTURE

Dívida Líquida

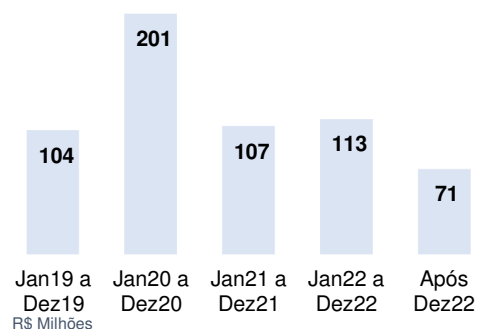


The Company’s net debt reached R\$472 million, equivalent to 1.6 times EBITDA in the last 12 months. When compared to the end of 2017 despite the increase in net debt, the net debt-to-EBITDA ratio fell from 2.1x to 1.6x.

	2016	2017	2018	▲ R\$
Bank Indebtedness	586,661	513,561	595,637	82,076
Tax Indebtedness	79,199	76,774	64,367	(12,407)
(=) Gross debt	665,860	590,335	660,004	69,669
(+) Cash and cash equivalents	(112,196)	(101,317)	(89,875)	11,442
(+) Due from related parties	(89,423)	(94,651)	(97,941)	(3,290)
(=) Net debt	464,241	394,367	472,188	77,821
EBITDA (past 12 months)	115,312	189,017	288,013	98,996
<i>Net debt-to-EBITDA ratio</i>	<i>4,01</i>	<i>2,58</i>	<i>1,58</i>	
<i>Net debt-to-equity ratio</i>	<i>2,33</i>	<i>1,50</i>	<i>1,23</i>	

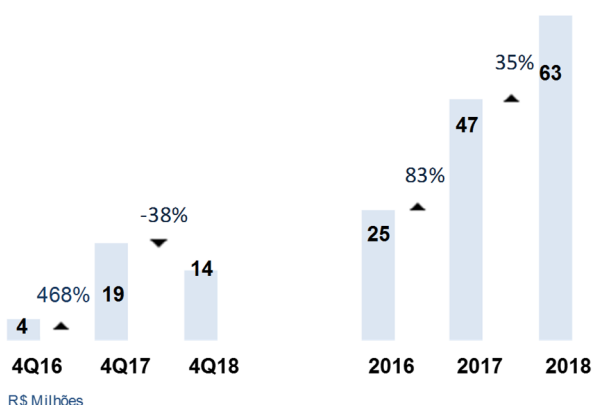
The indebtedness profile was extended with the issue of a new series of debentures in the middle of the year. Accordingly, 59% of debt is long-term.

Cronograma de Amortização
(endividamento bruto)



INVESTMENTS

Investments totaled R\$63 million, 34% higher than in 2017. Of this amount 62% was earmarked for the Tijucas Plant in the state of Santa Catarina, 11% for the Marechal Deodoro Plant in Alagoas and the remainder 27% to strengthen retail, such as own stores, distribution centers and Oficina Portobello.



At the Tijucas manufacturing park, investments were concentrated on preparation and modernization for the production of items with higher value added and larger formats.

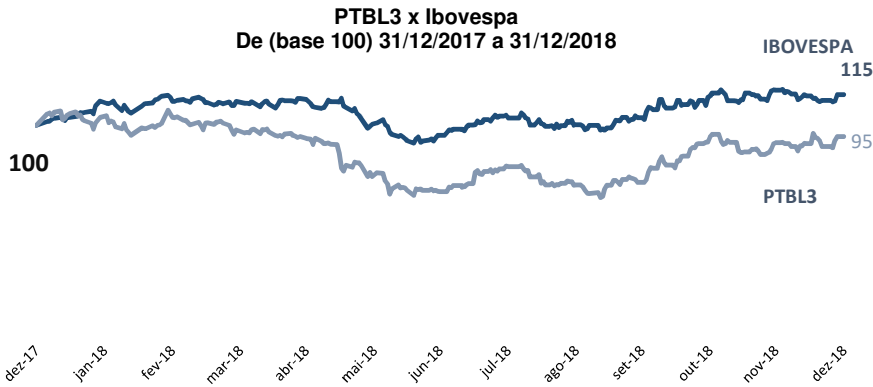
At Pointer, the greater part of investments was intended for the renovation of the manufacturing

complex for profitability and qualification of the product portfolio.

SHAREHOLDERS' COMPENSATION AND SHAREHOLDERS' MEETING RESOLUTIONS

Management will propose distribution of dividends of R\$31,892, of which R\$8,922 were already prepaid as dividends and interest on capital on August 29, 2018. The amount payable will be R\$22,970 and the approval, payment method and payment date will be decided at the Annual General Meeting. Accordingly, total compensation to be distributed to shareholders for the year shall represent a dividend yield (dividend per share divided by the final share price quote) of 3.88%.

PERFORMANCE OF PTBL3 SHARES



Shares issued by PBG S.A. and traded under the ticker symbol PTBL3, ended the last trading session held in December 2018 at R\$5.19.

The average financial trading volume in the last 12 months was R\$39 million, a reduction of 15% compared to R\$46 million for the prior year. At the end of 2018 PBG S.A. had a market value of R\$822 million.

PROSPECTS

- Due to the definition of the political scenario at the end of 2018, as well as the indications given by the new government in relation to reforms, the expectation for 2019 is higher economic growth than in 2018.
- The civil construction market is recovering which should clearly reflect on the finishing materials industry over 2019.
- Sector indicators for the second six-month period of 2018 shows that retail will play a role in the growth of the construction material sector. Accordingly, retail remains one of the pillars of Company growth, particularly in the expansion of own stores, in sales through the Portobello Shop, in the expansion of product launches and improvement of service through the opening of more distribution centers.
- In the ceramic segment the Company expects to continue the increase in ceramic market share with emphasis on gloss finished products and continuity of recent trends for larger sizes and decorated items;
- The new “Officina” business shall continue to grow gaining greater proportion in sales as well as in strategy. On achieving maturity it shall provide better profitability and shall become a competitive differential for the Portobello brand;
- The Alagoas plant and the Pointer brand continue to execute the improvement plan in line with the current market, brand and product portfolio positioning and economic performance. The operation has already achieved the breakeven point and projections continue to indicate additional profitability gains;
- In the foreign market, efforts will continue towards the expansion of exports and internationalization of the Company. Accordingly, the US distribution operation will continue to expand with new distribution centers in the states of Texas and Tennessee, in addition to that already established in Florida.
- Internally, the Company will continue to focus on actions to mitigate the effect of increases in energy input prices on its margins. Such outcome will be achieved through optimization of manufacturing facilities, constant review of costs and expenses or review of the product portfolio.

INDEPENDENT AUDIT

In engaging independent auditors to perform non-audit services, PBG S.A. adopts a policy based on principles that preserve the professional independence. These principles draw on the assumption that the auditor should not audit their own work, should not perform management functions in the client and should not act as client's advocate. In 2018, the Company did not engage independent auditors to perform non-audit services.

MANAGEMENT

Board of Directors

Name

Cláudio Ávila da Silva

Cesar Gomes Júnior

Nilton Torres de Bastos Filho

Glauco José Côrte

Geraldo Luciano Mattos Junior

Walter Roberto de Oliveira Longo

Marcos Gouvêa de Souza

Executive Board

Name

Title

Cesar Gomes Júnior

Chief Executive Officer

Cláudio Ávila da Silva

Deputy Chief Institutional Relations Officer

John Shojiro Suzuki

Deputy Chief Operations Officer

Mauro do Valle Pereira

Deputy Chief Business Officer

TELECONFERENCE AND WEBCAST

On Friday, February 22, 2019 at 2:30 p.m., a teleconference will be held in Portuguese language to report the earnings for 2018.

Data for connection:

Phone +55 11 3137-8043

Password: PORTOBELLO

For those who cannot attend the live teleconferences, the full audio will be made available and can be directly accessed at the Company's website (www.ri.portobello.com.br).

Balance Sheet

Assets	12/31/2018	12/31/2017	Liabilities	12/31/2018	12/31/2017
Current assets	563,867	522,623	Current liabilities	404,068	414,310
Cash and cash equivalents	82,624	94,379	Borrowings and debentures	101,721	146,402
Trade receivables	239,463	218,412	Trade payables and credit assignment	170,830	149,696
Inventories	213,791	179,323	Taxes and social contributions	25,846	31,157
Recoverable taxes	10,201	15,922	Payroll and related taxes	36,734	31,330
Prepaid expenses	1,598	1,720	Advances from customers	16,457	12,615
Other current assets	16,190	12,867	Dividends payable	23,457	6,035
			Other current liabilities	29,023	37,075
Noncurrent assets	1,058,288	729,385	Noncurrent liabilities	85,967	552.638,00
Long-term assets	579,070	268,926	Borrowings and debentures	493,916	367,16
Escrow deposits	116,980	93,501	Trade payables	101,268	78,50
	5,287	6,407	Deferred income tax and social contribution	1,965	14,19
Recoverable taxes			Taxes payable in installments	53,574	62,65
Legal assets	317,506	45,969	Related parties	62,003	-
Due from related parties	97,941	94,651	Provisions	139,605	28,21
Due from Eletrobrás	12,821	12,821	Other	3,636	1,94
Other noncurrent assets	28,535	15,577			
			Equity	362,120	285.060,000
Investments	298	298	Capital	140,000	130,000
Property, plant and equipment	458,331	440,595	Earnings reserves	140,063	143,988
Intangible assets	20,589	19,566	Other comprehensive income	(13,852)	(4,172)
			Additional proposed dividends	-	-
			Retained earnings	95,897	15,232
			Noncontrolling interests	12	12
Total assets	1,622,155	1,252,008	Total liabilities	1,622,155	1,252,008

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PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018
In thousands of Brazilian reais - R\$, unless otherwise stated.

1 General information

PBG S.A., hereinafter referred to as “Company” or “Parent”, is a publicly-held company and its shares are traded on the *Novo Mercado* segment of the B3 S.A. - Brasil, Bolsa, Balcão (B3), under ticker symbol PTBL3. The Company is controlled by a group of shareholders, formally recognized under the agreement entered into on April 15, 2011, and amended on August 4, 2017, which hold 54% equity interest in the Company as at December 31, 2018. The remaining 46% equity interest is held by several shareholders.

The Company, with registered head office in the city of Tijucas, State of Santa Catarina, was established in 1977 and is primarily engaged in the manufacture and sale of ceramic and porcelain products in general, such as floor tiles, enameled and non-enameled porcelain tiles, decorated and special pieces, mosaics, products intended for inner wall and external facade coatings, as well as in the provision of supplementary services involving the application of its products in the construction material industry in Brazil and overseas.

Moreover, the Company holds equity interest in the following subsidiaries: (i) Portobello Shop, which manages the Portobello Shop and Empório Portobello franchising networks, with a network of franchised stores specializing in porcelain tiles and ceramic coatings; (ii) PBTech, which manages the Portobello Shop own stores and currently manages 11 stores; (iii) Mineração Portobello, which supplies part of the raw materials used in the manufacture of ceramic coatings; (iv) Companhia Brasileira de Cerâmica, which as of the third quarter operates the special cuts factory on Southeast; and (v) Portobello América, which was established to sell Portobello products in the U.S. market and gradually returns the operations started in the second half of 2018.

2 Presentation of interim financial information

a) Statement of compliance

The individual and consolidated interim financial information, herein presented as Parent and Consolidated, respectively, has been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and practices adopted in Brazil (BR GAAP).

The accounting practices adopted in Brazil comprise the policies set out in the Brazilian Corporate Law and the technical pronouncements, guidelines and interpretations issued by the Accounting Pronouncements Committee (CPC) and approved by the Federal Accounting Council (CFC) and the Brazilian Securities and Exchange Commission (CVM).

The presentation of the individual and consolidated Statements of Value Added (DVA) is required by the Brazilian Corporate Law and accounting practices adopted in Brazil applicable to publicly-held companies. The IFRSs do not require the presentation of such statement.

The individual and consolidated interim financial information was authorized for issuance by the Board of Directors on February 14, 2019. . After their issuance, only the shareholders have the power to change the financial statements.

All the relevant information disclosed in the Interim Financial Information, and only this information, is being disclosed and corresponds to the information used by Management to manage the Company.

b) Measuring basis

Individual and consolidated financial statements were prepared based on historical cost, except when notes indicate otherwise.

c) Functional and presentation currency

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018
In thousands of Brazilian reais - R\$, unless otherwise stated.

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

d) Use of estimates and judgments

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

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

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

e)EmpresasNet system (ENET)

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

3 Significant Accounting policies

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

3.1 Consolidations

3.1.1 Consolidated financial statements

a) Subsidiaries

Subsidiaries are all entities over which the Company has the power to establish the financial and operating policies, usually accompanied of an interest of more than half of voting rights. The existence and effect of potential voting rights, currently exercisable or convertible, are taken into account when assessing whether the Company controls other entity. The subsidiaries are fully consolidated as of the date control is transferred to the Company, and stop being consolidated as of the date when control no longer exists.

Percentage of the Company's ownership interest in subsidiaries as of December 31, 2017, is as follows: Portobello América, Inc. 100%, PBTech Com. Serv. Revest. Cer. Ltda 99.94%, Portobello Shop S/A 99.90%; Mineração Portobello Ltda. - 99.76%, and Companhia Brasileira de Cerâmica - 98.00%.

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

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31,2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

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

b) Transactions and non-controlling interest

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

3.1.2 Individual financial statements

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

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

3.2 Presentation of information per business segment

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

3.3 Foreign currency translation

a) Transactions and balances

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

b)Subsidiaries

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

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31,2018
In thousands of Brazilian reais - R\$, unless otherwise stated.

3.4 Financial assets

a)Initial recognition and measurement

Financial assets are measured at fair value upon initial recognition.

Sales and purchases of financial assets that require the delivery of assets within a schedule set by means of a market regulation or convention (regular-way purchases) are recognized on the transaction date, i.e., the date in which the Company undertakes to purchase or sell the asset.

The Company's financial assets include cash and cash equivalents, short-term investments, trade receivables and other receivables.

b)Subsequent measurement

For purposes of subsequent measurement, the Company's financial assets are classified according to the Company's business model for financial asset management and the characteristics of contractual cash flows of financial assets, as follows:

(i)Financial assets measured at amortized cost

Represent assets acquired for purposes of realization in the short term, held according to the business model, which purpose is to receive contractual cash flows, and in situations where the contractual terms of the financial asset originates, on specific dates, cash flows that exclusively constitute payments of principal and interest on the outstanding principal. After initial recognition, they are measured at amortized cost by using the effective interest method. Interest income, inflation adjustments and exchange rate changes, less any impairment losses, as applicable, are recorded in the statement of profit and loss for the year as finance income or finance costs, when incurred.

(ii)Financial asset measured at fair value through other comprehensive income

Represent financial assets held according to a business model, which purpose is achieved when collecting contractual cash flows and selling the financial assets; and the contractual terms of the financial asset originates, on specific dates, cash flows that exclusively constitute payments of principal and interest on the outstanding principal.

(iii)Financial assets at fair value through profit or loss

Represent the other financial assets that are not measured at amortized cost or at fair value through other comprehensive income. The interest rates, inflation adjustments and exchange rate changes, as well as changes derived from measurement at fair value, are recognized in the statement of profit and loss for the year as finance income or finance costs, when earned or incurred.

(iv)Derecognition of financial assets

A financial asset (or, as the case may be, part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows expire.
- The Company and its subsidiaries transfer their rights to receive asset cash flows or assume the obligation to fully pay cash flows received to a third party, pursuant to a transfer agreement; and

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31,2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

- (a) the Company has substantially transferred all the risks and rewards incidental to the asset; or
- (b) the Company has neither transferred nor retained substantially all the risks and rewards incidental to the asset, but has transferred the related control.

When the Company and its subsidiaries assign their rights to receive an asset cash flows or enter into a transfer agreement, without having substantially transferred or retained all risks and rewards incidental to the asset or transferred control over the asset, they maintain the asset and recognize a related liability. Transferred assets and related liabilities are measured to reflect the receivables and payables retained by the Company and its subsidiaries.

(v) Impairment of financial assets

The Company adopted the expected loss method and measurement based on the lifetime of financial assets. A simplified approach is used for the groups of financial assets, which considers the analysis of the credit, the history of movements and losses. External indicators were not considered as they are captured in the historical loss assessment period.

The loss amount is measured based on the expectation of non-collection of the portfolio, which is obtained through the historical loss amount per maturity range since the initial recognition of the receivable. The historical loss average of six months is applied based on the recent historical behavior, and thus a credit risk percentage is assigned. The credit risk percentage is applied to each maturity range on the total contract amount. The product arising from the expected loss percentages and the maturity range amounts result in the expected loss amount that is recognized in the statement of profit and loss for the year.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the allowance recognition (such as an improvement in a debtor's credit rating), the reversal of the previously recognized impairment loss is recorded in the statement of profit and loss for the year. If a write-off is subsequently recovered, the recovery is also recognized in the statement of profit and loss for the year.

3.5 Financial liabilities

(i) Initial recognition and measurement

Upon initial recognition, financial liabilities are classified either as financial liabilities at fair value through profit or loss or at amortized cost.

Financial liabilities are initially stated at fair value and, in the case of borrowings and financing and trade payables, are increased by the directly related transaction costs for the issuance of securities and debt. These costs are allocated to profit or loss for the financing period, as an increase in borrowing costs, thus adjusting the effective interest rate applicable to the transaction.

The Company's financial liabilities include trade payables, trade payables – agreement, payables for investment acquisition and borrowings and financing.

(ii) Subsequent measurement

After initial recognition, borrowings and financing subject to interest are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the statement of profit and loss when liabilities are derecognized, as well as during the amortization process using the effective interest method.

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018
In thousands of Brazilian reais - R\$, unless otherwise stated.

(iii) Derecognition of financial liabilities

A financial liability is derecognized when the obligation is revoked, discharged or expires. When an existing financial liability is replaced for another one from the same lender with terms and conditions substantially different, or the terms of an existing liability are significantly modified, such replacement or modification is recognized as derecognition of the original liability and recognition of a new liability, and the difference in the carrying amounts is recorded in the statement of profit and loss.

(iv) Financial instruments – net presentation

Financial assets and financial liabilities are stated at their net amounts in the balance sheet if, and only if, the Company has a legally enforceable right to set off the amounts recognized and if there is an intent to simultaneously realize the asset and settle the liability.

(v) Derivatives

The Company is exposed to market risks arising from its transactions and uses derivatives, such as interest rate swap derivative agreements to hedge against foreign exchange and interest rate risks. Derivatives are measured at fair value (market value) at every balance sheet date. Any gains or losses on changes in the fair value of derivatives, earned or incurred during the year, are directly recognized in the statement of profit and loss. Derivatives are classified as short and long term or segregated into short- and long-term portion based on an assessment of the contractual cash flows, and according to the characteristics inherent to such contract, the Company presents such derivative contract together with the original transaction on a net basis.

3.6 Inventories

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

3.7 Judiciais deposits

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

3.8 Receivables - Eletrobrás

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

3.9 Investments

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

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018
In thousands of Brazilian reais - R\$, unless otherwise stated.

The provision for losses on investments is recognized when there are losses on investments in subsidiaries and these losses exceed the limit of the book value of investment. The Company classifies the provision in non-current liabilities, under the caption "Provision for losses on investments" with a corresponding entry recorded in the income (loss), under the caption "Equity in earnings of subsidiaries". Other investments are recognized at historical cost and adjusted by the provision for impairment, in case there is indication of loss (Note 17).

3.10 Property, plant and equipment

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

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

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

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

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

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

3.11 Intangible assets

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

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

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

Assets subject to depreciation and amortization are reviewed to confirm their impairment annually and whenever events or changes in circumstances indicate that the book value may not be recoverable. Impairment loss is recognized in the amount by which the book value of the asset exceeds its recoverable value. The latter is the higher of the asset's fair value less its sale costs and value in use. For impairment

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31,2018
In thousands of Brazilian reais - R\$, unless otherwise stated.

valuation purposes, assets are grouped at the lowest levels for which exist separately identifiable cash flows (Cash Generating Units - CGU). Non-financial assets are subsequently reviewed for possible reversal of the impairment at each reporting date.

3.13 Suppliers

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

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

3.14 Loans, financing and debentures

They are initially recognized at fair value when funds are received net of transaction costs. Subsequently, loans taken are stated at amortized cost, i.e., with the addition of charges and interest proportional to the period elapsed (calculated on a pro rata temporis basis).

They are classified as current liabilities unless the Parent Company and its subsidiaries have an unconditional right to defer settlement of the liability for at least 12 months after the end of the year.

3.15 Provisions for contingencies, contingente liabilities and contingente assets

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

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

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

3.16 Current and deferred income and social contribution taxes

Current income tax and social contribution are calculated with a basis on the effective rates of income tax (25%) and of social contribution (9%) on adjusted net income under the terms of the current legislation. Offset of tax loss carryforwards is considered, limited to 30% of taxable income. Deferred income and social contribution tax credits derive from accumulated balances of tax losses, social contribution tax loss carryforwards and asset temporary differences, whereas deferred income and social contribution tax debits derive from revaluation of fixed assets and liability temporary differences.

The credits considered the future expectation of generation of taxable income and are calculated based on the tax rates currently applicable by the tax legislation and recorded up to the amount considered as realizable based on estimates prepared by the Company.

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31,2018
In thousands of Brazilian reais - R\$, unless otherwise stated.

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

3.17 Employee benefits

a) Private pension plan

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

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

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

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

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

b) Profit sharing plan

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

c) Long-term incentive

The Company operates a long-term incentive plan according to which the Company receives services from employees and offers cash payments as compensation. Fair value of employee services received in exchange for cash is recognized as expenses. The total amount to be recognized as obligation is determined every year considering the principal aspects: the EBITDA growth and a ratio of EBITDA with the Company's net debt (Note 28). Total expenses are recognized during the period in which the right is

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018
In thousands of Brazilian reais - R\$, unless otherwise stated.

acquired; period during which the specific conditions of acquisition of rights should be met. On the balance sheet date, the entity reviews its estimates based on the conditions of acquisition of rights and recognizes the impact of the review of the initial estimates, if any, in the income statement, with a corresponding adjustment in the liabilities.

3.18 Capital

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

3.19 Dividends and Interest on Own Capital of the period

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

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

3.20 Sales recognition

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

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

a) Sales of good - wholesale

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

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

b) Income from royalties

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

c) Financial income

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018
In thousands of Brazilian reais - R\$, unless otherwise stated.

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

3.21 Statement of added value

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

3.22 Financial expense

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

3.23 New standards, amendments or interpretations of the IFRSs issued by the IASB

In 2018, the Company adopted the amendments and new interpretations to IFRSs and CPCs issued by the IASB and CPC, respectively, which are effective for annual periods beginning on or after January 1, 2018. The main amendments adopted by the Company are as follows:

<u>Pronouncement</u>	<u>Description</u>	<u>Impact</u>
IFRS 2 - Classification and Measurement of Share-based Payment Transactions CPC 10 (R1).	The IASB issued amendments to IFRS 2 - Share-based Payment Transactions, which address three main areas: the effects of vesting conditions on the measurement of a cash-settled, share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting treatment where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled.	No significant impact arising from such standard adoption.
IFRS 15 - Revenue from Contracts with Customers. CPC 47	Establishes principles concerning the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. Provides guidance on when revenues should be recognized. Also introduces new disclosures.	See below.
IFRS 9 - Financial Instruments. CPC 48	Several changes in classification and measurement, especially in the measurement of impairment losses and hedge accounting.	See below.
Amendments to IAS 40- Transfers of Investment Property. CPC 28	The amendments clarify when an entity should transfer properties, including property under construction or development into or out of investment properties.	No significant impact arising from such standard adoption.
Annual Improvements to 2015-2017 Cycle (issued in December 2017)	These improvements comprise: - IFRS 1 - First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters of IFRSs;	No significant impact arising from such standard adoption.

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

	- IAS 28 - Investments in Associates and Joint Ventures - Clarifies the measurement of investments in investees at fair value through profit or loss, on an investment-by-investment basis.	
Adoption of IFRS 9 - Financial Instruments together with IFRS 4 - Insurance Contracts - Amendments to IFRS 4 IFRIC 22 - Foreign Currency Transactions and Advance Consideration	The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from IFRS 9 adoption and an overlay approach. The Interpretation clarifies that, when determining the spot exchange rate to be used on the initial recognition of assets, expenses or income (or part of it) relating to the write-off of non-monetary assets or non-monetary liabilities associated with advance consideration, the transaction date will be the date on which the entity initially recognizes non-monetary assets or non-monetary liabilities arising from advance consideration.	No significant impact arising from such standard adoption. No significant impact arising from such standard adoption.

On January 1, 2018, IFRS 9 / CPC 48 – Financial Instruments and IFRS 15 / CPC 47 – Revenue from Contracts with Customers became effective. As mentioned in note 3.20 to the financial statements for the year ended December 31, 2017, the Company did not identify any significant impacts arising from the adoption of these standards.

With respect to IFRS 9 / CPC 48 – Financial Instruments, the presentation of financial instruments was adjusted as follows:

CPC 48/ IFRS 9 - Financial Instruments

Pursuant to CPC 48 / IFRS 9, the Company recognizes, measures and classifies financial assets, financial liabilities and some agreements for the purchase or sale of non-financial items as follows:

(i) Initial recognition and measurement

Financial assets: initially recognized at fair value and measured upon initial recognition according to their classification: (i) measured at amortized cost, (ii) measured at fair value through other comprehensive income (FVTOCI), and (iii) measured at fair value through profit or loss (FVTPL). The standard eliminated the categories set out in IAS 39 (held-to-maturity, loans and receivables and available-for-sale).

Allowance for impairment losses of financial assets and contractual assets: CPC 48 / IFRS 9 superseded the “incurred loss” model provided for by CPC 38 (IAS 39) and now the Company recognizes losses using a prospective model of “expected credit losses”. This requires considerable judgment about how changes in economic factors affect the expected credit losses.

The new expected loss model is applicable to financial assets measured at amortized cost or at FVTOCI, except for investments in equity instruments and contractual assets.

Financial liabilities: initially recognized at fair value and measured upon initial recognition according to their classification: (i) measured at fair value through profit or loss (FVTPL) or (ii) other financial liabilities measured at amortized cost. Changes in the fair value of liabilities measured at FVTPL are broken down as follows:

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018
In thousands of Brazilian reais - R\$, unless otherwise stated.

- the amount of changes in the fair value attributable to changes in the credit risk underlying financial liabilities is recognized at FVTOCI; and
- the remaining amount of changes in fair value is recorded in profit or loss.

(ii) Classification

Financial assets: classified into three categories: (i) measured at amortized cost, (ii) measured at fair value through other comprehensive income (FVTOCI), and (iii) measured at fair value through profit or loss (FVTPL).

Financial Liabilities: classified into two categories: (i) measured at fair value through profit or loss (FVTPL) or (ii) other financial liabilities measured at amortized cost.

Management did not designate any financial liabilities at FVTPL.

a) Standards effective beginning January 1, 2019

A series of new standards or amendments to standards and interpretations will be effective for annual periods beginning January 2019. The Group did not adopt these amendments in the preparation of these financial statements and does not expect to early adopt these standards.

<u>Pronouncement</u>	<u>Description</u>	<u>Applicable to annual periods beginning on or after</u>
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. CPC(*).	In case of sale or contribution of assets between an investor and its associate or joint venture, the transaction effect would only be recognized in profit or loss to the extent the transaction is conducted with an unrelated third party.	Indefinite
IFRS 16 – Leases. CPC 06	Requires a new measurement of leases, both with respect to lessors or lessees, superseding IAS 17. Requires lessees to recognize a lease liability in the financial statements, reflecting future lease payments, except for certain short-term leases and low-value service agreements.	01.01.2019
IFRS 17 - Insurance Contracts. CPC(*).	Comprehensive accounting standard that provides for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 overall purpose is to introduce an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to IFRS 4 requirements, which are largely based on previously effective local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects.	01.01.2021

(*) The CPC has not yet issued any pronouncements equivalent to the IFRSs above, but such pronouncements are expected to be issued before their effective date. The adoption of IFRSs is contingent on the prior approval through a CVM resolution.

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

The Company is assessing the impacts of amendments to IFRS 10 and IAS 28 and IFRS 17- Insurance Contracts, but it does not expect any significant impact arising from their adoption.

(i) IFRS 16 - Leases

IFRS 16 introduces a single model for the recognition of leases in the lessees' balance sheet. A lessee recognizes a right-of-use asset that represents its right to use the asset and lease liability that represents its obligation to make lease payments. Optional exemptions are available for short-term leases and low-value items. The lessor's accounting remains similar to the current standard, i.e., lessors continue to classify the leases as finance or operating leases. IFRS 16, through CPC 06 (R2), supersedes the existing lease standards, including CPC 06 (IAS 17) - Leases and ICPC 03 (IFRIC 4, SIC 15 and SIC 27) - Supplemental Aspects of Leases. The standard is effective for annual periods beginning on or after January 1, 2019. The Company is assessing the impacts arising from the adoption of such standard and expects to disclose additional information before its effective date.

4 Estimates and Significant accounting judgements

4.1 Estimates

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

a) Review of the useful and recovery of the assets

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

b) Provision for contingencies

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

c) Allowance for inventory losses

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

d) Deferred income and social contribution taxes

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

e) Private pension plan

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018
In thousands of Brazilian reais - R\$, unless otherwise stated.

The current value of pension plan obligations depends on a series of factors that are determined with basis on actuarial calculations that use several assumptions. One of the assumptions used in the determination of pension plan net cost (income) is the discount rate. Any changes in these assumptions will affect the book value of pension plan obligations. The appropriate discount rate is determined at the end of each year.

That is the interest rate that should be used to determine the present value of estimated future cash outlays that should be necessary to settle pension plan obligations. When determining the appropriate discount rate, management considers the interest rates of prime private securities, maintained them in the currency in which the benefits will be paid and having terms similar to the related pension plan obligations.

Other major assumptions for pension plan obligations are partly based on current market conditions. Additional information is disclosed in Note 27.1.

4.2 Critical accounting estimates and judgments

a) Receivables - Eletrobrás

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

b) Credits from others related companies with guarantees

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

c) Installment MP 470

The amount of the installments for Provisional Measure No. 470 is based on the assumption that the Company will obtain approval for its claim according to the opinion of its legal counsel (Note 23).

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

d) ICMS Tax benefits

The Company has an ICMS (state VAT) tax incentive called Santa Catarina State Corporation Development Program (PRODEC), granted by the Santa Catarina state government as described in Note 21a). The Federal Supreme Court issued decisions for direct actions for unconstitutionality, which declared the unconstitutionality of several state laws that granted ICMS tax benefits without the prior agreement between the states. Although it does not have ICMS tax incentives judged by the Federal Supreme Court, the Company has been monitoring, together with its legal counsel, the progress of this matter in the courts to determine any impacts on its operations and consequent effects on financial statements.

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

In Alagoas State, the Company has a tax benefit denominated PRODESIN – Integrated Development Program. PRODESIN tax benefits are comprised of deferral of ICMS levied on assets acquired in Brazil and abroad and intended to be incorporated to fixed assets; deferral of ICMS levied on raw materials acquired in Brazil or abroad; deemed credit of 50% of ICMS related to products of the branch located in the State; deferral for 360 days of ICMS to be paid; financing of part of ICMS owed to the State in up to 84 monthly installments, with grace period of 24 months to pay first installment.

e) Tax assessment notice

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

f) Tax assets

The accounting estimates and assumptions on the Company's tax assets are material to the Company and the information on judgments made in applying the accounting policies that have significant effects on the amounts recognized in the individual and consolidated financial statements are included in the following notes:

- Note 15 – Judicial assets
- Note 16 – Contingent asset

5 Financial risk management

5.1 Financial risk factors

The activities of the Company and its subsidiaries expose them to several financial risks: market risk, credit risk and liquidity risk. The overall risk management program focuses on the unpredictability of the financial markets and aims to minimize any adverse impacts on the consolidated financial performance.

Risks are managed by the Treasury Area and Finance Department in accordance with the policies approved by the Board of Directors. The Treasury Area and Finance Department identify, assess and hedge the Company and its subsidiaries against possible financial risks in cooperation with the operational units. The Board of Directors sets the overall risk management principles and the criteria for specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments, and the investment of cash surpluses.

a) Market risk

i) Foreign exchange risk

The Company operates globally and is exposed to the foreign exchange risk arising from exposures of some currencies, basically in relation to the U.S. dollar and Euro. The foreign exchange risk arises from future business transactions, assets and liabilities recognized and net investments in foreign transactions.

The balances of assets and liabilities exposed to exchange rate changes are broken down as follows:

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31,2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

	In Brazilian reais (R\$)			
	Parent		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Trade receivables	51,214	52,785	51,214	52,785
Checking account	5,470	3,806	5,470	3,806
Due from subsidiaries	84,255	67,728	-	-
Exposed assets	140,939	124,319	56,684	56,591
Allowance for investment losses	(74,534)	(67,717)	-	-
Trade payables, commissions, net of advances	(6,896)	(9,718)	(6,896)	(9,718)
Investment Suppliers	(8,793)	(12,392)	(8,793)	(12,392)
Borrowings and financing	(59,134)	(12,392)	(59,134)	(42,303)
(-) Swap transaction	23,706	(42,303)	23,706	-
Exposed liabilities	(125,651)	(132,130)	(51,117)	(64,413)
Net exposure	15,288	(7,811)	5,567	(7,822)

	In Euro (€)				In U.S. Dollar (US\$)			
	Parent		Consolidated		Parent		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Trade receivables	338,00	317	338	317	12,811	12,659	12,811	12,659
Checking account	-	-	-	-	1,412	1,150	1,412	1,150
Due from subsidiaries	-	-	-	-	21,744	20,474	-	-
Allowance for investment losses	-	-	-	-	(18,770)	(20,471)	-	-
Trade payables, commissions, net of advances	(1,589)	(541)	(1,589)	(541)	(2,268)	(2,288)	(2,268)	(2,288)
Payables for investments	-	(3,122)	-	(3,122)	-	-	-	-
Borrowings and financing	-	-	-	-	(9,148)	(12,788)	(9,148)	(12,788)
	(1,254)	(3,346)	(1,254)	(3,346)	5,781	(1,264)	2,807	(1,267)

The Company adopts the strategy of maintaining the foreign exchange liability exposure at an amount equivalent to up to one year of exports. On December 31,2018 the net foreign exchange remained positive.

ii) Cash flow or fair value risk associated with interest rate

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

The Company and its subsidiaries continuously monitor market interest rates to assess whether new transactions should be entered into to hedge against interest rate fluctuations.

Short-term investments are primarily made in investment funds, as stated in Note 6.

b) Credit risk

The Company and its subsidiaries hold strict controls over the granting of credits to their customers and adjust those credit limits whenever material changes in the perceived risk level are identified.

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018
In thousands of Brazilian reais - R\$, unless otherwise stated.

c) Liquidity risk

Refers to the risk that the Company and its subsidiaries may not have sufficient funds available to honor their financial commitments as a result of mismatching of terms or volumes between expected amounts collectible and payable.

To manage cash liquidity both in domestic and foreign currencies, future disbursement and cash inflow assumptions are established and daily monitored by the Treasury Area and Finance Department.

The table below analyses the non-derivative financial liabilities (Parent and Consolidated), by maturity ranges, corresponding to the remaining period in the balance sheet through the contractual maturity date. The amounts disclosed in the table refer to the contracted undiscounted cash flows.

	Parent							
	December 31, 2018				December 31, 2017			
	* Borrowings and debentures	Finance lease	Supplier and cession	Taxes payable in installments	* Borrowings and debentures	Finance lease	Trade payables	Taxes payable in installments
Up to 1 year	101,721	-	112,000	10,718	146,051	351	147,540	14,033
From 1 to 2 years	306,842	-	101,268	21,918	252,500	-	78,496	21,334
From 2 to 5 years	182,125	-	-	31,294	102,778	-	-	32,001
Over 5 years	3,657	-	-	-	14,836	-	-	8,891
	594,345	-	213,268	63,930	516,165	351	226,036	76,259

*The difference between total borrowings and debentures reported in this table and the balance sheet arises from the APV of Prodec.

	Consolidated							
	December 31, 2018				December 31, 2017			
	* Borrowings and debentures	Finance lease	Supplier and cession	Taxes payable in installments	* Borrowings and debentures	Finance lease	Trade payables	Taxes payable in installments
Up to 1 year	101,721	-	124,874	10,793	146,051	351	149,696	14,126
From 1 to 2 years	308,134	-	101,268	22,068	253,677	-	7,850	21,478
From 2 to 5 years	182,125	-	-	31,506	102,778	-	-	32,217
Over 5 years	3,657	-	-	-	14,836	-	-	8,953
	595,637	-	226,142	64,367	517,342	351	228,192	76,774

* The difference between total borrowings and debentures reported in this table and the balance sheet arises from the APV of Prodec.

d) Sensitivity analysis

i) Sensitivity analysis to interest rate fluctuations

The income from the Company's short-term investments and the finance costs arising on financing and borrowings are affected by changes in interest rates such as the CDI and Selic rates.

As at December 31, 2018, Management considered as the probable scenario the increase in the CDI rate of 6.40% and of the Selic rate of 6.50%. The probable rate was then stressed by 25% and 50% and used as benchmark for the possible and remote scenarios, respectively.

The scenarios below were estimated for a one-year period:

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

		Consolidated in Brazilian reais						
December 31, 2018	Risk	Probable		Possible (25%)		Remote (50%)		
		%	R\$	%	R\$	%	R\$	
Loans – working capital	(1,292)	Alta CDI	6,40%	(83)	8,00%	(103)	9,60%	(124)
Loans – export credit note	(133,743)	Alta CDI	6,40%	(8,560)	8,00%	(10,699)	9,60%	(12,839)
Debentures	(295,619)	Alta CDI	6,40%	(23,650)	8,00%	(24,100)	9,60%	(28,379)
	<u>(430,654)</u>			<u>(32,293)</u>		<u>(34,902)</u>		<u>(41,342)</u>
Tax installment payment	(64,367)	Alta Selic	6,50%	(4,184)	8,13%	(5,230)	9,75%	(6,276)

*Possible and remote scenarios calculated based on the probable rate.

ii) Sensitivity analysis of changes in exchange rates

The Company has assets and liabilities pegged to a foreign currency in the balance sheet as at December 31, 2018, and for sensitivity analysis purposes, it has adopted as probable scenario the future market rate effective in the period of preparation of this interim financial information. The probable rate was then stressed by 25% and 50% and used as benchmark for the possible and remote scenarios, respectively.

Accordingly, the table below simulates the effects of foreign exchange differences on future profit or loss:

		Consolidated in Brazilian reais					
December 31, 2018	Probable		Possible (25%)*		Remote (50%)*		
	Taxa US\$	Ganho (Perda)	Taxa US\$	Ganho (Perda)	Taxa US\$	Ganho (Perda)	
Trade receivables	51,214	3,850	(328)	4,813	12,804	5,775	25,607
Checking account	5,470	3,850	(35)	4,813	1,368	5,775	2,735
Supplier, net of advances	(15,689)	3,850	100	4,813	(3,922)	5,775	(7,845)
Supplier of investments	(8,793)	3,850	56	4,813	(2,198)	5,775	(4,397)
Borrowings and financing	(59,151)	3,850	379	4,813	(14,788)	5,775	(29,576)
(-) Swap transaction	23,706	3,850	(152)	4,813	5,927	5,775	11,853
Net exposure	<u>(3,243)</u>		<u>20</u>		<u>(809)</u>		<u>(1,623)</u>

*Possible and remote scenarios calculated based on the probable rate, based on the Focus Report from Bacen dated December 28, 2018.

5.2 Capital management

Management's purposes when managing its capital are to protect its and its subsidiaries' ability to continue as going concerns so as to offer return to shareholders and benefits to other stakeholders, besides providing the best cash management so as to obtain the lower borrowing costs when combining own and third-party capital.

Capital is monitored based on consolidated financial leverage ratios. This ratio corresponds to the net debt divided by the total capital. In turn, the net debt corresponds to total borrowings and tax installment payment, less cash and cash equivalents, due from other related parties and securities. Total capital is calculated through the sum of equity and net debt, as shown in the consolidated balance sheet.

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31,2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

As at December 31, 2018, financial leverage ratios are summarized as follows:

	Parent		Consolidated	
	December 31, 2018	31 de dezembro de 2017	December 31, 2018	31 de dezembro de 2017
Borrowings and financing	594,345	512,384	595,637	513,561
Tax installment payment	69,930	76,259	64,367	76,774
Less: Cash and cash equivalents	(67,580)	(78,756)	(82,624)	(94,379)
Due from other related parties	(97,941)	(94,651)	(97,941)	(94,651)
Short-term investments	(7,251)	(6,938)	(7,251)	(6,938)
Net debt	485,503	408,298	472,188	394,367
Total equity	362,108	285,048	362,120	285,060
Total capital	847,611	693,346	834,398	679,427
Leverage ratio (%)	57	59	57	58

5.3 Financial instruments by category

The table below shows the classification of financial instruments by category in each of the reporting periods:

	Parent		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Assets measured at fair value through profit or loss				
Cash and cash equivalents	67,580	78,756	82,624	94,379
Short-term investments	7,251	6,938	7,251	6,938
Derivatives	3,375		3,375	
Amortized cost				
Due from other related parties	97,941	94,651	97,941	94,651
Trade receivables	222,065	203,703	239,463	218,412
	398,212	384,048	430,654	414,380
Amortized cost				
Trade payables and assignment	157,956	147,540	170,830	149,696
Borrowings, financing and debentures	594,345	512,384	595,637	513,561
Tax installment payment	63,930	76,259	64,367	76,774
	816,231	736,183	830,834	740,031

Investments correspond to a long-term investment fund and are subject to a reciprocity clause in the loan agreement entered into with Banco do Nordeste.

6 Cash and cash equivalents

Short-term investments designated as cash equivalents correspond to investments in investment funds, which average return in December,2018 was equivalent to 95,3% of the Interbank Deposit Certificate (CDI) rate and which can be redeemed on any time, without penalties.

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

	Parent		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Checking account	12,290	12,801	22,886	15,417
Short-term investments	55,290	65,955	59,738	78,962
	<u>67,580</u>	<u>78,756</u>	<u>82,624</u>	<u>94,379</u>

7 Financial Instruments

Derivatives for trading are classified as current and noncurrent assets or liabilities. The total fair value of a hedge derivative is classified as noncurrent assets or noncurrent liabilities if the remaining period for the maturity of the hedged item is above 12 months, and as current assets or current liabilities if the remaining period for the maturity of the hedged item is below 12 months.

The Company has conducted swap transactions intended to hedge future payments for borrowings and financing described below against the US dollar and interest rate fluctuations. This transaction is classified as current and noncurrent liabilities.

In June 2018, the Company has entered into an Export Credit (NCE) transaction in the amount of US\$6,100, corresponding to R\$23,999, bearing interest of 2.10% p.a. + LIBOR-03 + exchange rate change per year, with swap for 100% CDI + 1.40% per year and payment date within 36 months with 12-month grace period. Repayments are made on a quarterly basis. In the year added up an unrealized loss of R\$ (note 33).

The Company does not carry out financial transactions using derivatives or any other risk instruments for speculative purposes.

8 Trade receivables

	Parent		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Due from third parties:				
Domestic market	171,741	153,302	188,641	167,560
Foreign market	51,214	52,785	51,214	52,785
	<u>222,955</u>	<u>206,087</u>	<u>239,855</u>	<u>220,345</u>
Due from related parties:				
Entities linked to Management	781	-	1,546	451
	<u>781</u>	<u>-</u>	<u>1,546</u>	<u>451</u>
Impairment of trade receivables:				
Allowance for doubtful debts	(1,671)	(2,384)	(1,938)	(2,384)
	<u>(1,671)</u>	<u>(2,384)</u>	<u>(1,938)</u>	<u>(2,384)</u>
	<u>222,065</u>	<u>203,703</u>	<u>239,463</u>	<u>218,412</u>

Management believes that the allowance for doubtful debts is sufficient to cover probable losses on collection of receivables considering the situation of each customer and respective collaterals offered. Its amount corresponds to the estimated risk of non-collection of past-due receivables based on the analysis of the responsible manager.

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

The recognition and write-off of the allowance doubtful debts are recorded in profit or loss as selling expenses.

a) Aging list of trade receivables

	Parent					
	December 31, 2018	Estimated losses	Roof %	December 31, 2017	Estimated losses	Roof %
To be due	212,671	(509)	0,2%	199,172	-	
30 days	7,353	(273)	4%	2,979	(111)	4%
31 to 90 days	1,971	(118)	6%	1,354	(142)	10%
91 to 180 days	755	(155)	21%	272	(49)	16%
181 to 360 days	584	(214)	37%	1,100	(872)	79%
Over 360 days	402	(402)	100%	1,210	(1,210)	100%
	223,736	(1,671)	0,7%	206,087	(2,384)	1,2%

	Consolidated					
	December 31, 2018	Estimated losses	Roof %	December 31, 2017	Estimated losses	Roof %
To be due	228,664	(509)	0,2%	213,431	-	
30 days	8,099	(328)	4%	3,070	(111)	4%
31 to 90 days	2,363	(151)	6%	1,411	(142)	10%
91 to 180 days	980	(181)	18%	305,000	(49)	16%
181 to 360 days	804	(278)	35%	1,350	(872)	65%
Over 360 days	491	(491)	100%	1,229	(1,210)	98%
	241,401	(1,938)	0,8%	220,796	(2,384)	1,08%

The Company's receivables are pledged as collateral for some of the borrowings and financing, as described in note **Erro! Fonte de referência não encontrada.**

The Company's policy with regard to the estimated loss is based on the portfolio realization schedule, taking into consideration the recovery performance of receivables up to 360 days after maturity. Such methodology has been supporting the estimated losses on this portfolio with a high level of reliability, in accordance with IFRS 9/CPC 48.

The criterion adopted by the Company both for the distribution of ranges and the distribution of the percentage of estimated losses is not comparable when used for credit portfolios of financial institutions, which are regulated by the Central Bank, which establishes the change of customers to the worst risk rating, upon the adoption of minimum percentage of estimated losses for each range. However, customers that pose risk are subject to the change of the portfolio risk rating.

As at December 31, 2018, the total receivables pledged as collateral amounts to R\$76,502(R\$79,332 as at December 31, 2017).

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31,2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

9 Inventories

	Parent		Consolidated	
	December 31,2018	December 31, 2017	December 31,2018	December 31, 2017
Finished products	179,476	144,331	186,188	144,488
Work in process	7,311	6,207	7,460	6,207
Raw materials and consumables	29,848	31,729	29,970	31,729
Allowance for impairment of inventories	(9,813)	(7,043)	(9,813)	(7,043)
Imports in progress	-	3,942	-	3,942
	<u>206,822</u>	<u>179,166</u>	<u>213,805</u>	<u>179,323</u>

The Company recognizes an allowance for inventory losses taking into consideration the lower of net cost value and the recoverable value. The expense on the recognition of the allowance for inventory losses was recorded in line item 'Cost of sales' in the income statement for the year. When there is no recovery expectation, the amounts credited to this line item are realized against the definite write-off of the inventory.

10 Recoverable taxes

	Parent		Consolidated	
	December 31,2018	December 31, 2017	December 31,2018	December 31, 2017
Current				
State VAT (ICMS)	4,809	5,646	5,275	6,120
Federal VAT (IPI) (a)	2,655	3,051	2,767	3,399
Withholding income tax (I	512	1,612	549	1,635
Corporate income tax (IRF	-	4,034	627	4,050
Taxes on revenue (PIS/CC	-	-	422	421
Reintegra	93	-	93	-
Other	324	153	468	297
	<u>8,393</u>	<u>14,496</u>	<u>10,201</u>	<u>15,922</u>
Noncurrent*				
ICMS	3,203	2,728	3,475	2,728
PIS/COFINS	1,812	3,679	1,812	3,679
	<u>5,015</u>	<u>6,407</u>	<u>5,287</u>	<u>6,407</u>

* Recoverable taxes arising from acquisitions of property, plant and equipment.

a) Decrease of IPI rates

The decrease of IPI rates levied on the products manufactured and sold by the Company is set forth in Decree 8.950, of December 29, 2016 which defines a zero rate for the IPI in the sector for an indefinite period. This measure originates tax credits that are used for offset against federal taxes on a quarterly basis.

b) Reintegra

The Special Tax Reintegration Regime for Exporting Companies (Reintegra) consists of returning part of the exported amount in the form of tax credit to reduce federal taxes.

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018
In thousands of Brazilian reais - R\$, unless otherwise stated.

As at December 31, 2018, the Reintegra-related tax credits amounted to R\$93. As at December 31, 2017, these credits amounted to R\$ 862 recognized in other current assets and it was reclassified in 2018.

11 Due from other related parties

The Company has acquired, between 2001 and 2003, from related party Refinadora Catarinense S.A. ("Refinadora") tax credits against the National Treasury arising from a Writ of Security claiming the right to the reimbursement of the IPI premium credit. The Company has used such credits to settle federal taxes. As set forth in the agreement entered into among the parties, in case these credits are not validated by the National Treasury, "Refinadora" should reimburse the Company.

The Federal Supreme Court has handed down a decision by mid-2009 defining the date of extinguishment of this incentive on October 04, 1990, thus extinguishing this credit utilization claims. As a result of this fact, the Company has joined the installment payment program set forth in Law 11.941/09, then including the debt arising from the utilization of the credit acquired from "Refinadora".

It must be pointed out that "Refinadora" had already entered into an agreement with the Company guaranteeing the reimbursement of the amounts utilized. Such guarantee was provided using credits also arising on the 'IPI premium credit' tax benefit, calculated prior to October 04, 1990, in progress at the Federal Justice of the Federal District, which final and unappealable court decision handed down was favorable to Refinadora.

Upon adhering to the installment payment program under Law 11.941/09, the Company and "Refinadora" have entered into an instrument confirming these credits as guarantee capable of satisfying all tax debts payable in installments. As at December 31, 2018, these credits also originating in lawsuit No. 87.00.00967-9 amount to R\$97,127 (R\$94,651 as at December 31, 2017) and are adjusted based on the SELIC rate, as set forth in the agreement.

These credits have already become court-ordered debt payments. In fact, the Company has received four installments of a total of ten annual installments, as set forth in the agreement. The amounts were received in August 2011, March 2013, April 2014 and December 2015, amounting to R\$8,505, R\$9,824, R\$9,995 and R\$10,000, respectively. Additionally, in September 2016 the amount of R\$2,167 was received to supplement installment 04. Installments 05, 06 and 07 are already deposited on behalf of Refinadora, but the transfer of the amount depends on a release order, which is in progress.

Refinadora Catarinense S/A was the parent of PBG S/A in the past and currently has common shareholders; it continues to be financially responsible for the performance of the obligation.

12 Escrow deposits

The Company and its subsidiaries are parties to tax, civil and labor lawsuits (see note 25) e and are discussing these matters at administrative and judicial level, which are supported by escrow deposits, when applicable. These are recorded at the original amount adjusted by the rates relating to the benchmark interest rates applicable to savings accounts.

Escrow deposits are broken down according to the nature of the lawsuits:

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31,2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

	Parent		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Civil (a)	101,316	78,568	101,316	78,568
Labor	8,848	8,381	8,848	8,381
Tax	6,785	6,521	6,816	6,552
	116,949	93,470	116,980	93,501

a) The Company, as a result of the untimely and unilateral decision by supplier SC Gás, concerning the suspension of the discount on the monthly amount of the gas acquired, a benefit called loyalty plan, has filed a lawsuit claiming the maintenance of such benefit with respect to which an injunction was granted determining the deposit of the discount-related amounts in escrow.

13 Receivables from Eletrobras

The Company has filed a lawsuit against Centrais Elétricas Brasileira S/A - Eletrobras aiming at the reimbursement of the compulsory loan paid through electric energy bills between 1977 and 1993, as set forth in Law 4.156/62.

In 2005 this lawsuit was considered with grounds and in February 2006 the Company has filed an execution action and recognized the amount determined by the legal expert monthly adjusted by the INPC plus 12% per year. After such period, the calculation was subject to reviews conducted by the accounting office of the Federal Court.

In 2014, Eletrobras was sentenced to pay R\$35,395, which amount was determined by the expert review as at August 2013. The Company has challenged such decision claiming the rectification of such calculation and the establishment of the criteria adopted in the determination of the award amount, as a result of conflicts among the parties. Based on such new situation, in July 2014 the Company has decided to suspend the asset adjustment, until a new decision on the amount and criteria used in this procedure is handed down, maintaining the adjusted balance in the amount of R\$48,621.

In 2016, after the final and unappealable decision on the award calculation lawsuit, the Company has hired an accounting expert to determine the credit to be executed, adjusting (reducing) the quantity due to the STJ's subsequent decision.

In 2017, the Company has filed a court decision enforcement action, in the total amount of R\$12,821. In the period up to December 31,2018 the amount remains the same.

The Centrais Elétricas Brasileira S/A – Eletrobrás filed an Interlocutory Appeal upon Decision Enforcement and obtained an injunction to suspend the decision that determined the payment on behalf of the Company, as well as the resumption of the court decision settlement procedure. The judgment became final on July, 2018. The Company reaffirms its relation to the value or anticipated its realization in the medium term.

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

14 Income tax and social contribution

a) Income tax and social contribution on income

Income tax and social contribution recoverable and payable are broken down as follows:

	Current Asset				Current Liabilities			
	Parent		Consolidated		Parent		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Income tax	-	2,823	495	2,839	(6,152)	-	(7,527)	(1,284)
Social contribution	-	1,211	132	1,211	(2,271)	-	(2,788)	(474)
	-	4,034	627	4,050	(8,423)	-	(10,315)	(1,758)

Taxes are stated at their net amount, in assets or liabilities, if there is a legally enforceable right to set off current tax assets and liabilities.

b) Deferred income tax and social contribution

Deferred income tax and social contribution amounts for the Parent and consolidated are as follows:

	Parent		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Tax losses	10,607	15,288	10,607	15,288
Temporary gains	38,727	21,570	43,081	22,092
Exchange differences on cash basis	648	2,873	648	2,873
Provision for adjustment to market value	1,899	1,841	1,899	1,841
Provision for contingencies	15,577	8,585	15,577	8,585
Provision for contingencies - Pis/Cofins - Plaintiff	6,927	-	6,927	-
Accrued profit sharing and long-term incentive	485	2,116	485	2,116
Tax losses in subsidiaries	-	-	4,354	522
Other temporary gains	13,191	6,155	13,191	6,155
Temporary losses	(51,298)	(51,044)	(51,298)	(51,044)
Portobello pension plan	(3,289)	(1,957)	(3,289)	(1,957)
Realization of revaluation reserve	(17,871)	(18,481)	(17,871)	(18,481)
Receivables from Eletrobrás	(4,359)	(4,359)	(4,359)	(4,359)
Contingent assets - IPI premium credit - phase I	-	(2,591)	-	(2,591)
Contingent assets - IPI premium credit - phase II	-	(7,461)	-	(7,461)
Contingent assets - Semiannual PIS	(2,607)	(3,025)	(2,607)	(3,025)
Contingent assets - adjustment to rural credit notes	(10,267)	(2,552)	(10,267)	(2,552)
Adjustment to present value	(11,862)	(1,405)	(11,862)	(1,405)
Depreciation adjustment (based on the useful life of assets)	(1,043)	(9,213)	(1,042)	(9,213)
Deferred income tax and social contribution - net	(1,965)	(14,186)	2,389	(13,664)
Noncurrent assets	-	-	4,353	522
Noncurrent liabilities	(1,965)	(14,186)	(1,965)	(14,186)

As at September 30, 2018, net variations in deferred income tax and social contribution are as follows:

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31,2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

	Parent	Consolidated
December 31, 2017	(14,186)	(13,664)
Tax losses	(4,681)	(4,681)
Tax losses in subsidiaries	-	3,832
Temporary gains	17,156	17,156
Temporary losses	(864)	(864)
Revaluation reserve	610	610
December 31,2018	(1,965)	2,389

The variations in deferred income tax and social contribution assets and liabilities for the period, without considering the offset of the balances for the Parent and Consolidated are as follows:

	Parent	Consolidated
	December 31, 2018	June 30, 2018
Deferred tax asset charged against (credited to) profit or loss		
Tax losses	(4,681)	(4,681)
Exchange differences on cash basis	(2,226)	(2,226)
Provision for adjustment to market value	58	58
Provision for contingencies	6,856	6,856
Provision for contingencies Pis/Cofins - Plaintiff	6,927	6,927
Accrued profit sharing and long-term incentive	(1,631)	(1,631)
Subsidiaries acumuated tax loss	-	3,832
Other temporary gains	7,173	7,173
	12,476	16,308
Portobello previdência	(1,332)	(1,332)
Realization of revaluation reserve	610	610
Contingent assets - IPI premium credit - phase I	(215)	(215)
Contingent assets - Semiannual Pis	3,025	3,025
Plaintiff - Credit premium IPI	(55)	(55)
Adjustment to present value	362	362
Depreciation adjust	(2,648)	(2,648)
	(252)	(252)
	12,223	16,055

c) Income tax and social contribution expenses

Income tax and social contribution expenses are broken down below:

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31,2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

	Parent		Consolidated	
	December 31,2018	December 31,2017	December 31,2018	December 31,2017
Profit before taxes	192,211	70,719	196,314	80,992
Tax calculated based on statutory rate - 34%	(65,352)	(24,044)	(66,747)	(27,537)
Share of profit of subsidiaries	9,78	12,928	-	-
Non-deductible expenses for tax purposes	3,059,3554	4,533	3,06	4,533
Depreciation of revalued assets	(610)	(610)	(610)	(610)
Other	(3,008)	7,193	2,295	6,792
Expense of income and social contribution taxes	(56,125)	(6,583)	(62,002)	(16,822)
Effective tax rate	29,2%	9,3%	31,6%	20,8%

Based on studies and projections of profit and loss for the following periods, a recoverability test was conducted for deferred tax assets arising from income tax and social contribution losses, which were subject to approval by the Supervisory Board, where we estimated the following asset recoverability schedule:

Period	Consolidated
2019	33
2020	682
2021	964
2022	1,125
2023 on	1,550
total deferred assets	4,354

The differences with relation to explanatory note 14b are presented as tax contingencies according to explanatory note 25.

15 Judicial asset

	Parent e Consolidated	
	December 31,2018	December 31, 2017
IPI premium credit (a)		
Case No. 1987.0000.645-9	22,414	21,945
Case No. 1984.00.020114-0	7,784	7,621
Semiannual PIS (b)	-	8,896
Adjustment to rural credit notes (c)	7,667	7,507
Expense of ICMS tax on PIS and COFINS (e)	59,381	-
IPI premium credit – Plaintiff	220,260	-
	317,506	45,969

a) IPI premium credit

The Company is a party to a lawsuit claiming the recognition of tax benefits called 'IPI premium credit', in different calculation periods. Lawsuit No. 1987.0000.645-9, relating to the period between April 01, 1981 and April 30, 1985, which was decided favorably to the Company, is in the award calculation phase with

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018
In thousands of Brazilian reais - R\$, unless otherwise stated.

the amounts already calculated by the accounting office of the Federal Court; the amount recognized in November 2009, adjusted up to September 30, 2018 is R\$22,414.

Regarding Lawsuit No. 1984.00.020114-0, for the period between December 07, 1979 and March 31, 1981, after a final and unappeasable decision handed down more than 10 years ago, the award calculation and decision enforcement phase has started, followed by an expert report prepared by a legal expert. The parties were notified about the amount determined so that they can agree with or object against the report. The Company has agreed with the calculations made. The Federal government, represented by the General Attorneys' Office of the National Treasury has not issued an opinion, which implies tacit agreement, resulting in preclusion. Therefore, the lawsuit is concluded and there is no more possibility of objection. The Company has recognized in 2015 the amount calculated by the legal expert of R\$4,983, and since the Company understands that a favorable decision on the lawsuit is virtually certain, it has recorded the tax asset in June 2015, which amount adjusted up to December 31, 2018 is R\$7,784.

b) Semiannual payment of the PIS

In 2017 the Company has recognized the asset relating to the semiannual payment of the PIS, based on the final and unappeasable decision in May, whereby the Federal Superior Court has handed down a favorable decision to recover the amounts overpaid as Pis. In October the request for credit utilization was filed, which is pending a decision by the Brazilian Federal Revenue Service. The Brazilian Federal Revenue Service is conducting an analysis to ratify the amounts.

In December 2018, the Company fully offset the credits authorized with federal taxes.

c) Adjustment to rural credit notes

In March 2017, the Company, based on a court decision handed down in relation to the Civil Class Action filed by the General Attorneys' Office against the Federal government, has filed an individual Court Decision Enforcement action for collection of the amount corresponding to the difference between the inflation adjustments rates applied on transactions involving rural credit notes carried out in March 1990. The amount of the uncontested portion adjusted up to December 31, 2018 is R\$7,667(R\$ 7.507 in December 31, 2017).

d) IPI premium credit – Plaintiff

The proceeding that addresses the recognition of tax benefits named 'IPI premium credit' (1998.34.00.029022-4), classified in March 2018 as a contingent asset started to be recognized in the second quarter of 2018 as legal asset.

The receipt of economic benefits was considered virtually certain due to the Federal government-National Treasury's decision on the proceeding which, in summary, has acknowledged as uncontested the amount of R\$187,091 (August/15) while it has not agreed with the amount of R\$66,056.

Appeals are no longer applicable in respect of the uncontested portion, as the debtor has acknowledged the debt – Federal government.

The proceeding, filed in 1984, was distributed to the Federal Supreme Court (STF) and returned to the 6th Federal Court of the Judiciary Section of the Federal District (original court), for enforcement of the sentence. The Company is already enforcing the sentence.

The amount of the asset due on behalf of the Company is R\$220,260 (Dezember/18) and was already submitted to the 6th Federal Court for rendering of sentence in a regular sentence enforcement process. The Company believes that the recognition of this amount will not affect cash in the short-term.

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018
In thousands of Brazilian reais - R\$, unless otherwise stated.

Concomitant to the recognition of the asset, a liability of R\$62,008 was recorded in the liabilities with the Refinadora Catarinense, initially the author of the lawsuit, In 2002 the Plaintiff of the process was changed and as provided in the initial contract, the amount is due to the related party.

The net asset amount of the liabilities to Refinadora is R\$158,252 thousand. The estimated amount of R\$162,000 was being disclosed in the note relating to contingent assets through March 31, 2018.

e) Exclusion of ICMS from PIS and COFINS tax base.

The Company has filed a writ of security to change the PIS and COFINS tax base upon exclusion of ICMS. The Federal Court of Santa Catarina has issued a favorable decision on the exclusion of the ICMS from the abovementioned tax base. The aforesaid decision was upheld by the Federal Regional Court of the 4th Region. The Federal government, through the prosecution office of the National Treasury, has filed an appeal against the decision with the superior courts (STF and STJ).

Based on the favorable decision handed down by the STF on March 15, 2017, with general effect, in the case records of lawsuit No. 5032720-26.2014.404.7200, the Company has reversed the amount accrued on that date.

On July 02, 2018, according to the certificate drafted by the Office of the Federal Regional Court of the 4th Region this case became final and therefore the appeal against the judicial decision was exhausted, in the amount of R\$ 59.381. Thus, it is no longer possible to review the determination of the court and also to bring new resources.

On August 14, 2018, the Company filed with the Brazilian Federal Revenue with the request for credit rating resulting from the Judicial Decision Transited in Judgment so that it may use credits between November 2009 and October 2014 according legal decision. The Company will wait the manifest of Brazilian Federal Revenue answering the claiming about the recognition proceed.

On December 13, 2018, an administrative decision was rendered approving the request for utilization of the credit arising from a final and unappealable decision, in the amount of R\$59,381. The Company intends to utilize these credits in the offset of federal taxes from January to October 2019.

16 Contingent assets

The contingent asset that refers to lawsuit No. 1998.34.00.029022-4 which also mentioned in note 15d, it keeps as a Contingent asset, once the Federal Government diverged the calculated amount.

The Federal Government affirms there is a difference between the basis provided by Company and the basis of Federal Government in the amount of R\$ 66,056 (base of August, 2015), Of that value, the company's net part is 9,908 (base of August, 2015) the difference is destined to the Refinadora Catarinense and success fees. On December 31, 2018 the amount is approximately R\$ 11,665.

Management also maintains the understanding that the asset is probable and, accordingly, it must continue to be disclosed in an explanatory note. The Company is waiting for the next legal actions regarding the recognition of the asset.

17 Investments

a) Interests in subsidiaries

The Company is the controlling shareholder of five companies and investments are recorded in noncurrent assets in line item "Interests in subsidiaries" and in liabilities in line item "Allowance for investment losses".

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

	Country of establishment	Interest	Asset	Liability	Revenue*	Profit or loss*
On December 31, 2017						
Portobello América Inc.	Estados Unidos	100,00%	26	67,743	-	(67)
PBTech Ltda.	Brasil	99,94%	14,359	8,425	62,772	5,215
Portobello Shop S/A	Brasil	99,90%	40,380	39,900	63,510	32,528
Mineração Portobello Ltda.	Brasil	99,76%	2,079	1,495	9,336	339
Companhia Brasileira de Cerâmica S/A	Brasil	98,00%	2,121	(2)	-	8
On December 31, 2018						
Portobello América Inc. e outros	Estados Unidos	100,00%	18,088	90,818	3,047	(5,156)
PBTech Ltda.	Brasil	99,94%	26,912	16,644	76,841	4,334
Portobello Shop S/A	Brasil	99,90%	36,089	35,609	65,049	28,377
Mineração Portobello Ltda.	Brasil	99,76%	3,312	2,479	10,110	249
Companhia Brasileira de Cerâmica S/A	Brasil	99,91%	9,461	1,118	1,420	974

* For December 31, 2017, the information refers to the 12-month period and for December 31, 2018 refers to the three-month period

Subsidiaries are closely-held companies, which variations are as follows:

	Profit or loss Equity the period	Interest	December 31, 2017	Exchange differences	Payment of capital	Profit in inventories	Share of profit (loss) subsidiaries	Proposed dividends	December 31, 2018	
Investments										
Portobello América Inc. e outros	(72,730)	(5,156)	100%	(67,717)	(10,939)	11,082	(1,804)	(5,156)	-	(74,534)
PBTech Ltda.	10,274	4,337	99,94%	5,934	-	-	-	4,334	-	10,268
Portobello Shop S.A.	480	28,405	99,90%	480	-	-	-	28,377	(28,377)	480
Mineração Portobello Ltda.	835	250	99,76%	584	-	-	-	249	-	833
Companhia Brasileira de Cerâmica S/A	8,351	975	99,91%	2,123	-	5,250	-	974	-	8,346
Others	10	-	100%	10	-	-	-	-	-	10
Total net investment in subsidiaries				(58,586)	(10,939)	16,332	(1,804)	28,778	(28,377)	(54,597)
Interest in subsidiaries				9,131						19,937
Allowance for investment losses				(67,717)						(74,534)

18 Property, plant and equipment

a) Breakdown

	Annual ratio average of depreciation	Parent			Consolidated				
		December 31, 2018			December 31, 2017	December 31, 2018			December 31, 2017
		Cost	Depreciation accrued	Value liquid	Value liquid	Cost	Depreciation accrued	Value liquid	Value liquid
Land	-	12,603	-	12,603	12,141	13,524	-	13,524	13,062
Buildings, constructions and improvements	2,88% (*)	203,816	(49,180)	154,636	161,341	220,830	(57,008)	163,822	169,413
Machinery and equipment	15%	584,826	(330,231)	254,594	230,268	588,192	(330,275)	257,917	230,269
Furniture and fixtures	10%	9,456	(8,568)	888	1,079	10,341	(8,773)	1,568	1,092
Computers	20%	25,814	(18,309)	7,505	4,321	26,476	(18,390)	8,086	4,325
Other property, plant and equipment	20%	2,253	(252)	2,001	15	2,754	(302,000)	2,452	14
Constructions in progress	-	8,157	-	8,157	21,957	10,962	-	10,962	22,420
		846,925	(406,540)	440,384	431,122	873,079	(414,748)	458,331	440,595

In 2010, upon the first-time adoption of international standards CPC 37 and IFRS 1, as well as the adoption of CPC 43 and ICPC 10, the Company has elected to adopt the revaluation of the property, plant and equipment carried out in 2006 as deemed cost, as it understands that it significantly represented the fair value on transition date (note 29.3).

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

Pursuant to Technical Interpretation ICPC 10 of the Accounting Pronouncements Committee, approved by CVM Resolution 619/09, effective beginning January 01, 2009, the Company has revised and changed the useful life of its property, plant and equipment items in 2008, based on the Technical Report issued by the Company's engineers, and since then, it periodically conducts an annual review; there was no significant impact on the useful life of property, plant and equipment items in 2018.

b) Variation in property, plant and equipment

	Parent					December 31, 2018
	December 31, 2017	Additions	Transfers	Depreciation	Write-offs	
Land	12,141	462	-	-	-	12,603
Buildings and improvements	161,341	136	348	(6,992)	(197)	154,636
Machinery and equipment	230,268	2,246	48,333	(25,744)	(508)	254,594
Furniture and fixtures	1,079	-	-	(191)	-	888
Computers	4,321	2,648	2,479	(1,942)	(1)	7,505
Other property, plant and equipr	15	164	1,880	(57)	-	2,001
Constructions in progress	21,957	41,188	(53,040)	-	(1,948)	8,157
	431,122	46,844	-	(34,926)	(2,654)	440,384

	Consolidated					December 31, 2018
	December 31, 2017	Additions	Transfers	preciation	Write-offs	
Land	13,062	462	-	-	-	13,524
Buildings and improvements	169,413	607	4,803	(10,475)	(502)	163,822
Machinery and equipment	230,269	5,265	48,680	(25,790)	(509)	257,917
Furniture and fixtures	1,092	399	293	(216)	-	1,568
Computers	4,325	3,179	2,544	(1,961)	(1)	8,086
Other property, plant and equipr	14	666	1,880	(108)	-	2,452
Constructions in progress	22,420	48,689	(58,200)	-	(1,947)	10,962
	440,595	59,267	-	(38,550)	(2,959)	458,331

In 2018, investments totaled R \$ 59 million, of which 71% were for the Tijucas plant, 14% for the Marechal Deodoro Plant, 6% for the US distribution and 9% for the implementation and remodeling of its own stores.

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

	Parent		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
	Accrued			
Cost of slaes	31,088	28,352	31,200	28,352
Selling expenses	2,450	2,116	5,961	4,835
Administrative expenses	1,388	1,007	1,395	1,018
	34,926	31,475	38,556	34,205

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

19 Intangible assets

a) Breakdown

	Parent				Consolidated				
	December 31, 2018			December 31, 2017	December 31, 2018			December 31, 2017	
	Annual ratio average of depreciation	Cost	Amortization accrued	Net amount	Cost	Cost	Amortization accrued	Value liquid	Value liquid
Trademarks and patents	-	150	-	150	150	150	-	150	150
Software	20%	24,610	(17,403)	7,207	6,025	25,590	(17,524)	8,066	6,025
Mining rights	20%	1,000	(1,000)	-	-	4,074	(2,843)	1,231	289
Goodwill	7%	-	-	-	-	11	(667)	9,845	9,681
Software under development	-	1,294	-	1,294	1,398	1,297	-	1,297	1,504
Management system (a)	21%	18,887	(18,887)	-	1,917	18,887	(18,887)	-	1,917
		45,941	(37,290)	8,651	9,490	60,510	(39,921)	20,589	19,566

(a) Expenses on acquisition and implementation of enterprise resource planning systems, mainly represented by Oracle, WMS and Demantra and Inventory Optimization and the developments achieved in the value chain management process.

b) Variations in intangible assets

	Parent					
	December 31, 2017	Addiction	Amortization	Transfer	Get off	December 31, 2017
Trademarks and patents	150	-	-	-	-	150
Software	6,025	175	(2,064)	3,057	14	7,207
Mining rights	-	-	-	-	-	-
Software under development	1,398	3,287	-	(3,057)	(333)	(1,294)
Management system	1,917	-	(1,918)	-	-	-
	9,490	3,462	(3,982)	-	(319)	8,651

	Consolidated					
	December 31, 2017	Additions	Amortization	Transfers	Get off	June 30, 2018
Trademarks and patents	150	-	-	-	-	150
Software	6,025	770	(2,103)	3,361	14	8,066
Mining rights	289	1,307	(365)	-	-	1,231
Goodwill	9,681	831	(667)	-	-	9,845
Software under development	1,504	3,487	-	(3,361)	(333)	1,297
Management system	1,917	-	(1,917)	-	-	-
	19,566	6,395	(5,052)	-	(319)	20,589

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018
In thousands of Brazilian reais - R\$, unless otherwise stated.

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

	Parent		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Cost of sales	809	797	1,195	1,237
Selling expenses	1,933	2,810	2,617	2,810
Administrative expenses	1,240	1,759	1,240	1,759
	<u>3,982</u>	<u>5,366</u>	<u>5,052</u>	<u>5,806</u>

c) Projected amortization of consolidated intangible assets:

	2019	2020	2021	2022	2023 a 2038	Total
Software	2,628	2,418	1,523	938	561	8,068
Mining rights	392	392	95	68	284	1,231
Goodwill	702	702	702	702	7,037	9,845
Management system	-	-	-	-	-	-
	<u>3,722</u>	<u>3,512</u>	<u>2,320</u>	<u>1,708</u>	<u>7,882</u>	<u>19,144</u>

Trademarks and patents and software under development were not subject to amortization due to their indeterminate useful life. However, they are subject to impairment, as described in the significant accounting policies disclosed in these financial statements as at the end of the year.

20 Trade payables and credit assignment

a) Trade payables

	Parent		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Domestic market	104,038	99,741	116,912	101,897
Foreign market	7,962	12,672	7,962	12,672
Current	<u>112,000</u>	<u>112,413</u>	<u>124,874</u>	<u>114,569</u>
Domestic market (i)	101,268	78,496	101,268	78,496
Noncurrent	<u>101,268</u>	<u>78,496</u>	<u>101,268</u>	<u>78,496</u>
	<u>213,268</u>	<u>190,909</u>	<u>226,142</u>	<u>193,065</u>

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

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

b) Credit assignment of trade payables

The Company conducted trade payables credit assignment transactions with prime financial institutions in the amount of R\$45,956 as at December 31, 2018 (R\$35,127 as at December 31, 2017), to offer to its partner suppliers more attractive credit facilities aiming at maintaining the business relationship.

There was no change in the payment conditions and prices negotiated with suppliers in such transactions.

c) Payables for investments

The Company recognizes a balance of R\$10,676 in the Parent and R\$11,533 in the consolidated in current liabilities (R\$19.049 and R\$ 19.609 on December 31, 2017), which refers to modernization of plants, investment in own stores and systems.

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

21 Borrowings, financing and debentures

	Currency	Maturities	Charges	Parent		Consolidated	
				December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Current							
Banco do Nordeste S.A (a)	R\$	jun-25	3,00% a.a.	9,796	9,798	9,796	9,798
NCE (b)	R\$	nov-21	8,43% a.a. ¹	42,002	37,954	42,002	37,954
NCE (b)	US\$	jun-21	7,80% a.a. ¹	7,947	-	7,947	-
PRODEC (c)	R\$	mai-22	4,00% a.a. ¹	14,145	20,489	14,145	20,489
FINEP (d)	R\$	mai-21	7,91% a.a. ¹	13,270	17,133	13,270	17,133
DEG (e)	US\$	out-21	7,68% a.a.+VC	12,179	10,460	12,179	10,460
FINAME (f)	R\$	ago-23	3,00% a.a. ¹	421	422	421	422
Debêntures 1ª série (g)	R\$	jun-21	8,73% a.a.	976	18,708	976	18,708
Debêntures 2ª série (g)	R\$	jun-23	9,29% a.a.	985	29,016	985	29,016
Pré-pagamento	US\$	mai-18	0,00% a.a.+VC	-	2,071	-	2,071
Arrendamento financeiro	R\$	mai-18	0,00% a.a.	-	351	-	351
Total Current			7,81% a.a.¹	101,721	146,402	101,721	146,402
Total moeda nacional				81,595	133,871	81,595	133,871
Total moeda estrangeira				20,126	125,310	20,126	12,531
Noncurrent							
Capital de Giro	R\$		8,00% a.a.	-	-	1,292	1,177
Banco do Nordeste S.A (a)	R\$	mai-18	11,48% a.a.	-	-	-	-
NCE (b)	R\$	jun-25	3,00% a.a.	53,792	63,573	53,792	63,573
NCE (b)	R\$	nov-21	7,80% a.a. ¹	67,944	85,278	67,944	85,278
PRODEC (c)	US\$	jun-21	8,43% a.a. ¹	15,759	-	15,759	-
PRODEC (c)	R\$	mai-22	4,00% a.a. ¹	18,240	25,848	18,240	25,848
DEG (e)	R\$	mai-21	7,91% a.a. ¹	18,590	31,721	18,590	31,721
FINAME (f)	US\$	out-21	7,68% a.a.+VC	23,249	29,772	23,249	29,772
Debêntures 1ª série (g)	R\$	ago-23	3,00% a.a. ¹	1,392	1,811	1,392	1,811
Debêntures 2ª série (g)	R\$	jun-21	8,73% a.a.	146,829	71,782	146,829	71,782
Pré-pagamento	R\$	jun-23	9,29% a.a.	146,829	56,197	146,829	56,197
Arrendamento financeiro			7,81% a.a. ¹	492,624	365,982	493,916	367,159
Total Noncurrent				453,616	336,210	454,908	337,387
Total moeda nacional				39,008	29,772	39,008	29,772
Total moeda estrangeira							
Grand total			7,81% a.a.¹	594,345	512,384	595,637	513,561
Total local currency				535,211	470,081	536,503	471,258
Total foreign currency				59,134	42,303	59,134	42,303

¹ Weighted average rate

VC - Exchange difference

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

a) Information on contracts

Note	Contract	Date		Borrowing	Term (months)	Repayment	Grace period (months)	Collaterals
		Disbursement	Maturity					
(a)	Banco do Nordeste	Aug-14	Jun-25	R\$ 96.819	133	Monthly	24	Real estate mortgages and machinery and equipment Contract entered into in Jun/13, in the amount of R\$147,700. The 1st installment of the financing was disbursed by the Bank in Aug/14 in the amount of R\$29,221, the 2nd installment disbursed in Jan/15 in the amount of R\$45,765, the 3rd installment disbursed in Sep/15 in the amount of R\$14,700, 4th installment disbursed in Mar/16 in the amount of R\$4,713, the 5th installment disbursed in Dec/16 in the amount of R\$2,418.
		nov-17	nov-21	R\$ 50.000	48	Mensual	12	
(b)	Export Credit (NCE)	nov-17	nov-20	R\$ 30.000	36	Trimestral	20	Receivables from Portobello SA in the amount of 25% of the debt balance of the contract (*) Receivables from Portobello SA in the amount of 15% of the debt balance of the contract 80% of trade notes + 20% short-term investments. (*) (*) The contracts indicated have minimum covenants that were met.
		jun-18	jun-21	R\$ 24.000	36	Trimestral	12	
		jun-18	mai-21	R\$ 24.000	36	Trimestral	12	
		jun-16	mai-19	R\$ 10.000	36	Trimestral	12	
		jun-16	mai-19	R\$ 20.000	36	Trimestral	12	
(c)	PRODEC	-	-	-	48	Bullet	Bullet	(Santa Catarina State Development Program) - Special Regime of the State of Santa Catarina obtained in July 2009. The balance is subject to adjustment to present value and the rate used for calculation purposes is the average working capital (9.26% per year). The deferred amount corresponds to 60% of the tax balance generated in the month that exceeds R\$2,251 (average tax paid in 2007 and 2008), with 48-month grace period, 120-month period and inflation adjustment of 4% per year and UFIR variance.
(d)	Finep	Jul-10	Sep-18	R\$ 30.103	99	Monthly	24	Bank guarantee All 5 financing installments were disbursed by the Bank as follows: 1st in the amount of R\$5,000 in Jul/10, 2nd of R\$ 5,100 in Aug/10, 3rd of R\$3,146 in Sep/10, 4th of R\$5,572 in Dec/12 and 5th of R\$11,282 in Aug/13.
		Jul-14	May-21	R\$ 57.318	84	Monthly	24	
(e)	DEG (Deutsche Investitions)	May-14	Oct-21	US\$ 18.000	90	Semiannual	23	Machinery and equipment and promissory notes This contract has minimum covenants that were renegotiated in Dec/17 and were met.
(f)	Finame	May-13	May-23	R\$ 39	120	Monthly	25	Machinery and equipment
		May-13	Apr-23	R\$ 601	120	Monthly	24	
		Jul-13	Jul-23	R\$ 107	120	Monthly	25	
		Jul-13	Aug-23	R\$ 1.890	120	Monthly	26	
(g)	Debentures	Jul-14	jun-23	R\$ 577	114	Monthly	18	Collateral and additional fiduciary guarantee Collateral and additional fiduciary guarantee On June 15, 2018, PBG S.A.'s Board of Directors approved the 3rd Issuance of simple, non-convertible debentures of the kind with real guarantee and additional fidejussoria guarantee, in two series, for public distribution with restricted efforts. The funds obtained through the Issue will be used to redeem the 2nd (second) issuance of the Issuer's debentures and to reprofiling the other liabilities of the Issuer. This agreement has minimum clauses of "covenants" that have been fulfilled.
		Jul-18	Jul-21	R\$ 150.000	36	Semiannual	24	
		Jul-18	Jul-21	R\$ 150.000	60	Semiannual	48	

Restricted investments, real estate mortgages, equipment, Parent's (note 8) and subsidiary's receivables (note 39) and Parent's and subsidiary's surety were pledged as collateral for other borrowings.

Long-term borrowings mature as follows:

Maturities on July 1	Parent		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
2018		146,402		146,402
2019	101,721	125,477	101,721	126,654
2020	197,939	124,204	199,231	124,204
2021 a 2025	294,685	116,301	294,685	116,301
	594,345	512,384	595,637	513,561

The carrying amounts and fair values of borrowings are stated in Brazilian reais, broken down by currency:

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31,2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

	Parent		Consolidated	
	December 31,2018	December 31, 2017	December 31,2018	December 31, 2017
Brazilian reais	535,211	470,081	536,503	471,258
US Dollars	59,134	42,303	59,134	42,303
	594,345	512,384	595,637	513,561

The fair value of current borrowings approximates their carrying amount, as the carrying amounts are stated at amortized cost and adjusted on a *pro rata basis*.

b) Debentures

On June15, 2018, the Board of Directors of Portobello S.A. has approved the 3rd issuance of simple, non-convertible debentures, with real guarantee and additional fiduciary guarantee, in two series, for public distribution with restricted distribution efforts.

	December 31, 2018	December 31, 2017
Debentures 1st series	150,110	91,779
Debentures 2nd series	150,119	86,503
Gross balance	300,229	178,282
Borrowing costs	(4,610)	(2,579)
Net balance	295,619	175,703
Current	1,962	47,724
Noncurrent	293,658	127,979

Issuance Characteristics	
Issuance	3 ^a
Trustee	PLANNER TRUSTEE DTVM LTDA.
Custodian	Banco Bradesco S/A
Lead Underwriter	Banco Itaú BBA S/A
Depository Bank	Não
Trade	CE TIP
Series Number	2
Issuance Volume - R\$	300,000,000.00
Total Number of Debentures	300,000
Unit Par Value - R\$	1,000.00

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

Transaction details per series		
Series	1st	2nd
CVM Registration No	476/09	
Asset Code	PTBL13	PTBL23
Issuance Date	06/27/2018	
Maturity Date	06/27/2021	06/27/2023
Volume - R\$	150,000,000.00	150,000,000.00
Number of Debentures	150,000	150,000
Unit Par Value - R\$	1,000.00	1,000.00
Form	Registered and book-entry	
Type	Collateral and additional fiduciary guarantee	
Convertibility	Non-convertible into shares issued by the Issuer	
Adjustment	No inflation adjustment to the Par Value	
Interest	DI rate + 2.20% per year (252-day year)	DI rate + 2.75% per year (252-day year)
Interest Payment	Semiannual, with first interest date on 12/27/2018	
Repayment	Initial Nominal Value	Initial Nominal Value
Corporate Acts:	Meeting of the Board of Directors held on 06/15/2018	
Covenants	Division of Net Debt and EBITDA <= 3.00 times	

The proceeds from the 3rd Issuance were allocated to the redemption of all 2nd issuance debentures of the issuer and renegotiation of other Issuer's liabilities.

The 3rd issuance of Debentures is subject to covenants that were met on December 31, 2018.

22 Tax installment payment

Taxes	Installment payment request		Parent		Consolidated	
	Date	Falling-due installments	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
LAW 11.941/09 (a)	nov-09	70	63,930	72,602	64,367	73,097
LAW 13.496/17 (b)	ago-17		-	3,657	-	3,677
Total			63,930	76,259	64,367	76,774

Tax installments will be paid as follows:

Maturity	Parent		Consolidated	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
January 1				
2019	10.718	14.033	10.793	14.126
2020 a 2023 (*)	52.270	53.335	52.570	53.695
2024	942	8.891	1.004	8.953
	63.930	76.259	64.367	76.774
Current	10.718	14.033	10.793	14.126
Noncurrent	53.212	62.226	53.574	62.648

(*) Sum of annual installments of R\$10,718 as at December 31, 2018 and R\$10,667 as at December 31, 2017 for the Parent and R\$10,793 and R\$14,126 for the consolidated, respectively.

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018
In thousands of Brazilian reais - R\$, unless otherwise stated.

a) Law 11.941/09 (Tax Recovery Program (REFIS))

In May and September 2011, the Company has completed the installment payment consolidation process established by Law 11.941/09, initiated upon adhesion to the Tax Recovery Program in November 2009.

Between the adhesion and consolidation, the Company has paid the minimum amount of R\$395 as prescribed by the legislation. During such period and more specifically upon consolidation, the Company has made decisions that resulted in a positive financial adjustment of R\$3,013, of which R\$3,613 impacting other operating income and R\$ 600 impacting finance costs. The main effect derived from the non-confirmation of the migration of debts rejected in the installment program under MP 470 to the installment payment program under Law 11.941/09 (note 23).

Upon completion of the consolidation, the Company undertakes to pay monthly installments of R\$818, adjusted by the Selic rate, and withdrew the lawsuits and waives any allegation of right on which such lawsuits are based, under penalty of immediate rescission of the installment payment and, consequently, loss of the benefits established by Law 11.941/09. These withdrawal of lawsuits filed against tax assessments do not impair the continuance of the lawsuits in progress before the courts, as mentioned in note 15.

b) Law 13.496/17 (PERT – Tax Regularization Program)

In August 2017 the Company has joined the tax installment payment program established by Law 13.496/17. In November 2017 the debt calculations were completed and federal debts in the amount of R\$3,865 were paid in installments through the Special Tax Regularization Program (PERT), already considering the benefits prescribed by the law. At that date, the impact on profit or loss in other operating expenses amounted to R\$3,193 and in finance costs amounted to R\$672. In January 2018 the Company revised the installment payment conditions before conducting the consolidation, whereby it has decided to change the decision to join the installment payment program. The decision was based on the expected favorable outcome on the initially selected debts as they are being discussed at the courts. On March 2018, the Company reversed the revoked debts, as well as the benefits of installment payments. The impacts in 1Q18 were the reversal of the amount recognized, as well as the benefits of installment payments.

23 Tax debts – Law 12.249/10 (MP 470 and MP 472)

In November 2009 the Company has joined the installment payment program established by MP 470 (improper utilization of IPI premium credit) of the SRF and PGFN. Upon adhesion, in addition to the installment payment, the charges were reduced and the Company was able to utilize tax credits arising from tax losses up to 2008 for debt payment.

Upon the conversion of this Provisional Act (Law 12.249/10) in June 2010 the utilization of tax credits arising from tax losses existing as at December 31, 2009 was authorized. The Company utilized this benefit and recorded in the second quarter of 2010 the amount of R\$3,252 considering the settled installment payments.

PGFN has partially rejected the request in June 2010 by alleging the need of withdrawal of the lawsuits challenging the credit and concluded that the requirement of “inappropriate utilization” was not met. The Company has issued an opinion in the sense of claiming the withdrawal/relinquishment of the lawsuits that challenged the notifications received from the SRF. However, the Regional General Attorneys’ Office of the National Treasury of Santa Catarina understood that the withdrawal/relinquishment should also comprise the declaratory actions intended to recognize the IPI Credit Premium, mentioned in note 15. The Company’s Legal Department is adopting the necessary measures against PGFN’s decision so as to rule out the requirement of withdrawal/relinquishment of such declaratory actions and also the confirmation of the “inappropriate utilization”, evidently recognized by the Brazilian Federal Revenue Service upon notification. This procedure decided by Management is followed by an opinion from law firm Demarest

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

Almeida, which defends that, for the debts included in the installment payment program under Law 12.249/10, the withdrawal of the abovementioned declaratory actions is not required, differently from the provisions set forth in Law 11.941/09. Accordingly, it asserts that the reversal of this situation is virtually certain by resorting to various judicial levels to rule out the grounds for the rejection in the merit of the case. For clarification purposes, the writ of security filed to seek the judicial homologation of the installment payment was denied by the lower court. In the appeal, the TRF of the 4th Region has partially accepted the appeal. The Company maintains the opinion on the reversal of the remaining legal matter at the Superior Court of Justice.

In case PGFN's decision is upheld by the superior court, which the Company believes to be remote based on the opinion of its legal advisors, the impact on the Company's profit or loss would correspond to a loss of R\$29,433 million as at December 31, 2018, considering the non-acknowledgement of the debt, the non-existence of benefits and the maintenance of the debts for the contingent liabilities, which potential tax liability will be satisfied against credits arising from lawsuit No. 1998.34.00.029022-4, as shown in note 15 d.

24 Taxes, fees and contributions

As at December 31, 2018, taxes, fees and contributions recorded in current liabilities were classified as follows:

	Parent		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
IRRF	2,177	2,420	2,688	2,721
ICMS	1,161	6,304	1,224	6,325
PIS/COFINS	62	5,404	492	5,801
Outros	209	302	334	426
	<u>3,609</u>	<u>14,430</u>	<u>4,738</u>	<u>15,273</u>

25 Provision for civil, labor, social security and tax issues

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

The balance of provisions is broken down as follows:

Amount accrued	Parent		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Civil	19,581	8,733	19,581	8,733
Labor	18,397	14,959	18,397	14,959
Social security	6,836	-	6,836	-
Tax	94,761	4,491	94,761	4,522
	<u>139,575</u>	<u>28,183</u>	<u>139,605</u>	<u>28,214</u>

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

Provisions are measured based on the estimated expenses necessary to settle the obligation. Civil and labor lawsuits are individually assessed by the Company's legal advisors which classify them according to the likelihood of favorable outcome on the lawsuits.

Statement of variations in provisions:

	Parent				Total
	Civil	Labor	Social Sec	Tax	
As at December 31, 2017	8,733	14,959	-	4,491	28,183
Debited from (credited to) to the income statement:	13,043	5,328	6,836	90,270	115,477
Additional provisions	37,032	2,981	2,489	90,270	117,894
Reversals due to lack of use	(10,323)	(567,000)	-		(10,890)
Inflation adjustment	1,212	2,914	4,347		8,473
Reversals due to realization	(2,195)	(1,890)	-		(4,085)
As at December 31, 2018	19,581	18,397	6,836	94,761	139,575

Comments on civil, labor and tax lawsuits:

	Consolidated				Total
	Civil	Labor	Social Sec	Tax	
As at December 31, 2017	8,733	14,959	-	4,522	28,214
Debited from (credited to) to the income statement:	13,043	5,328	6,836	90,269	115,476
Additional provisions	37,032	2,981	2,489	90,269	117,893
Reversals due to lack of use	(10,323)	(567,000)	-		(10,890)
Inflation adjustment	1,212	2,914	4,347		8,473
Reversals due to realization	(2,195)	(1,890)			(4,085)
As at December 31, 2018	19,581	18,397	6,836	94,791	139,605

Civil

The Company and its subsidiaries are defendants in 436 civil lawsuits (388 lawsuits as at December 31, 2017), before the Common Courts and Special Civil Courts. The majority of lawsuits is filed by customers and claim indemnity for alleged pain and suffering and property damages. When applicable, escrow deposits were made (note 12).

Labor

The Company and its subsidiary Portobello Shop S.A. are defendants in 324 labor claims (324 claims as at December 31, 2017), filed by former employees and third parties. The other lawsuits refer to payment of severance amounts, additional amounts, overtime, equal pay and indemnity for pain and suffering and property damages arising from work accident/occupational diseases. Provisions are revised by Management according to its legal advisors. Some lawsuits are supported by escrow deposits (note 12).

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018
In thousands of Brazilian reais - R\$, unless otherwise stated.

Social Security

Based on the low expectation of success in administrative and judicial actions involving corporate awards, the Company recognized in the second quarter of 2018 the provision of these debts, in the total amount of R\$ 6,836, which still depend on a court decision, in the Fiscal Execution phase, or in some cases, an administrative decision with the Federal Revenue Service of Brazil.

Change in the labor debt adjustment criterion

The Superior Labor Court (TST), in a decision published on August 07, 2015, has changed the labor debt adjustment rate, so as to substitute the Benchmark Rate (TR) for the National Special Extended Consumer Price Index (IPCA-E), with effects retroactive to June 30, 2009. The matter was sent to the Federal Supreme Court (STF), in Claim 22012, which considered the claim groundless, thus maintaining the labor debt adjustment based on the IPCA-E. The Company will not immediately increase its labor provisions as it is awaiting a new decision from the TST on the matter. The change in the criterion will impact the balance of labor provisions by approximately R\$6,235.

Tax

Tax on legal asset Polo Ativo

In the second quarter of 2018, the Company has recognized in line item "Tax contingencies" the amount of R\$74,180 relating to PIS, COFINS, IRPJ and CSLL on legal asset Polo Ativo, as mentioned in note 15d.

26 Significant lawsuits assessed as possible and remote losses

a) Lawsuits assessed as possible losses

In addition to the provisions recorded in its financial statements, assessed as probable losses, there are other civil and labor lawsuits, which were assessed as possible losses based on the risk assessments arising from the abovementioned lawsuits, and the Company, based on the opinion of its legal advisors, estimates the amounts of contingent liabilities as follows:

	Parent		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Civil	3,844	3,764	3,844	3,773
Labor	7,315	7,278	7,315	7,366
	11,159	11,042	11,159	11,139

b) Lawsuit assessed as remote loss relating to Administrative Proceeding No. 10983-721.445/2014-78, nº 11516-720.299/2016-02 e nº 11516-720.300/2016-91

On December 08, 2014, the Company was notified about the issuance of Tax Assessment Notices, which established IRPJ and CSLL tax credits (as well as monetary penalties and interest), for calendar years from 2009 to 2013. According to the Tax Authorities, the Company would have allegedly committed the following infractions:(a) in 2009, it would have allegedly: (a.1) unduly excluded taxable income deriving

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

from tax benefits; (a.2) deducted unnecessary expenses related to the principal of tax debts (IPI, PIS and COFINS) which were recorded in prior-years' profit or loss; (a.3) excluded non-deductible amounts related to the principal of IRPJ and CSLL; (a.4) unduly excluded amounts related to the principal included in temporary additions and that were recorded in prior-years' profit or loss; and (a.5) deducted non-deductible expenses related to the assessment fine; (b) in 2010, 2011 and 2012, it would have allegedly: (b.1) offset income tax and social contribution losses in amounts above those calculated; and (b.2) failed to pay IRPJ and CSLL amounts calculated based on monthly estimate, which resulted in a fine applied individually; and (c) in 2013, it would have allegedly offset CSLL losses in amounts above those calculated. On January 06, 2015, the Company has filed an Objection against the abovementioned assessments, challenging all infractions attributable to it, so that, as from that date (January 06, 2015), it is awaiting the judgment of said Objection which, according to the legal advisors of PBG S.A, considers a favorable decision as virtually certain, resulting in the cancellation of the Tax Assessment Notice; accordingly, the Company understands that the likelihood of loss is remote and elected not to record the amount of R\$73,000 as potential liabilities.

On March 07, 2016, the Company was notified about the issuance of the Tax Assessment Notices according to the tax administrative proceedings No. 11516-720.299/2016-02 and No. 11516-720.300/2016-91 which established tax credits relating to undue offsets of IRPJ and CSLL. However, the Company has defended that such discussion is already in progress in Lawsuit No. 10983-721.445/2014-78. The cancellation of the objected tax assessment in the amount of R\$19,000 was requested due to the double collection by the tax authorities. At the lower court decision, the objections filed were considered with grounds in the sense of recognizing the double collection of the assessment and, consequently, determining the extinguishment of the tax credit. Currently, the tax administrative proceedings No. 11516-720.299/2016-02 and No. 11516-720.300/2016-91 were sent to the Administrative Council of Tax Appeals (Carf), for judgment of the appeal.

27 Employee benefits

Since 1997 the Company and its subsidiaries sponsor a pension plan called Portobello Prev, managed by BB Previdência - Fundo de Pensão Banco do Brasil, which has 3,075 active members and 21 retirees and pensioners. The plan is a defined contribution plan in the fund contribution stage. During the benefit granting stage, the plan shows defined benefit features, ensuring life retirement and pension benefits to its members. Moreover, it offers a minimum retirement benefit based on the length of service or age, which is exclusively financed by the sponsors.

Parent e Consolidated			Parent e Consolidated		
Fair value of the plan assets			Defined benefit liability		
December 31, 2017	67,600	60,290	December 31, 2017	61,842	55,921
Benefits paid in the year	(1,662)	(1,463)	Gross cost of current service (with interest)	1,140	1,140
Participant contributions in the year	1,257	1,199	Interest on actuarial obligation	5,962	5,392
Sponsor contributions in the year	0,799	0,649	Benefits paid in the year	(1,662)	(1,463)
Expected return on assets in the year	6,518	5,813	Liabilities - (gain) or loss	(4,678)	0,852
Assets - gain or (loss)	(2,233)	1,112			
December 31, 2018	72,279	67,600	December 31, 2018	62,604	61,842

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

	December 31, 2018	December 31, 2017		December 31, 2018	December 31, 2017
Fair value of the plan assets	72,279	67,600	Gain (loss) in the actuarial obligations	(4,678)	0,851
Present value of the obligations financed	(62,604)	(61,842)	Gain (loss) in the plan assets	2,233	(1,112)
Net actuarial assets (liabilities)	9,675	5,758	Actuarial gain (loss)	(2,445)	261

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

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

	Parent e Consolidated	
	December 31, 2018	December 31, 2017
Current service cost (with interest)	(1,140)	(1,140)
Interest on actuarial obligations	(5,962)	(5,392)
Expected return on plan assets	6,518	5,813
Participant contributions in the year	1,257	1,199
Actuarial gain (loss)	673	480

As of December 31, 2018, the Company also recognized income of R\$673 (R\$480 as of December 31, 2017) referring to payments made by the sponsor during the year, with asset effect for employee benefit plan (see note 32).

Economical and financial	Parent e Consolidated	
	December 31, 2018	December 31, 2017
Annual interest rate	9,71% a.a. nominal (inflation+ 4,92%a.a. real)	9,64% a.a. nominal (inflation+ 4,92%a.a. real)
Rendimentos de longo prazo dos ativos	9,64% a.a. nominal (inflation + 4,99%a.a. real)	9,64% a.a. nominal (inflation+ 4,92%a.a. real)
Long term inflation		
Projeção de crescimento salarial	4,50% a.a. (inflation+0,62% a.a. real)	5,15% a.a. (inflation+0,62% a.a. real)
Projected salary increases	0,00% a.a.	0,00% a.a.
Projected growth of the plan benefits	-	-
Factor for determining real value over time (salaries)	0,98	0,98
Factor for determining real value over time (benefits)	0,98	0,98
Biometric and demographic		
Hypothesis about turnover:	13,22%	21%
Tábua de mortalidade geral	AT-2000	AT-2000
Mortality table of individuals with permanent disability	EXP. IAPC	EXP. IAPC
Table of new disability benefit vested	TASA 1927	TASA 1927
Retirement	100% on the first chargeability	100% on the first chargeability
Family composition before retirement	not applicable	not applicable
Family composition after retirement:	Real family	Real family

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

27.2 Employee benefit expenses

	Controladora		Consolidado	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Remuneration	153,976	137,906	172,695	152,345
Benefits	-	-	-	-
Pension plan	1,120	0,907	1,155	0,922
FGTS	13,045	11,483	14,960	12,969
FGTS	21,156	19,003	23,173	20,363
Total	* 189,297	169,299	211,983	186,599

28 Long-term Incentive

In 2012, the Company has implemented the long-term incentive (ILP) program. The program aims at attracting, retaining and recognizing the performance of key professionals.

Officers, superintendents and managers are eligible to the ILP who, through an adhesion agreement, become the program participants. Each participant holds a number of shares that are figuratively called "reference shares". These shares are not traded on the over-the-counter market and their "appreciation" is annually calculated based on the Ebitda performance and the Ebitda-to-net debt ratio.

Payment is scheduled to be made in three annual installments with two-year deferral at the beginning of the period. Settlement will be made through monetary sums in and amount proportional to the gains calculated based on the plan metrics.

The first group of participants has joined the program in 2012. Currently, there are two active plans. The present value of the obligation as at December 31, 2018 is R\$ 162 in the Parent and consolidated (R\$1,935 in the Parent and consolidated as at December 31, 2017).

29 Equity

29.1 Capital

After the resolutions at the Annual Shareholders' Meeting, held on April 30, 2018, the Company increased its capital by R\$10,000, fully through capitalization of profits, exclusively for the Company's capitalization, without changing the total number of shares, as set forth in article 169, paragraph 1 of Law 6404/76. Accordingly, as at December 31, 2018, the Company recognizes subscribed and paid-up capital in the total amount of R\$140,000 (R\$130,000 as at December 31, 2017), represented by 158,488,517 common, registered and book-entry shares, without par value.

As at December 31, 2018, there was 73,786,991 outstanding shares, corresponding to 46% of the total shares issued (72,982,224 as at December 31, 2017, corresponding to 46.05% of the total). The balance of outstanding shares comprises all securities available for trading in the market, other than those held by controlling shareholders, members of the Board of Directors and Executive Board.

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

29.2 Earnings reserve

The earnings reserve is comprised of three reserves: the legal reserve, earnings retention reserve and unallocated earnings reserve, as follows:

The legal reserve is set up annually by allocating 5% of the profit for the year, which cannot exceed 20% of the capital. The purpose of the legal reserve is to ensure the integrity of capital and can only be used to offset accumulated losses or increase capital. As at December 31, 2018, the balance of the legal reserve totals R\$18,426 (R\$18,426 as at December 31, 2017), as prescribed by Article 193 of the Brazilian Corporate Law.

The amount of R\$114,921 refers to the earnings retention reserve based on the business growth project, established in the Company's investment plan approved at the Annual General Meeting held on April 28, 2018, according to the capital budget, in conformity with article 196 of the Brazilian Corporate Law.

The objective of the profit reserve is to show the portion of profits whose allocation was deliberated at the Annual General Meeting held on April 30, 2019. Thus, the current balance of the reserve is nil, since part of the income was destined and the remainder were paid as share capital.

The unallocated earnings reserve is intended to demonstrate the portion of earnings whose allocation will be decided by the Annual General Meeting held on April 30, 2019. Accordingly, the current balance of reserve is R\$95,897 (R\$30,162 as at December 31, 2017).

29.3 Valuation adjustment to equity

	Equity valuation adjustments			Total
	Deemed cost	Cumulative translation adjustments	Other comprehensive income	
Parent and Consolidated				
As at December 31, 2017	35,876	(29,523)	(10,525)	(4,172)
Realization of the revaluation reserve	(1,184)	-	-	(1,184)
Actuarial gain (loss)	-	-	2,445	2,445
Exchange difference of foreign subsidiary	-	(10,939)	-	(10,939)
As at December 31, 2018	34,692	(40,462)	(8,080)	(13,850)

a) Deemed cost

In 2010, upon the first-time adoption of international standards CPC 37 and IFRS 1, as well as the adoption of CPC 43 and ICPC 10, the Company has elected to adopt the revaluation of the property, plant and equipment carried out in 2006 as deemed cost, as it understands that it significantly represented the fair value on transition date. The deemed cost was calculated as a result of the revaluations of land, constructions and improvements, supported by a revaluation report prepared by an independent appraiser. It is being realized based on the depreciation of revalued constructions and improvements recorded against retained earnings. The same effect of the realization of the valuation adjustments to equity is reflected in profit or loss for the year, based on the depreciation of revalued assets.

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

b) Cumulative translation adjustments

The changes in assets and liabilities in foreign currency (US dollar) arising from the currency fluctuation, as well as the variations between the daily rates and the closing rate of the variations in profit or loss of the foreign subsidiary are recognized in this line item of cumulative translation adjustments. In December 2018 the amount was R\$10,939 (note 17.a).

30 Revenue

The reconciliation of gross revenue and net revenue, shown in the income statement for the quarter ended December 31, 2018, is as follows:

a) Gross revenue incurred in the third quarter:

	Parent		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Gross sales revenue	1,208,414	1,172,405	1,3213,46	1,277,945
Deductions from gross revenue	(254,343)	(242,587)	(267,156)	(254,008)
Taxes on sales	(216,108)	(216,792)	(228,921)	(226,509)
Returns	(38,235)	(25,795)	(38,235)	(27,499)
Net sales revenue	954,071	929,818	1,054	1,024
Domestic market	776,709	746,880	868,678	840,999
Foreign market	177,362	182,938	185,512	182,938

31 Expenses by nature

Cost of sales, selling and administrative expenses for the quarter ended December 31, 2018 are broken down as follows:

a) Expenses incurred in the third quarter:

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

	Parent		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Cost and expenses				
Cost of sales and/or services	(645,055)	(603,886)	(648,590)	(606,917)
Selling	(231,055)	(204,156)	(285,619)	(246,510)
General and administrative	(38,673)	(35,251)	(45,458)	(35,877)
	<u>(914,783)</u>	<u>(843,293)</u>	<u>(979,667)</u>	<u>(889,304)</u>
Abertura das despesas por natureza				
Direct production costs (raw materials and inputs)	378,733	326,320	368,963	316,962
Payroll, related taxes and employee benefits	230,150	207,862	259,168	229,333
Labor and third-party services	70,157	63,712	72,292	65,167
Overhead (including maintenance)	46,361	44,473	46,591	44,473
Cost of goods resold	38,145	48,461	48,257	59,624
Amortization and depreciation	38,908	36,841	43,609	40,011
Other selling expenses	29,188	29,447	42,955	37,539
Sales commissions	29,139	27,122	32,293	29,603
Expenses on marketing and advertising	31,664	24,471	37,434	28,070
Expenses on transportation of goods sold	17,243	16,368	17,243	16,368
Expenses on rentals and operating leases	12,441	11,153	17,831	14,741
Other administrative expenses	7,114	5,463	7,491	5,751
Changes in inventories of finished products and work in process (a)	(14,460)	1,600	(14,460)	1,662
Total	<u>914,783</u>	<u>843,293</u>	<u>979,667</u>	<u>889,304</u>

(a) The variation in inventories of finished products and work in process corresponds to the difference between the cost of products manufactured and cost of products sold, remaining with a negative balance due to write-offs of cost of products sold relating to products that were manufactured in prior periods that contemplated the inventory account.

32 Other operating income and expenses, net

Other individual and consolidated operating income and expenses for the quarter ended December 31, 2018 are as follows:

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

	Parent		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Other operating income				
Revenue from services	494	647	516	647
Goods sold	175	0	175	0
Tax credits	0	8,735	0	8,735
Reversal of Provision for Contingency (b)	0	20,247	0	20,247
IPI Premium Credit - Plaintiff	1,472	1,128	1,472	1,128
Other Revenue	207,938	1,587	208,166	2,546
Total	210,946	40,997	211,196	41,956
Other Operating Expenses				
Provision for Contingencies	(38,822)	(2,131)	(38,822)	(1,991)
Provision for Long-Term Incentive	1,773	5,377	1,773	5,377
Provision for profit sharing	(487)	(10,191)	(750)	(10,500)
Law 13.496 (PERT)	3,193	(3,193)	3,193	(3,193)
Review of the Eletrobrás compulsory loan balance	0	(8,092)	0	(8,092)
Idleness Cost (d)	(2,141)	(8,579)	(2,141)	(8,579)
Taxes on revenue	(257)		(263)	
Other Expenses	(2,942)	(206)	(4,302)	(605)
Total	(39,683)	(27,015)	(41,315)	(27,583)
Net Total	171,263	13,982	169,881	14,373

(a) IPI Premium Credit - Plaintiff

(b) Tax credits related exclusion of ICMS from PIS and COFINS tax base.

(c) Recognition of provision for profit sharing, to be paid to the employees after the end of the year.

33 Finance income (costs)

Individual and consolidated finance income (costs) for the quarter ended December 31, 2018 is as follows:

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

	Parent		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Finance income				
Interest	4,580	8,116	5,052	8,807
Adjustment to assets	4,171	8,532	4,171	8,532
Reversal of adjustment to contingencies	-	6,320	-	6,320
Income on swap transactions	1,836	-	1,836	590
Other	6	1,217	159	643
Total	10,593	24,185	11,218	24,892
Finance expense				
Interest	(19,115)	(30,375)	(19,115)	(30,423)
Finance charges on taxes	5,879	(4,903)	(5,913)	(4,546)
Adjustment to provision for risks	(3,692)	(2,310)	(3,692)	(2,320)
Comissions and service fees	(7,457)	(5,306)	(8,473)	(6,073)
Banking expenses	(458)	(587)	(463)	(588)
Review of Eletrobras compulsory loan balance	-	(11,294)	-	(11,294)
Reversal of financial gain with taxes	-	(4,730)	-	(4,730)
Reversal of fine and interest on installment payment (PERT)	-	(672)	-	1,074
Loss on swap transactions	(2,600)	(2,697)	(2,600)	2,699
Interest on debentures	(25,544)	(26,909)	(25,444)	(26,909)
Other	(2,190)	(2,193)	(2,734)	(2,240)
Total	(66,935)	(91,976)	(68,534)	(92,896)
Exchange differences, net				
Trade receivables and payables	14,620	(439)	14,620	(429)
Borrowings and financing	(5,395)	419	(5,395)	419
Total	9,225	(20)	9,225	(10)
Net Total	(47,117)	(67,811)	(48,091)	(68,014)

34 Earnings (loss) per share

a) Basic

Pursuant to CPC 41 (Earnings per Share), basic earnings (loss) per share are calculated by dividing the profit attributable to the owners of the Company by the weighted average number of common shares issued during the period, less common shares bought by the Company and held as treasury shares.

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018
In thousands of Brazilian reais - R\$, unless otherwise stated.

	Parent and Consolidated	
	December 31, 2018	December 31, 2017
Profit (loss) attributable to the Company's shareholders	134,282	64,136
Weighted average number of common shares	158,489	158,489
Basic earnings (loss) per share	0,84726	0,40467

Consolidated earnings (loss) attributable to shareholders do not consider non controlling interests in subsidiaries.

b) Diluted

Diluted earnings (loss) per share correspond to basic earnings (loss) as the Company's common shares are not subject to dilutive factors.

35 Dividends and interest on shareholders' equity

Minimum dividends for 2018, which account for 25% of the Company's profit, total R\$31,892, of which R\$2,612 and R\$7,283 (net of taxes) were paid in advance as dividends and interest on capital, respectively, on August 29, 2018. The remaining amount to be paid to shareholders as distribution of profits is R\$22,007 and the payment date will be decided at the Annual General Meeting.

	December 31, 2018	December 31, 2017
Net income for the year	134,282	64,136
Formation of legal reserve (5%)	(6,714)	(3,207)
Net income for the year adjusted for dividends purposes	127,568	60,929
Proposed dividends / interest on own capital		
Interest on own capital, net of IRRF	16,564	9,614
Minimum compulsory dividends	15,328	5,618
Additional dividends proposed	-	15,232
Total annual dividends	31,892	30,464

36 Segment reporting

Management defined the operating segments based on the reports used for strategic decision-making, reviewed by the Executive Board.

The Executive Board conducts its business analysis, by segmenting the business under the standpoint of the market where it operates: Domestic (Internal Market - Brazil) and Export (External Market – Other Countries).

The revenue provided by operating segments reported exclusively derives from the manufacturing and sale of ceramic tiles used in the civil construction industry.

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

The Executive Board assesses the performance of the operating segments based on the measurement of the operating income or loss (Earnings Before Interest and Taxes – EBIT) and does not take into consideration the assets for segment performance analysis, as the Company's assets are not segregated.

The segment reporting, reviewed by the Executive Board is as follows:

	As at December 31, 2018			As at December 31, 2017		
	Brasil	Outros Países	Total	Brasil	Outros Países	Total
Continuing operations						
Revenue	868,678	185,512	1,054,190	840,999	182,938	1,023,937
Cost of sales	(527,894)	(120,696)	(648,590)	(492,335)	(114,582)	(606,917)
Gross operating income	340,784	64,816	405,600	348,664	68,356	417,020
Operating income (expenses), net	(123,022)	(38,174)	(161,196)	(231,810)	(36,204)	(268,014)
Selling, general and administrative	(292,903)	(38,174)	(331,077)	(246,183)	(36,204)	(282,387)
Other operating income (expenses), net	169,881	-	169,881	14,373	-	14,373
Operating income before finance income (costs)	217,762	26,642	244,404	116,854	32,152	149,006
% on NOI	25%	14%	23%	14%	18%	15%

The Company has no customers that individually account for more than 10% of the net sales revenue. It exports to 71 countries, particularly Argentina and Paraguay.

37 Commitments

a) Commitments for acquisition of assets

Expenses incurred on the balance sheet date but not yet incurred relating to property, plant and equipment as at December 31, 2018 total R\$19.637, corresponding to the modernization of manufacturing equipment, according to the Company's investment plan.

b) Commitments on operating leases

Operating leases refer to the acquisition of vehicles. Minimum future non-cancelable payments as at December 31, 2018 and December 31, 2017 amount to R\$873 and R\$892, respectively, for less than one year. Amounts total R\$904 and R\$1,851 for more than one year and less than five years, respectively.

38 Insurance coverage

Current insurance coverage is considered sufficient by Management to cover probable losses. As at December 31, 2018, coverage against fire, lightning and explosion of any nature is R\$250,000, against windstorm, smoke with car crash is R\$18,000, against loss of profits is R\$35,000 and against electric damages, riot and civil liability is R\$3,600. The insurance policy is effective from June 31, 2018 to June 31, 2019.

The Company also has civil liability insurance for Directors & Officers (D&O), taken from XL Seguradora S.A, to cover losses and damages caused to third parties related to the exercise of the duties and tasks of officers and directors, up to the amount of R\$10,000, effective from August 27, 2018 to August 27, 2019.

Additionally, the Company has taken insurance from Fairfax Brasil, relating to the provision of guarantee bond under labor claim No. 0234100-60.1998.5.05.0015 in the amount of R\$28,000, effective from August 18, 2016 to August 18, 2020.

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018

In thousands of Brazilian reais - R\$, unless otherwise stated.

39 Related entities and parties

The purchase and sale of products, raw materials and services, as well as borrowings and funding transactions between the Parent and subsidiaries were carried out as follows.

Nature	Company	December 31, 2018	December 31, 2017
Dividends receivable	Portobello Shop S.A.	28,377	32,529
Amounts receivable	Portobello Shop S.A.	3	127
Trade receivables	Portobello América, Inc.	84,255	67,728
Trade receivables	PBTech Com. Serv. Cer. Ltda.	481	-2,771
Advance from customers	Cia Brasileira de Cerâmica	752	-
Advance to suppliers	Mineração Portobello Ltda.	-	449
Net assets of payables to subsidiaries		<u>113,868</u>	<u>98,062</u>
Due from other related parties	Refinadora Catarinense S.A.	97,941	94,651
Due from other related parties	Refinadora Catarinense S.A.	(62,008)	(62,008)
Receivables net of advance	Solução Cerâmica Com. Ltda.	-	(238)
Receivables net of advance	Flooring Revest. Cer. Ltda.	-	(456)
Payables	Multilog S/A	958	1,054
Payables	Flooring Revest. Cer. Ltda.	307	-
Net assets of payables to other related parties		<u>37,332</u>	<u>33,003</u>

Nature	Company	Accumulated	
		December 31, 2018	December 31, 2017
Revenues			
Subsidiaries			
Sales of products	PBTech Com. Serv. Cer. Ltda.	34,144	24,094
Sales of products	Portobello América, Inc.	6,522	-
Related people and related parties			
Sales of products	Solução Cerâmica Com. Ltda.	30,448	22,984
Sales of products	Flooring Revest. Cer. Ltda.	11,152	10,282
Expenses			
Subsidiaries			
Purchase of products	Mineração Portobello Ltda.	(2,447)	(9,359)
Related people and related parties			
Rental	Gomes Part Societárias Ltda.	(469)	(432)
Freight services	Elog Logistica Sul Ltda	(6,042)	(5,407)
Cutting services	Flooring Revest. Cer. Ltda.	(9,119)	(3,913)
Software services	Neoway Tecnologia	(239)	-
		<u>63,950</u>	<u>38,249</u>

PBG S.A and subsidiaries

Notes to the Interim Financial Information for the quarter ended December 31, 2018
In thousands of Brazilian reais - R\$, unless otherwise stated.

Subsidiary Portobello Shop is the Company's guarantor in some financing transactions (see note 21).

Related-party transactions

Portobello Shop recognized receivables and service revenue relating to royalties of two related parties. One Company's subsidiary and two related entities comprise the franchise network. The transactions are as follows:

Transactions with subsidiaries and related parties	Nature			Nature	Accumulated	
		December 31, 2018	December 31, 2017		December 31, 2018	December 31, 2017
	Asset			Income		
Solução Cerâmica Com. Ltda.	Trade receivables	938	380	Royalties	6,282	4,566
Flooring Revest. Cer. Ltda.	Trade receivables	393	286	Royalties	2,830	2,020
		<u>1,331</u>	<u>666</u>		<u>9,112</u>	<u>6,586</u>

Key management personnel compensation

Expenses on compensation paid to key management personnel, which comprise the members of the Executive Board, Board of Directors, Supervisory Board and Management, recorded in the quarter ended December 31 2018 are as follows:

	Parent		Consolidated	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Fixed compensation				
Salaries	13,961	12,122	15,875	13,811
Fees	4,794	5,522	4,859	5,522
Variable compensation	1,652	5,092	1,891	5,449
Short-term direct and fringe benefits	-	-	6	-
Pension plan	930	739	996	749
Others	2,009	1,916	2,173	2,107
	<u>23,346</u>	<u>25,391</u>	<u>25,801</u>	<u>27,638</u>

40 Information supplemental to cash flow

During in the year of 2018, the following non-cash transactions were carried out:

	Parent	Consolidated
equipment in the investing activity	(10.000)	(10.000)

CAPITAL BUDGET TO ESTABLISH PROFIT RESERVE FOR EXPANSION

Management will propose to the Annual Shareholders' Meeting that part of net income for 2018 be retained for expansion of activities, as provided for in Article 196 of Law no. 6,404/76.

Investment plan for 2019 and 2020 is demonstrated below

Investment plan	
Investments	149.235
Investments 2019	122.966
Investments 2020	26.269
<hr/>	
Sources	149.235
Profit retention	114.922
Operating flows net of disbursements expected in transactions	34.313

The Company intends to invest R\$ 123 million throughout 2019 for the purpose of continuing its expansion strategy.

Of amount intended to be invested in 2019, around 49% is destined to the expansion and modernization project of manufacturing plant in Tijucas, Santa Catarina State (SC); according to such project, approximately R\$ 56,8 million will be reserved to acquire new machinery and equipment, R\$ 2,38 million to improve plant, and R\$ 1 million to update plant safety. In addition, 12% will be destined to Portobello Shop, 13% for new business and 12% for commercial initiatives and logistics.

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

Sources of financial disbursements for investments will be the proposed 2018 profit retention reserve and generation of cash through operations.

The capital budget presented was approved by the Tax Council on February 12, 2019 and by the Board of Directors in a meeting held on February 14, 2019.

Tijucas, February 18, 2019.

(Convenience Translation into English from the
Original Previously Issued in Portuguese)

PBG S.A.

Individual and Consolidated
Financial Statements
for the Year Ended December 31, 2018 and
Independent Auditor's Report

Deloitte Touche Tohmatsu Auditores Independentes

(Convenience Translation into English from the Original Previously Issued in Portuguese)

**INDEPENDENT AUDITOR'S REPORT ON THE
INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS**

To the Shareholders, Directors and Management of
PBG S.A.

Opinion

We have audited the accompanying individual and consolidated financial statements of PBG S.A. ("Company"), identified as Parent and Consolidated, respectively, which comprise the balance sheet as at December 31, 2018, and the statements of profit and loss, of comprehensive income, of changes in equity and of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the individual and consolidated financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of PBG S.A. as at December 31, 2018, and its individual and consolidated financial performance and its respective individual and consolidated cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and with International Financial Reporting Standards - IFRS, issued by the International Accounting Standards Board - IASB.

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the individual and consolidated financial statements" section of our report. We are independent of the Company and its subsidiaries, in accordance with the relevant ethical requirements in the Code of Ethics for Professional Accountants and the professional standards issued by the Brazilian Federal Accounting Council ("CFC"), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit matters

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

Recognition of tax assets – IPI premium credit – “Plaintiff” and Exclusion of ICMS from PIS and COFINS tax base

As disclosed in notes 3.15, 15 and 25 of the financial statements, the Company recognized significant tax credits arising from the IPI premium credit - “Plaintiff” and related taxes amounting to R\$220,260 thousand and R\$64,429 thousand, respectively, and the Exclusion of ICMS from PIS and COFINS tax base, in the amount of R\$59,381 thousand. These matters required from the Company and its legal counsel significant judgment in determining the estimates related to the amount and the probability of inflow of economic benefits and measurement of the amounts involved. Due to the complexity of the matters and, in particular, of the tax environment in Brazil, changes in the assumptions used by the Company or in the external conditions, including the position of the tax authorities, may significantly impact the amounts recognized in the financial statements.

Our audit procedures included, among others, an evaluation of the accounting policies applied by the Company for recognition and measurement of tax assets. We analyzed the appropriateness of the tax credits recognition in light of the accounting standards and guidelines; we also analyzed the amounts of the recognized tax credits through the analysis of the criteria and assumptions used to measure the recognized amounts and that took into consideration the legal reports and opinions prepared by the Company’s internal and external legal counsel; and we assessed the capacity to realize the tax credits. Our procedures were performed with the assistance of our tax specialists and included also the assessment of the disclosures made by the Company in the individual and consolidated financial statements.

Based on the results of the auditing procedures performed, we understand that the criteria for recognition and measurement of the aforementioned tax assets adopted by Management, as well as the respective disclosures in the explanatory notes, are appropriate in the context of the individual and consolidated financial statements taken as a whole.

Other matters

Statements of added value

The individual and consolidated statements of value added (“DVA”) for the year ended December 31, 2018, prepared under the responsibility of the Company’s Management and disclosed as supplemental information for purposes of the IFRS, were subject to audit procedures performed together with the audit of the Company’s financial statements. In forming our opinion, we assess whether these statements are reconciled with the financial statements and accounting records, as applicable, and whether their form and content are in accordance with the criteria set out in technical pronouncement CPC 09 - Statement of Added Value. In our opinion, these statements of value added were appropriately prepared, in all material respects, in accordance with the criteria set out in such technical pronouncement and are consistent in relation to the individual and consolidated financial statements taken as a whole.

Audit of the individual and consolidated financial statements for the year ended December 31, 2017

The individual and consolidated financial statements for the year ended December 31, 2017 were audited by another independent auditor who issued an unmodified opinion thereon, dated February 22, 2018.

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

Management is responsible for the other information. The other information comprises the Management Report.

Our opinion on the individual and consolidated financial statements does not cover the Management Report, and we do not express any form of audit conclusion thereon.

In connection with our audit of the individual and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the Management Report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and those charged with governance for the individual and consolidated financial statements

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with accounting practices adopted in Brazil and the IFRS, issued by the IASB, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the individual and consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Company and its subsidiaries.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Company and its subsidiaries to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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



The accompanying individual and consolidated financial statements have been translated into English for the convenience of readers outside Brazil.

Joinville, February 18, 2019

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

Jonas Dal Ponte
Engagement Partner

Opinions and Statements / Tax Council opinion or equivalent body PBG S.A.

Tax Council, in compliance with provisions of the Law and the Bylaws, reviewed Financial Statements for fiscal year ended December 31, 2018, including: balance sheet, statements of income for the year, of changes in shareholders' equity, of comprehensive income, of cash flows, of added value, notes, and Management Report and Independent Auditors' Report. Consolidated statements were also reviewed. After reviews and Management clarifications, Tax Council, also considering unqualified opinion of auditors of Deloitte Touche Tohmatsu Auditores Independentes issued in February 2019 that these financial statements fairly reflect, in all main respects, equity and financial situation of PBG S.A. and its operations income, considers that they can be submitted to Shareholders for appreciation and decision. In addition, Management proposals related to change in capital, capital budgets, retention of profits and dividend distribution were analyzed, and they may also be submitted to Shareholders for appreciation and decision in an Annual Shareholders' Meeting.

Tijucas, February 18, 2019.

Jorge Muller

Maro Marcos Hadlich Filho

Peter Edward Mr Wilson

Opinions and Statements / Statement of the Executive Officers on the Financial Statements Statement of the Directors on the Financial Statements and Independent Auditors' Report Pursuant to CVM

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

(i) reviewed, discussed and agreed with the Company's financial statements for the year ended December 31, 2018; and

(ii) reviewed, discussed and agreed with the opinions expressed in the DELOITTE TOUCHE TOHMATSU Independent Auditors' Report relating to the Company's Financial Statements for the year ended December 31, 2018.

Members of the Executive Board

Cesar Gomes Júnior - CEO

Cláudio Ávila da Silva – Director Vice-presidente

John Shojiro Suzuki - CEO and Investor Relations Officer

Mauro do Valle Pereira – Director

Tijucas, February 18, 2019

Cesar Gomes Júnior

Cláudio Ávila da Silva

John Shojiro Suzuki

Mauro do Valle Pereira