PortobelloGrupo

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Company information / Capital composition

Quantity of shares (Mil)	Last fiscal year 31/12/2016
Paid-in capital	
Common	158,489
Preferred	0
Total	158,489
Treasury	
Common	0
Preferred	0
Total	0

Individual financial statements / Balance sheet – Assets

(In thousand of reais)

Code of account	Account description	Last year 31/12/2016	Penultimate year 12/31/2015	Antepenultimate year 12/31/2014
1	Total assets	1,300,544	1,421,200	1,179,847
1.01	Current assets	529,775	611,817	493,268
1.01.01	Cash and cash equivalents	100,085	81,761	87,803
1.01.02	Interest earning bank deposits	0	100,478	0
1.01.03	Accounts receivable	202,658	175,837	179,292
1.01.03.01	Trade accounts receivable	202,658	175,837	179,292
1.01.04	Inventories	185,605	205,088	191,600
1.01.06	Recoverable taxes	16,943	20,153	15,017
1.01.06.01	Current taxes recoverable	16,943	20,153	15,017
1.01.06.01.01	Income and social contribution tax recoverable	4,330	4,964	0
1.01.06.01.02	Other current taxes recoverable	12,613	15,189	15,017
1.01.08	Others Current assets	24,484	28,500	19,556
1.01.08.03	Other	24,484	28,500	19,556
1.01.08.03.01	Dividends receivable	15,893	14,850	9,472
1.01.08.03.03	Advances to suppliers	3,025	2,796	3,157
1.01.08.03.04	Other	5,566	10,854	6,927
1.02	Non-current assets	770,769	809,383	686,579
1.02.01	Long term assets	330,824	354,216	281,813
1.02.01.08	Related party credits	158,473	168,864	150,318
1.02.01.08.02	Receivables from subsidiaries	69,050	84,263	61,425
1.02.01.08.04	Other related party credits	89,423	84,601	88,893
1.02.01.09	Other non-current assets	172,351	185,352	131,495
1.02.01.09.03	Judicial deposits	81,693	59,899	46,564
1.02.01.09.04	Receivables - Eletrobrás	32,208	48,621	48,621
1.02.01.09.05	Recoverable taxes	6,124	10,477	15,330
1.02.01.09.06	Tax assets	26,735	22,718	15,386
1.02.01.09.07	Actuarial assets	4,369	9,676	5,075
1.02.01.09.08	Interest earning bank deposits	6,451	5,826	0
1.02.01.09.09	Advance for future capital increase	13,976	27,321	0

Individual financial statements / Balance sheet – Assets

(In thousand of reais)

Code of account	Account description	Last year 31/12/2016	Penultimate year 12/31/2015	Antepenultimate year 12/31/2014
1.02.01.09.10	Other	795	814	519
1.02.02	Investments	1,696	678	678
1.02.02.01	Ownership interest	1,696	678	678
1.02.02.01.02	Interest in subsidiaries	1,454	480	480
1.02.02.01.04	Other equity interest	242	198	198
1.02.03	Property, plant and equipment	425,256	436,679	387,451
1.02.04	Intangible assets	12,993	17,810	16,637

Individual financial statements/ Balance sheet – Liabilities

(In thousand of reais)

Code of account	Account description	Last year 12/31/2016	Penultimate year 12/31/2015	Antepenultimate year 12/31/2014
2	Total liabilities	1,300,544	1,421,200	1,179,847
2.01	Current liabilities	395,330	417,770	451,419
2.01.01	Social charges and labor legislation obligations	24,382	26,192	22,266
2.01.02	Suppliers	98,557	112,665	125,879
2.01.03	Tax liabilities	23,927	18,858	24,209
2.01.03.01	Federal tax liabilities	23,927	18,858	24,209
2.01.03.01.01	Income and social contribution tax payable	0	0	7,451
2.01.03.01.02	Installment payment of tax liabilities	9,788	9,018	8,300
2.01.03.01.03	Taxes, duties and contributions	14,139	9,840	8,458
2.01.04	Loans and financing	197,004	210,714	172,722
2.01.04.01	Loans and financing	171,249	210,053	172,722
2.01.04.02	Debentures	25,755	661	0
2.01.05	Other liabilities	51,460	45,476	82,442
2.01.05.02	Other	51,460	45,476	82,442
2.01.05.02.04	Assignment of credits with suppliers	21,522	15,642	23,703
2.01.05.02.05	Advance from clients	12,699	13,732	12,275
2.01.05.02.06	Dividends payable	879	7,646	16,876
2.01.05.02.07	Accounts payable from investments	0	0	21,466
2.01.05.02.08	Other	16,360	8,456	8,122
2.01.06	Provisions	0	3,865	23,901
2.01.06.02	Other provisions	0	3,865	23,901
2.01.06.02.05	Provision for contingencies	0	0	17,925
2.01.06.02.06	Provision for profit sharing	0	3,865	5,976
2.02	Non-current liabilities	666,766	771,584	491,158
2.02.01	Loans and financing	388,468	485,904	273,645
2.02.01.01	Loans and financing	214,424	289,067	273,645
2.02.01.02	Debentures	174,044	196,837	0
2.02.02	Other liabilities	137,864	120,842	109,467
2.02.02.02	Other	137,864	120,842	109,467

Individual financial statements/ Balance sheet – Liabilities

(In thousand of reais)

Code of account	Account description	Last year 31/12/2016	Penultimate year 12/31/2015	Antepenultimate year 12/31/2014
2.02.02.02.03	Suppliers	68,990	47,923	33,287
2.02.02.02.06	Installment payment of tax liabilities	68,874	72,919	75,887
2.02.02.02.08	Other	0	0	293
2.02.03	Deferred taxes	7,603	21,665	30,184
2.02.03.01	Deferred income and social contribution taxes	7,603	21,665	30,184
2.02.04	Provisions	132,831	143,173	77,862
2.02.04.02	Other provisions	132,831	143,173	77,862
2.02.04.02.04	Provision for loss in investments	74,515	93,389	58,559
2.02.04.02.05	Provisions for contingencies	51,004	41,075	9,738
2.02.04.02.06	Provision for long-term incentive	7,312	8,709	9,565
2.03	Shareholders' equity	238,448	231,846	237,270
2.03.01	Realized capital	119,565	99,565	76,565
2.03.04	Profit reserves	121,129	139,193	143,749
2.03.04.01	Legal reserve	15,219	15,113	12,481
2.03.04.05	Profit retention reserve	103,197	86,070	66,201
2.03.04.08	Additional dividend proposed	0	12,504	22,198
2.03.04.10	Profit reserves to be allocated	2,713	25,506	42,869
2.03.08	Other comprehensive income	-2,246	-6,912	16,956

Individual financial statements / Statement of income
(In thousand of reais)

Code of account	Account description	Last year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015	Antepenultimate year 01/01/2014–12/31/2014
3.01	Income from sales of goods and/or services	926,076	931,873	885,018
3.02	Cost of goods and/or services sold	-649,256	-612,785	-593,939
3.03	Gross income	276,820	319,088	291,079
3.04	Operating expenses/income	-207,438	-196,657	-148,262
3.04.01	Sales expenses	-202,719	-166,825	-134,887
3.04.02	General and administrative expenses	-29,839	-31,122	-24,796
3.04.04	Other operating income	19,080	8,040	10,621
3.04.04.01	Other operating income	19,080	8,040	10,621
3.04.05	Other operating expenses	-16,501	-17,551	-20,596
3.04.05.01	Other operating expenses	-16,501	-17,551	-20,596
3.04.06	Equity income (loss)	22,541	10,801	21,396
3.05	Income (loss) before financial income and taxes	69,382	122,431	142,817
3.06	Financial income (loss)	-80,169	-57,757	-21,128
3.06.01	Financial income	34,642	49,432	28,727
3.06.01.01	Financial income	30,335	49,432	25,228
3.06.01.02	Net exchange variation	4,307	0	3,499
3.06.02	Financial expenses	-114,811	-107,189	-49,855
3.06.02.01	Financial expenses	-114,811	-75,537	-49,855
3.06.02.02	Net exchange variation	0	-31,652	0
3.07	Income (loss) before income tax	-10,787	64,674	121,689
3.08	Income and social contribution taxes	12,912	-12,022	-28,225
3.08.01	Current	0	-20,541	-30,660
3.08.02	Deferred assets	12,912	8,519	2,435
3.09	Net income (loss) of continued operations	2,125	52,652	93,464
3.11	Income/loss for the period	2,125	52,652	93,464
3.99	Earnings per share - (Reais / Shares)			
3.99.01	Basic earnings per share			
3.99.01.01	ON	0.01341	0.33221	0.59000
3.99.02	Diluted earnings per share			

Individual financial statements / Statement of income

(In thousand of reais)

Code of account	Account description	Last year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015	Antepenultimate year 01/01/2014–12/31/2014
3.99.02.01	ON	0.01341	0.33221	0.59000

Individual financial statements / Statement of comprehensive income

(In thousand of reais)

Code of account	Account description	Last year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015	Antepenultimate year 01/01/2014–12/31/2014
4.01	Net income for the period	2,125	52,652	93,464
4.02	Other comprehensive income	5,864	-22,669	-13,046
4.02.02	Actuarial liability	-7,327	2,790	-6,655
4.02.04	Foreign exchange variation of foreign subsidiary	13,191	-25,459	-6,391
4.03	Comprehensive income for the period	7,989	29,983	80,418

Individual financial statements / Statement of cash flows - Indirect method

(In thousand of reais)

Code of account	Account description	Last year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015	Antepenultimate year 01/01/2014–12/31/2014
6.01	Net cash from operating activities	105,348	-11,575	47,675
6.01.01	Cash generated in operations	75,425	155,143	167,327
6.01.01.01	Profit or loss for the year before taxes	-10,787	64,674	121,689
6.01.01.02	Depreciation and amortization	36,882	31,316	24,954
6.01.01.03	Equity income (loss)	-22,541	-10,801	-21,396
6.01.01.04	Unrealized exchange variation	-9,091	35,128	3,779
6.01.01.05	Provision for inventory at market value	3,327	-506	-1,273
6.01.01.06	Allowance for doubtful accounts	1,768	54	-506
6.01.01.07	Provision for contingencies	12,220	14,683	7,176
6.01.01.08	Provision for labor obligations	510	-1,796	-1,578
6.01.01.09	Profit sharing and long-term incentives	-5,262	-2,967	3,702
6.01.01.10	Other provisions	-7,322	-224	45
6.01.01.11	Restatement of Eletrobrás compulsory loans	16,413	0	-5,066
6.01.01.12	Restatement of tax assets	-4,017	-7,332	-1,490
6.01.01.13	Restatement of receivables with other related parties	-4,822	-7,406	5,647
6.01.01.14	Restatements of financial charges on tax installments	6,405	6,716	7,821
6.01.01.15	Accrued interest on loans	61,628	35,742	27,169
6.01.01.16	Negative goodwill on receivables received from related parties	0	1,698	2,032
6.01.01.17	Actuarial assets	-2,019	-1,811	-2,184
6.01.01.19	Other	2,133	-2,025	-3,194
6.01.02	Changes in assets and liabilities	94,730	-108,074	-72,335
6.01.02.01	(Increase)/Decrease in accounts receivable	-28,331	3,217	-20,242
6.01.02.02	Increase (Decrease) in advance from clients	-1,033	1,457	-5,772
6.01.02.04	(Increase)/Decrease in inventories	16,156	15,351	-12,661
6.01.02.05	(Increase)/Decrease in legal deposits	-21,794	-13,335	-25,843
6.01.02.06	(Increase) Decrease in receivables from related parties	0	10,000	-2,032
6.01.02.07	(Increase)/Decrease in recoverable taxes	6,929	8,831	-19,704
6.01.02.08	(Increase)/Decrease in pledged financial investments	99,853	-106,304	0
6.01.02.09	(Increase)/Decrease in other assets	5,307	-4,222	-2,153

Individual financial statements / Statement of cash flows - Indirect method

(In thousand of reais)

Code of account	Account description	Last year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015	Antepenultimate year 01/01/2014–12/31/2014
6.01.02.10	Increase/(Decrease) in accounts payable	13,155	-6,798	14,385
6.01.02.11	(Increase) Decrease advance to suppliers	-229	361	8,231
6.01.02.12	Increase/(Decrease) in provisions for contingency	-2,291	-1,271	0
6.01.02.13	Increase/(Decrease) in installment payments	-9,680	-8,965	-39,390
6.01.02.14	Increase /(Decrease) in Tax and labor liabilities	1,462	-6,661	11,816
6.01.02.15	Increase/(Decrease) in other accounts payable	15,226	265	21,030
6.01.03	Other	-64,807	-58,644	-47,317
6.01.03.01	Interest paid	-64,807	-38,372	-28,977
6.01.03.02	Income and social contribution taxes paid	0	-20,272	-18,340
6.02	Net cash used in investment activities	8,749	-144,707	-134,437
6.02.01	Acquisition of property, plant and equipment	-20,310	-98,174	-143,757
6.02.02	Acquisition of intangible assets	-1,076	-5,329	-2,803
6.02.03	Dividends received	14,851	15,234	11,844
6.02.04	Paid-up capital in subsidiaries	-10	-440	-48
6.02.05	Receipt from the sale of permanent assets	-44	0	0
6.02.06	Advances for future capital increase	13,345	-58,724	0
6.02.07	Loans (granted to) repaid by related parties	1,993	2,726	327
6.03	Net cash from financing activities	-95,773	150,240	119,176
6.03.01	Funding of loans and financing and debentures	109,415	422,804	248,188
6.03.02	Payment of loans and financing	-197,034	-227,928	-99,132
6.03.03	Dividends paid	-8,154	-44,636	-29,880
6.05	Increase (decrease) in cash and cash equivalents	18,324	-6,042	32,414
6.05.01	Opening balance of cash and cash equivalents	81,761	87,803	55,389
6.05.02	Closing balance of cash and cash equivalents	100,085	81,761	87,803

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

(In thousand of reais)

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

Individual financial statements / Statement of changes in shareholders’ equity / DMPL - 01/01/2015–12/31/201512

(In thousand of reais)

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

Individual financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2014–12/31/2014

(In thousand of reais)

Code of account	Account description	Paid-up capital	Capital reserves, Options granted and Treasury shares	Profit reserves	Retained earnings (loss)	Other comprehensive income	Shareholders' equity
5.01	Opening balances	46,065	-2,545	115,651	0	32,678	191,849
5.03	Adjusted opening balances	46,065	-2,545	115,651	0	32,678	191,849
5.04	Capital transactions with partners	0	2,545	19,653	-45,133	0	-22,935
5.04.07	Interest on own capital	0	0	0	-6,447	0	-6,447
5.04.08	Compulsory minimum dividends	0	0	0	-16,488	0	-16,488
5.04.09	Proposal for allocation of additional dividends	0	0	22,198	-22,198	0	0
5.04.10	Treasury shares	0	2,545	-2,545	0	0	0
5.05	Total comprehensive income	0	0	0	92,675	-15,722	76,953
5.05.01	Net income for the period	0	0	0	93,464	0	93,464
5.05.02	Other comprehensive income	0	0	0	-789	-15,722	-16,511
5.05.02.06	Realization of revaluation reserve	0	0	0	-789	-2,676	-3,465
5.05.02.07	Actuarial (Gain)/loss	0	0	0	0	-6,656	-6,656
5.05.02.08	Foreign exchange variation of foreign subsidiary	0	0	0	0	-6,390	-6,390
5.06	Internal changes in shareholders' equity	30,500	0	8,445	-47,542	0	-8,597
5.06.04	Allocations after 2014 Annual Shareholders' Meeting - Capital increase	30,500	0	-30,500	0	0	0
5.06.06	Allocation after Annual Shareholders' Meeting 201 - Approval of additional dividends	0	0	-8,597	0	0	-8,597
5.06.07	Formation of legal reserve (5%)	0	0	4,673	-4,673	0	0
5.06.08	Formation of unallocated profit reserve	0	0	42,869	-42,869	0	0
5.07	Closing balances	76,565	0	143,749	0	16,956	237,270

Individual financial statements or Statement of added value

(In thousand of reais)

Code of account	Account description	Last year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015	Antepenultimate year 01/01/2014–12/31/2014
7.01	Income	1,189,260	1,205,418	1,166,840
7.01.01	Sale of merchandise, products and services	1,162,983	1,158,487	1,098,069
7.01.02	Other income	26,787	14,363	16,281
7.01.03	Income from construction of own assets	1,258	32,622	52,996
7.01.04	Allowance for/reversal of for doubtful accounts	-1,768	-54	-506
7.02	Inputs acquired from third parties	-618,670	-623,310	-615,435
7.02.01	Cost of goods, merchandise and services Sold	-451,238	-453,524	-445,460
7.02.02	Materials, Energy, Third-party services and other	-169,961	-170,390	-170,101
7.02.03	Loss/recovery of asset values	2,529	604	126
7.03	Gross added value	570,590	582,108	551,405
7.04	Retentions	-36,882	-31,316	-24,952
7.04.01	Depreciation, amortization and depletion	-36,882	-31,316	-24,952
7.05	Net added value produced	533,708	550,792	526,453
7.06	Added value received as transfer	110,310	155,107	100,903
7.06.01	Equity income (loss)	22,541	10,801	21,396
7.06.02	Financial income	87,769	144,306	79,507
7.07	Total added value payable	644,018	705,899	627,356
7.08	Distribution of added value	644,018	705,899	627,356
7.08.01	Personnel	197,069	184,548	163,932
7.08.01.01	Direct remuneration	163,025	156,323	140,839
7.08.01.02	Benefits	21,143	17,322	14,196
7.08.01.03	FGTS	12,901	10,903	8,897
7.08.02	Taxes, duties and contributions	265,673	257,993	259,228
7.08.02.01	Federal	113,252	131,628	144,217
7.08.02.02	State	151,804	125,940	114,722
7.08.02.03	Municipal	617	425	289
7.08.03	Third-party capital remuneration	179,151	210,706	110,732
7.08.03.01	Interest	167,938	202,063	100,633
7.08.03.02	Rents	11,213	8,643	10,099

Individual financial statements or Statement of added value

(In thousand of reais)

Code of account	Account description	Last year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015	Antepenultimate year 01/01/2014–12/31/2014
7.08.04	Remuneration of own capital	2,125	52,652	93,464
7.08.04.01	Interest on own capital	0	5,940	6,447
7.08.04.02	Dividends	504	7,269	38,686
7.08.04.03	Retained earnings / Loss for the period	1,621	39,443	48,331

Consolidated financial statements or Balance sheet – Assets

(In thousand of reais)

Code of account	Account description	Last year 31/12/2016	Penultimate year 12/31/2015	Antepenultimate year 12/31/2014
1	Total assets	1,237,360	1,351,893	1,132,348
1.01	Current assets	535,369	639,604	497,839
1.01.01	Cash and cash equivalents	105,745	87,664	92,383
1.01.02	Interest earning bank deposits	0	100,478	0
1.01.03	Accounts receivable	215,379	208,367	187,918
1.01.03.01	Trade accounts receivable	215,379	208,367	187,918
1.01.04	Inventories	185,880	205,291	192,292
1.01.06	Recoverable taxes	19,079	22,775	15,648
1.01.06.01	Current taxes recoverable	19,079	22,775	15,648
1.01.06.01.01	Income and social contribution tax recoverable	5,017	6,020	452
1.01.06.01.02	Other current taxes recoverable	14,062	16,755	15,196
1.01.08	Others Current assets	9,286	15,029	9,598
1.01.08.03	Other	9,286	15,029	9,598
1.01.08.03.03	Advances to suppliers	2,637	2,053	1,788
1.01.08.03.04	Other	6,649	12,976	7,810
1.02	Non-current assets	701,991	712,289	634,509
1.02.01	Long term assets	247,847	242,657	220,405
1.02.01.08	Related party credits	89,423	84,601	88,893
1.02.01.08.04	Other related party credits	89,423	84,601	88,893
1.02.01.09	Other non-current assets	158,424	158,056	131,512
1.02.01.09.03	Judicial deposits	81,742	59,924	46,581
1.02.01.09.04	Receivables - Eletrobrás	32,208	48,621	48,621
1.02.01.09.05	Recoverable taxes	6,124	10,477	15,330
1.02.01.09.06	Tax assets	26,735	22,718	15,386
1.02.01.09.07	Actuarial assets	4,369	9,676	5,075
1.02.01.09.08	Interest earning bank deposits	6,451	5,826	0
1.02.01.09.09	Other	795	814	519
1.02.02	Investments	243	198	198
1.02.02.01	Ownership interest	243	198	198

Consolidated financial statements or Balance sheet – Assets

(In thousand of reais)

Code of account	Account description	Last year 31/12/2016	Penultimate year 12/31/2015	Antepenultimate year 12/31/2014
1.02.02.01.04	Other equity interest	243	198	198
1.02.03	Property, plant and equipment	433,348	444,194	392,585
1.02.04	Intangible assets	20,553	25,240	21,321

Consolidated financial statements or Balance sheet – Liabilities

(In thousand of reais)

Code of account	Account description	Last year 31/12/2016	Penultimate year 12/31/2015	Antepenultimate year 12/31/2014
2	Total liabilities	1,237,360	1,351,893	1,132,348
2.01	Current liabilities	409,155	439,490	460,243
2.01.01	Social and labor obligations	27,155	29,015	24,501
2.01.02	Suppliers	102,929	127,352	126,670
2.01.03	Tax liabilities	25,188	20,400	26,067
2.01.03.01	Federal tax liabilities	25,188	20,400	26,067
2.01.03.01.01	Income and social contribution tax payable	311	571	8,272
2.01.03.01.02	Installment payment of tax liabilities	9,857	9,081	8,358
2.01.03.01.03	Taxes, duties and contributions	15,020	10,748	9,437
2.01.04	Loans and financing	197,004	210,714	172,722
2.01.04.01	Loans and financing	171,249	210,053	172,722
2.01.04.02	Debentures	25,755	661	0
2.01.05	Other liabilities	56,879	47,481	86,005
2.01.05.02	Other	56,879	47,481	86,005
2.01.05.02.04	Assignment of credits with suppliers	21,522	15,642	23,703
2.01.05.02.05	Advance from clients	17,977	15,301	15,608
2.01.05.02.06	Dividends payable	915	7,667	16,895
2.01.05.02.07	Dividends payable from investments	0	0	21,466
2.01.05.02.08	Other	16,465	8,871	8,333
2.01.06	Provisions	0	4,528	24,278
2.01.06.02	Other provisions	0	4,528	24,278
2.01.06.02.05	Provision for contingencies	0	0	17,966
2.01.06.02.06	Provision for profit sharing	0	4,528	6,312
2.02	Non-current liabilities	589,746	680,547	434,825
2.02.01	Loans and financing	389,657	487,014	274,646
2.02.01.01	Loans and financing	215,613	290,177	274,646
2.02.01.02	Debentures	174,044	196,837	0
2.02.02	Other liabilities	138,332	121,342	109,982
2.02.02.02	Other	138,332	121,342	109,982

Consolidated financial statements or Balance sheet – Liabilities

(In thousand of reais)

Code of account	Account description	Last year 31/12/2016	Penultimate year 12/31/2015	Antepenultimate year 12/31/2014
2.02.02.02.03	Suppliers	68,990	47,923	33,287
2.02.02.02.06	Installment payment of tax liabilities	69,342	73,414	76,402
2.02.02.02.08	Other	0	5	293
2.02.03	Deferred taxes	3,250	21,665	30,184
2.02.03.01	Deferred income and social contribution taxes	3,250	21,665	30,184
2.02.04	Provisions	58,507	50,526	20,013
2.02.04.02	Other provisions	58,507	50,526	20,013
2.02.04.02.05	Provision for contingencies	51,195	41,190	9,764
2.02.04.02.06	Provision for long-term incentive	7,312	9,336	10,249
2.03	Consolidated shareholders' equity	238,459	231,856	237,280
2.03.01	Realized capital	119,565	99,565	76,565
2.03.04	Profit reserves	121,129	139,193	143,749
2.03.04.01	Legal reserve	15,219	15,113	12,481
2.03.04.05	Profit retention reserve	103,197	86,070	66,201
2.03.04.08	Additional dividend proposed	0	12,504	22,198
2.03.04.10	Profit reserves to be allocated	2,713	25,506	42,869
2.03.08	Other comprehensive income	-2,246	-6,912	16,956
2.03.09	Interest of non-controlling shareholders	11	10	10

Consolidated financial statements / Statement of income

(In thousand of reais)

Code of account	Account description	Last year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015	Antepenultimate year 01/01/2014–12/31/2014
3.01	Income from sales of goods and/or services	1,016,400	1,060,395	949,147
3.02	Cost of goods and/or services sold	-653,198	-664,193	-591,929
3.03	Gross income	363,202	396,202	357,218
3.04	Operating expenses/income	-287,394	-261,797	-206,484
3.04.01	Sales expenses	-250,744	-214,205	-163,542
3.04.02	General and administrative expenses	-37,155	-34,568	-30,461
3.04.04	Other operating income	17,390	8,045	9,404
3.04.04.01	Other operating income	17,390	8,045	9,404
3.04.05	Other operating expenses	-16,885	-21,069	-21,885
3.04.05.01	Other operating expenses	-16,885	-21,069	-21,885
3.05	Income (loss) before financial income and taxes	75,808	134,405	150,734
3.06	Financial income (loss)	-81,695	-58,024	-21,206
3.06.01	Financial income	35,173	50,244	29,581
3.06.01.01	Financial income	31,093	50,244	26,082
3.06.01.02	Net exchange variation	4,080	0	3,499
3.06.02	Financial expenses	-116,868	-108,268	-50,787
3.06.02.01	Financial expenses	-116,868	-76,726	-50,787
3.06.02.02	Net exchange variation	0	-31,542	0
3.07	Income (loss) before income tax	-5,887	76,381	129,528
3.08	Income and social contribution taxes	8,029	-23,708	-36,044
3.08.01	Current	-9,236	-32,227	-40,562
3.08.02	Deferred assets	17,265	8,519	4,518
3.09	Net income (loss) of continued operations	2,142	52,673	93,484
3.11	Consolidated income/loss for the period	2,142	52,673	93,484
3.11.01	Attributed to the Parent company's partners	2,125	52,652	93,464
3.11.02	Attributed to non-controlling partners	17	21	20
3.99	Earnings per share - (Reais / Shares)			
3.99.01	Basic earnings per share			
3.99.01.01	ON	0.01341	0.33000	0.59000

Consolidated financial statements / Statement of income

(In thousand of reais)

Code of account	Account description	Last year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015	Antepenultimate year 01/01/2014–12/31/2014
3.99.02	Diluted earnings per share			
3.99.02.01	ON	0.01341	0.33000	0.59000

Consolidated financial statements or Statement of comprehensive income

(In thousand of reais)

Code of account	Account description	Last year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015	Antepenultimate year 01/01/2014–12/31/2014
4.01	Consolidated net income for the period	2,142	52,673	93,484
4.02	Other comprehensive income	5,864	-22,669	-13,046
4.02.02	Actuarial liability	-7,327	2,790	-6,655
4.02.04	Foreign exchange variation of foreign subsidiary	13,191	-25,459	-6,391
4.03	Consolidated comprehensive income for the period	8,006	30,004	80,438
4.03.01	Attributed to the Parent company's partners	7,989	29,983	80,418
4.03.02	Attributed to non-controlling partners	17	21	20

Consolidated financial statements / Statement of cash flows - Indirect method

(In thousand of reais)

Code of account	Account description	Last year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015	Antepenultimate year 01/01/2014–12/31/2014
6.01	Net cash from operating activities	138,942	-45,134	70,580
6.01.01	Cash generated in operations	105,164	179,300	196,889
6.01.01.01	Profit or loss for the year before taxes	-5,887	76,381	129,618
6.01.01.02	Depreciation and amortization	39,504	32,363	25,255
6.01.01.04	Unrealized exchange variation	-9,120	35,233	3,845
6.01.01.05	Provision for inventory at market value	3,327	-506	-1,273
6.01.01.06	Allowance for doubtful accounts	1,768	54	-506
6.01.01.07	Provision for contingencies	12,309	14,933	7,187
6.01.01.08	Provision for labor obligations	744	-2,036	-1,837
6.01.01.09	Profit sharing	-6,552	-2,697	3,722
6.01.01.10	Other provisions	-7,099	-291	-8
6.01.01.11	Restatement of Eletrobrás compulsory loans	16,413	0	-5,066
6.01.01.12	Restatements of tax assets	-4,017	-7,332	-1,490
6.01.01.13	Restatements of receivables with other related parties	-4,822	-7,406	5,647
6.01.01.14	Restatements of financial charges on tax installments	6,448	6,762	7,871
6.01.01.16	Accrued interest on loans	61,653	35,851	27,169
6.01.01.17	Negative goodwill on receivables received from related parties	0	1,698	2,032
6.01.01.18	Actuarial assets	-2,019	-1,811	-2,184
6.01.01.20	Other	2,514	-1,896	-3,093
6.01.02	Changes in assets and liabilities	105,031	-153,746	-70,102
6.01.02.01	(Increase)/Decrease in accounts receivable	-8,522	-20,687	-23,589
6.01.02.02	Increase (Decrease) in advance from clients	2,676	-307	-2,832
6.01.02.03	(Increase)/Decrease in pledged financial investments	99,853	-106,304	0
6.01.02.04	(Increase)/Decrease in inventories	16,084	-12,493	-13,172
6.01.02.05	(Increase)/Decrease in legal deposits	-21,818	-13,343	-25,860
6.01.02.06	(Increase) Decrease in receivables from related parties	0	10,000	-2,032
6.01.02.07	(Increase)/Decrease in recoverable taxes	7,046	3,294	-19,737
6.01.02.08	Increase/(Decrease) in provisions for contingencies	-2,304	-1,473	0
6.01.02.09	(Increase)/Decrease in other assets	6,346	-5,461	-1,261

Consolidated financial statements / Statement of cash flows - Indirect method

(In thousand of reais)

Code of account	Account description	Last year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015	Antepenultimate year 01/01/2014–12/31/2014
6.01.02.10	Increase/(Decrease) in accounts payable	2,840	7,098	13,775
6.01.02.11	(Increase) Decrease advance to suppliers	-584	-265	8,187
6.01.02.12	Increase/(Decrease) in installment payments	-9,744	-9,027	-39,807
6.01.02.13	Increase /(Decrease) in Tax and labor liabilities	-1,530	-5,319	15,068
6.01.02.14	Increase/(Decrease) in other accounts payable	14,688	541	21,158
6.01.03	Other	-71,253	-70,688	-56,207
6.01.03.01	Interest paid	-64,807	-38,372	-28,977
6.01.03.02	Income and social contribution taxes paid	-6,446	-32,316	-27,230
6.02	Net cash used in investment activities	-25,142	-109,806	-155,036
6.02.01	Acquisition of property, plant and equipment	-23,276	-101,678	-148,103
6.02.02	Acquisition of intangible assets	-1,821	-8,128	-6,933
6.02.05	Receipt from the sale of permanent assets	-45	0	0
6.03	Net cash from financing activities	-95,719	150,221	119,162
6.03.01	Funding of loans and financing and debentures	109,469	422,804	248,188
6.03.02	Payment of loans and financing	-197,034	-227,928	-99,132
6.03.03	Dividends paid	-8,154	-44,655	-29,894
6.05	Increase (decrease) in cash and cash equivalents	18,081	-4,719	34,706
6.05.01	Opening balance of cash and cash equivalents	87,664	92,383	57,677
6.05.02	Closing balance of cash and cash equivalents	105,745	87,664	92,383

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

(In thousand of reais)

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

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

(In thousand of reais)

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

Consolidated financial statements / Statement of changes in shareholders’ equity / DMPL - 01/01/2014–12/31/2014

(In thousand of reais)

Code of account	Account description	Paid-up capital	Capital reserves, Options granted and Treasury shares	Profit reserves	Retained earnings (loss)	Other comprehensive income	Shareholders' equity	Interest of non-controlling shareholders	Consolidated shareholders' equity
5.01	Opening balances	46,065	-2,545	115,651	0	32,678	191,849	8	191,857
5.03	Adjusted opening balances	46,065	-2,545	115,651	0	32,678	191,849	8	191,857
5.04	Capital transactions with partners	0	2,545	19,653	-45,133	0	-22,935	-18	-22,953
5.04.07	Interest on own capital	0	0	0	-6,447	0	-6,447	0	-6,447
5.04.08	Compulsory minimum dividends	0	0	0	-16,488	0	-16,488	-18	-16,506
5.04.09	Proposal for allocation of additional dividends	0	0	22,198	-22,198	0	0	0	0
5.04.10	Treasury shares	0	2,545	-2,545	0	0	0	0	0
5.05	Total comprehensive income	0	0	0	92,675	-15,722	76,953	20	76,973
5.05.01	Net income for the period	0	0	0	93,464	0	93,464	20	93,484
5.05.02	Other comprehensive income	0	0	0	-789	-15,722	-16,511	0	-16,511
5.05.02.06	Realization of revaluation reserve	0	0	0	-789	-2,676	-3,465	0	-3,465
5.05.02.07	Actuarial (Gain)/loss	0	0	0	0	-6,656	-6,656	0	-6,656
5.05.02.08	Foreign exchange variation of foreign subsidiary	0	0	0	0	-6,390	-6,390	0	-6,390
5.06	Internal changes in shareholders' equity	30,500	0	8,445	-47,542	0	-8,597	0	-8,597
5.06.04	Allocations after 2014 Annual Shareholders’ Meeting - Capital increase	30,500	0	-30,500	0	0	0	0	0
5.06.05	Allocations after 2014 Annual Shareholders' Meeting - Approval Additional Dividends	0	0	-8,597	0	0	-8,597	0	-8,597
5.06.06	Formation of legal reserve - (5%)	0	0	4,673	-4,673	0	0	0	0
5.06.07	Formation of unallocated profit reserve	0	0	42,869	-42,869	0	0	0	0
5.07	Closing balances	76,565	0	143,749	0	16,956	237,270	10	237,280

Consolidated financial statements or Statement of added value

(In thousand of reais)

Code of account	Account description	Last year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015	Antepenultimate year 01/01/2014–12/31/2014
7.01	Income	1,283,902	1,354,348	1,232,297
7.01.01	Sale of goods, products and services	1,272,537	1,313,124	1,173,378
7.01.02	Other income	11,875	8,656	6,429
7.01.03	Income from construction of own assets	1,258	32,622	52,996
7.01.04	Allowance for/reversal of for doubtful accounts	-1,768	-54	-506
7.02	Inputs acquired from third parties	-643,179	-685,854	-629,397
7.02.01	Cost of goods, merchandise and services Sold	-454,126	-483,094	-443,308
7.02.02	Materials, Energy, Third-party services and other	-191,582	-203,365	-186,215
7.02.03	Loss/recovery of asset values	2,529	605	126
7.03	Gross added value	640,723	668,494	602,900
7.04	Retentions	-39,504	-32,363	-25,254
7.04.01	Depreciation, amortization and depletion	-39,504	-32,363	-25,254
7.05	Net added value produced	601,219	636,131	577,646
7.06	Added value received as transfer	88,478	145,232	80,360
7.06.02	Financial income	88,478	145,232	80,360
7.07	Total added value payable	689,697	781,363	658,006
7.08	Distribution of added value	689,697	781,363	658,006
7.08.01	Personnel	216,343	213,759	175,355
7.08.01.01	Direct remuneration	179,619	181,591	150,772
7.08.01.02	Benefits	22,293	19,136	14,811
7.08.01.03	FGTS	14,431	13,032	9,772
7.08.02	Taxes, duties and contributions	286,525	294,408	276,383
7.08.02.01	Federal	133,542	162,027	161,098
7.08.02.02	State	152,263	131,849	114,885
7.08.02.03	Municipal	720	532	400
7.08.03	Third-party capital remuneration	184,687	220,523	112,784
7.08.03.01	Interest	170,194	203,256	101,578
7.08.03.02	Rents	14,493	17,267	11,206
7.08.04	Remuneration of own capital	2,142	52,673	93,484

Consolidated financial statements or Statement of added value

(In thousand of reais)

Code of account	Account description	Last year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015	Antepenultimate year 01/01/2014–12/31/2014
7.08.04.01	Interest on own capital	0	5,940	6,447
7.08.04.02	Dividends	504	7,269	38,686
7.08.04.03	Retained earnings / Loss for the period	1,621	39,443	48,331
7.08.04.04	Part. Interest of non-controlling shareholders in retained earnings	17	21	20

Management report

In thousands of reais, unless otherwise indicated

COMMENTS ON THE CONSOLIDATED PERFORMANCE OF 2016

PBG S.A. (BM&FBovespa: PTBL3 NM), current name of Portobello S.A., presents its results referring to year ended December 31, 2016. Financial information presented in this document derives from consolidated financial statement of PBG S.A., prepared in accordance with standards of the Accounting Pronouncements Committee (CPC) and International Financial Reporting Standards (IFRS).

About PBG S.A.

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

HIGHLIGHTS

- Net revenue of R$ 1 billion;
- EBITDA of R$115 million with margin of 11%;
- Net income of R$ 2 million;
- Decrease in net indebtedness in the amount of R$37 million, 7% lower than 2015;
- Gross Income reaches R$363 million, with margin of 36%;
- Increase in average financial volume of share negotiations by 154% in the last 12 months.

MANAGEMENT COMMENTS

Year 2016 ends a period of intense market turbulence. Strong economic activity deterioration in the country and high volatility of the dollar created a challenging and unpredictable scenario, in which the Company was able to show its structure resilience and competitive differences strength.

In 2016, net income summed R$1 billion, virtually equal to 2015. According to Abramat, deflated billings of the construction finishing materials market presented fall of 8% in 2016. And Anfacer presented fall of 14% in ceramic coating sales volumes in the domestic market, the worst retraction ever recorded by the industry, not only because of fall intensity, but also because of its speed.

In this context, our income in the domestic market fell 5%, while volume increased 4%, evidencing the Company's capacity to mitigate impacts of consumption retraction. In foreign market, increase of 3% was impacted by increase in foreign

Management report

In thousands of reais, unless otherwise indicated

exchange rates in the first half of the year, as sales in dollar did not vary. Cash generation measured by EBITDA totaled R$115 million and net income was R$2 million in 2016.

The Company also put forward its plan to review its cost and expense structure and to resume profitability. In 2016, expenditures were optimized with the use of specialized advisory through Zero Based Budget methodology. Realized gains in the last months of 2016 were around R$4 million.

As regards Portobello Shop, currently with 143 stores, own stores presented positive results in 2016, both in more mature stores' performance and in its role as franchise laboratory.

In addition, plan for optimization and adequacy of the Pointer plant and brand, with focus on Northeast region, is still in progress. At production, actions are directed to improve production occupation and efficiency, reduce waste, improve quality, and develop new suppliers. In the commercial area, focus is still on retail, engineering and export. In spite of presenting ramp up slower than expected, due to difficult and more sensitive economic scenario in the Northeast region, in 2016, the new business helped increase sales for the period.

At Tijucas plant, fall in both fixed and variable costs, when compared to 2015, was obtained through continued optimization of manufacturing structure and reduction of natural gas and electric power contracted in the free market.

Year 2016 was more challenging than expected. However, the year ended with a feeling of breakthrough. The Company is increasingly confident of its strategy, business model, management and competitive differences and believes that, in 2017, natural gains of a competitive and well-structured company will be perceptible.

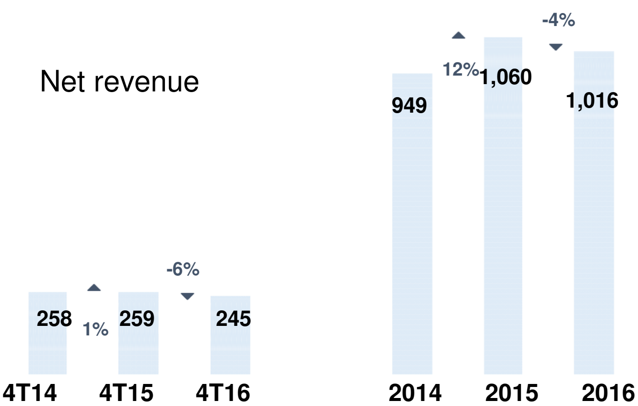
Management report

In thousands of reais, unless otherwise indicated

ECONOMIC AND FINANCIAL PERFORMANCE

	R$ thousand	4T14	4T15	4T16	▲%	2014	2015	2016	▲%
PERFORMANCE	Gross income	318,894	332,548	312,765	-6%	1,200,814	1,345,015	1,301,050	-3%
	Net income	258,077	259,482	245,148	-6%	949,147	1,060,395	1,016,400	-4%
	Gross income	102,659	95,837	88,134	-8%	357,218	396,202	363,202	-8%
	Gross margin	39,8%	36,9%	36,0%	-0.9 p.p.	37,6%	37,4%	35,7%	-1.7 p.p.
	EBIT	56,524	28,528	13,185	-54%	150,734	134,405	75,808	-44%
	EBIT margin	21.9%	11.0%	5.4%	-5.6 p.p.	15.9%	12.7%	7.5%	-5.2 p.p.
	Financial income (loss)	2,872	(15,909)	(12,386)	-22%	(21,206)	(58,024)	(81,695)	41%
	Net income	46,273	12,340	5,243	-58%	93,484	52,673	2,142	-96%
	Net Margin	17.9%	4.8%	2.1%	-2.6 p.p.	9.8%	5.0%	0.2%	-4.8 p.p.
	EBITDA	62,915	37,695	23,528	-38%	175,991	166,769	115,312	-31%
	EBITDA margin	*24.4%*	*14.5%*	*9.6%*	-4.9 p.p.	*18.5%*	*15.7%*	*11.3%*	-4.4 p.p.
INDICATORS	Current liquidity					*1.1*	*1.5*	*1.3*	(0.15)
	Net debt					350,852	501,654	464,241	-7%
	Net debt/EBITDA					*2.0*	*3.0*	*4.0*	1.02
	Net debt / SHLDR eq.					*1.5*	*2.2*	*1.9*	(0.22)
PTBL 3	Closing quotation					4.80	2.06	2.03	-1%
	Market value					760,745	326,486	321,732	

Net income



R$ million

Consolidated net income totaled R$1 billion in 2016, maintaining practically the same performance of prior year.

Domestic market net income represented 85% of total and, despite the fact that volume increased 4%, revenue fell 5% in relation to 2015, following market downturn. According to ABRAMAT, domestic finishing material market in 2016 presented reduction of 8% (deflated) in gross billings.

In the foreign market, variations were basically influenced by foreign exchange rate fluctuations. In 2016, income increased 3% in relation to 2015, mainly due to dollar increase in the first half of the year.

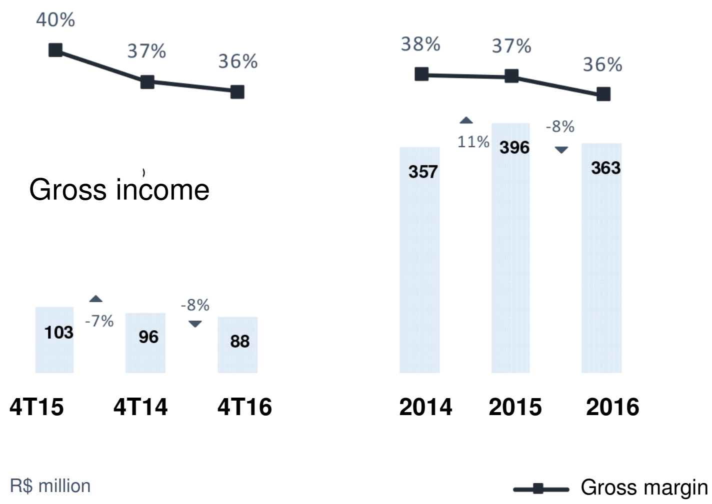
	4T14	4T15	4T16	▲%	2014	2015	2016	▲%
Net income	**258,077**	**259,482**	**245,148**	**-6%**	**949,147**	**1,060,395**	**1,016,400**	**-4%**
Domestic market	223,272	218,359	210,328	-4%	845,782	912,806	864,858	-5%
Foreign market	34,805	41,123	34,820	-15%	103,365	147,589	151,542	3%

Management report

In thousands of reais, unless otherwise indicated

Gross income

Gross income totaled R$363 million in 2016, a fall of 8% in relation to 2015. Gross margin presented loss of 1 pp, affected by the sale of product mix with lower profitability.



Operating income

Selling expenses totaled R$251 million in 2016, being 17% higher than in 2015. This is mainly the reflex of gradual change in distribution and logistics model and of increase in Pointer's expenses. Growth of CIF (Cost, Insurance and Freight) sales to logistics operators generated freight costs higher than those demonstrated in 2015, when the model was still not very representative. Today, freight expenses represent 20% of commercial expenses. The Company believes that implementation of a more effective distribution structure will be an important difference to the Company's position in the market, as service quality would improve.

Administrative expenses totaled R$37 million, 4% higher than in 2015. Expenses went from 3.3% of Net Income in 2015 to 3.7% in 2016, mainly due to growth of Pointer/Alagoas operation structure.

	4T14	4T15	4T16	▲ %	%RL	2014	2015	2016	▲ %	%RL
Operating expenses	**(46,135)**	**(67,309)**	**(74,949)**	**11%**	**31%**	**(206,484)**	**(261,797)**	**(287,394)**	**10%**	**28%**
Sales	(42,735)	(62,681)	(66,365)	6%	27%	(163,542)	(214,205)	(250,744)	17%	25%
General and administrative	(6,527)	(9,057)	(9,972)	10%	4%	(30,461)	(34,568)	(37,155)	7%	4%
Other income (expenses)	3,127	4,429	1,388	-69%	-1%	(12,481)	(13,024)	505		0%

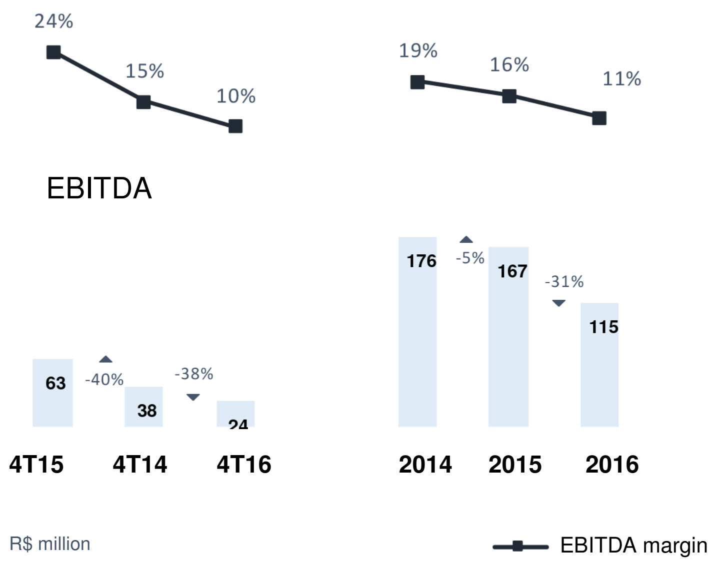
Management report

In thousands of reais, unless otherwise indicated

EBITDA

The Company closes 2016 with EBITDA of R$115 million, a fall of 31% over 2015, and margin of 11%. Reduction was affected mainly by maturation of new businesses (Pointer brand, own stores and distribution centers).

	4T14	4T15	4T16	▲ %	%RL	2014	2015	2016	▲ %	%RL
Net income	46,273	12,340	5,243	-58%	2%	93,484	52,673	2,142	-96%	0%
(+) Financial income	(2,872)	15,909	12,386	-22%	5%	21,206	58,024	81,695	41%	8%
(+) Depreciation and amortization	6,391	9,167	10,343	13%	4%	25,257	32,364	39,504	22%	4%
(+) Income taxes	13,123	279	(4,444)	-1693%	-2%	36,044	23,708	(8,029)	-134%	-1%
EBITDA	**62,915**	**37,695**	**23,528**	**-38%**	**10%**	**175,991**	**166,769**	**115,312**	**-31%**	**11%**



Net income

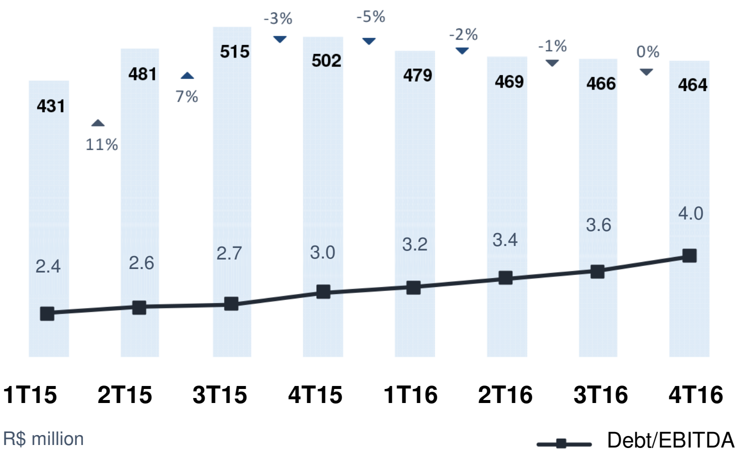
Year ended with income of R$2 million, lower than prior year, demonstrating, however, the Company's resilience in a difficult year. Performance is the reflex of lower operating income, due to motives mentioned above, and of increase in debt financial cost.

Management report

In thousands of reais, unless otherwise indicated

INDEBTEDNESS/CAPITAL STRUCTURE

Net debt



The Company's net indebtedness totaled R$464 million in 2016, which is equivalent to 4.0X EBITDA for the year, and to 1.9X shareholders' equity. During the year, net indebtedness fell R$37 million, reaching the lowest amount since June 2015.

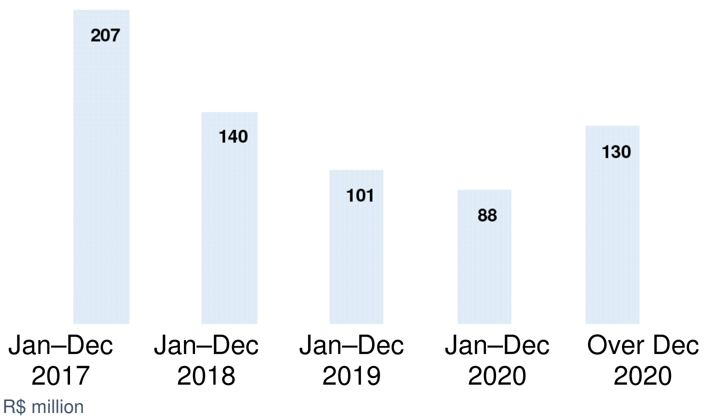
In December 2016, minimum covenants of financing contract with DEG were not reached. However, before the end of the year, waiver for these clauses was obtained.

As regards minimumcovenants of debentures, the Company maintains itself within new limits approved by debentureholders in renegotiation of August 2016.

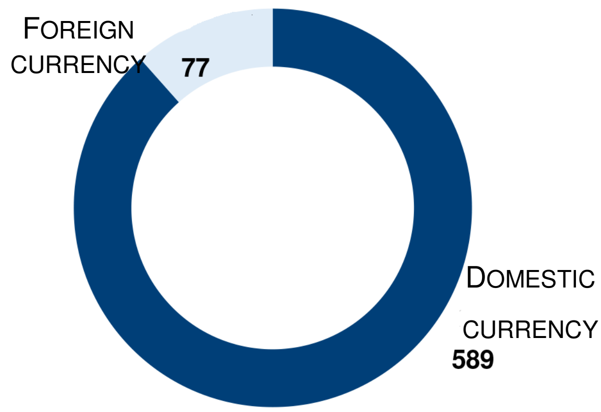
	Dec2014	Dec 2015	Dec2016	▲ R$
Bank indebtness	447,368	697,728	586,661	(111,067)
Tax indebtness	84,760	82,495	79,199	(3,296)
(=) Gross debt	**532,128**	**780,223**	**665,860**	**(114,363)**
(+) Cash and cash equivalents	(92,383)	(193,968)	(112,196)	81,772
(+) Related party credits	(88,893)	(84,601)	(89,423)	(4,822)
(=) Net indebtedness	**350,852**	**501,654**	**464,241**	**(37,413)**
EBITDA (last 12 months)	175,976	166,753	115,312	(51,441)
Net debt/ EBITDA	*2.0*	*3.0*	*4.0*	
Net debt / Income (loss)	*1.5*	*2.2*	*1.9*	

Gross indebtedness value is divided into: 31% maturing in the short-term and 69% maturing in the long term.

Source of debt



Amortization schedule (future indebtedness)

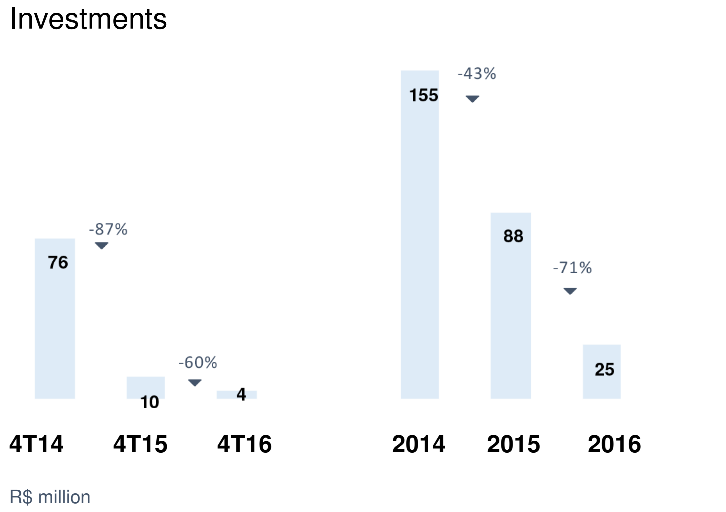


Management report

In thousands of reais, unless otherwise indicated

INVESTMENTS

In 2016, investments in fixed assets were refrained and totaled R$25 million. Of that amount, R$15 million correspond to refurbishment of Tijucas plant (61%) with acquisition of a new printer for digital decoration and production automation. Other investments were destined to make Alagoas (19%) plant adequate and to own stores (12%).

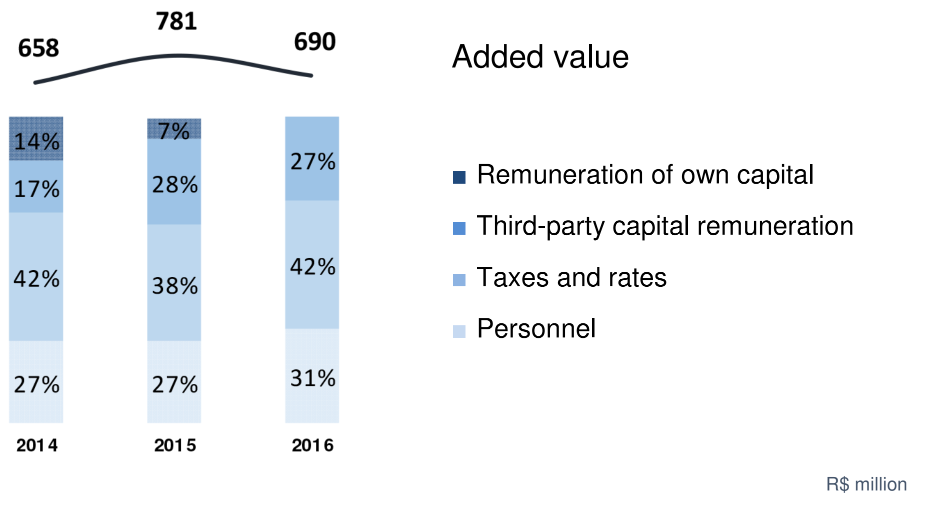


REMUNERATION TO SHAREHOLDERS AND DECISIONS IN SHAREHOLDERS' MEETING

Management will propose to distribute total dividends of 25%. Amount payable will be R$505 thousand, and respective payment date will be decided after Annual Shareholders' Meeting. Thus, the total remuneration to be distributed to shareholders for 2016 will represent a yield (dividend per share divided by final share quotation) of 0.16%.

ADDED VALUE

Added value in 2016 totaled R$690 million (R$781 million in 2015). Of this amount, 42% was allocated to taxes, 31% to labor (personnel) remuneration, and 27% to remuneration of third parties.



Management report

In thousands of reais, unless otherwise indicated

PERFORMANCE OF PTBL3 SHARES

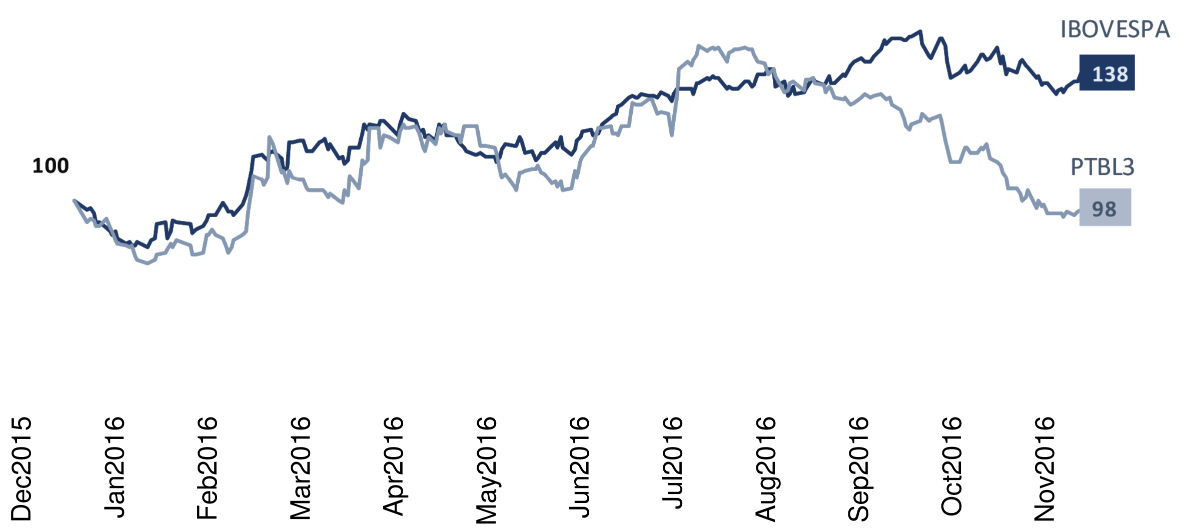
Common shares issued by PBG S.A., traded at BM&FBovespa under code PTBL3, closed December 2016 last trading session quoted at R$2.03, virtually equal to December 2015, and, in the same period, Ibovespa grew 38%.

Average financial volume traded in 2016 was R$ 11.9 million, an increase of 154% in face of the R$ 4.7 million for 2015.

In the end of 2016, PBG S.A. presented a market value equivalent to R$ 322 million (R$ 326 million as of December 31, 2015).

PTBL3 x Ibovespa De (base 100)

07/01/2012–12/29/2012

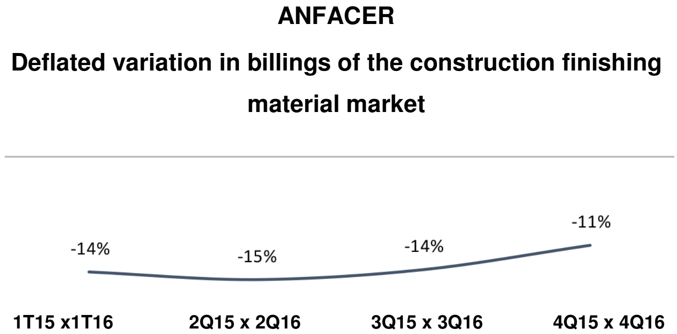


Management report

In thousands of reais, unless otherwise indicated

PROSPECTS

- In the end of 2016, market indices demonstrated that fall was slowing down and that the industry's economic activity was stabilizing. Increase in market confidence is noticeable;
- For 2017, reduction in inflation is expected and, consequently, of interest rate;



- Civil construction market presents signs of stabilization in retail. In Engineering, perspectives are still negative, considering resumption of finishing industry only over the next years;
- Favorable scenario for export is maintained, even with instability of foreign exchange rate;
- Internally, the Company directs its focus to qualifying sales mix, seeking margin gains;
- Portobello Shop maintains its strategy of expanding sales area, with new franchises and own stores. For 2017, goal is to increase the number of chain units by 6%;
- Diligent control of expenses is maintained. The goal is to reduce expenditures and resume profitability. Review conducted in 2016, through Zero Based Budget methodology, identified opportunities that are already incorporated to 2017 planning;
- Alagoas plant and Pointer brand underwent another review, whose purpose was to make business adequate to current market context. In 2017, business is expected to achieve better profitability, even with expected slower market recovery;
- Management will maintain efforts to reduce indebtedness and improve debt/EBITDA ratio. Actions are directed to discipline cash management, decrease working capital, and preserve liquidity;
- Actions to capitalize existing assets continue and no significant investments are expected in 2017;
- Participation in Revestir 2017 also collaborates with expectation of good results this year. This fair is the biggest event of the industry in Brazil and the Company has, traditionally, a strong presence with launches for the year, which translates its competitive differences and strengthens the strategy of qualifying sales mix;
- The Company remains confident about its competitive differences and reaffirms its efforts to improve results.

Management report

In thousands of reais, unless otherwise indicated

INDEPENDENT AUDIT

The policy of PBG S.A. towards its auditors with respect to service provision not related to external audits of financial statements, which is covered by the principles that preserve the professional independence. These principles are based on the assumption that the auditor should not audit their own work, perform managerial functions, or act as a lawyer for their client. In 2016, the Company did not hire independent auditors for services other than those related to external auditing.

COMPOSITION OF MANAGEMENT

Board of Directors

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

Executive Board

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

WEBCAST TELECONFERERENCE

On Tuesday, March 21, 2017, teleconference in Portuguese will be held to address results for 2016.

Time: 10:00 (Brasília Time).

Data for connection

Telephone: +55 11 3193 1001

Password: PORTOBELLO

Support material: www.portobello.com .br/ri

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

Management report

In thousands of reais, unless otherwise indicated

Balance sheet

Assets	Dec 31, 2016	Dec 31, 2015	Liabilities	Dec 31, 2016	Dec 31, 2015
Current assets	**535,369**	**639,604**	**Current liabilities**	**409,155**	**439,490**
Cash and cash equivalents	105,745	87,664	Loans / Debentures	197,004	210,714
Pledged financial investments	-	100,478	Suppliers and Credit Granting	124,451	142,994
Accounts receivable	215,379	208,367	Taxes and social contributions	25,188	20,400
Inventories	185,880	205,291	Social and labor obligations	27,155	29,015
Recoverable taxes	19,079	22,775	Advances from clients	17,977	15,301
Other	9,286	15,029	Dividends payable	915	7,667
			Provisions	-	4,528
			Other	16,465	8,871
Non-current assets	**701,991**	**712,289**	**Non-current liabilities**	**589,746**	**680,547**
Long-term assets	**247,847**	**242,657**	Suppliers	68,990	47,923
Judicial deposits	81,742	59,924	Loans / Debentures	389,657	487,014
Recoverable taxes	6,124	10,477	Deferred income and social contribution taxes	3,250	21,665
Tax assets	26,735	22,718	Tax obligations to be paid in installments	69,342	73,414
Related party credits	89,423	84,601	Provisions	58,507	50,526
Receivables - Eletrobrás	32,208	48,621	Other	-	5
Other non-current assets	11,615	16,316			
			Shareholders' equity	**238,459**	**231,856**
Investments	**243**	**198**	Capital	119,565	99,565
Property, plant and equipment	**433,348**	**444,194**	Profit reserves	121,129	139,193
Intangible assets	**20,553**	**25,240**	Other comprehensive income	(2,246)	(6,912)
			Non-controlling shareholders	11	10
Total assets	**1,237,360**	**1,351,893**	**Total liabilities**	**1,237,360**	**1,351,893**

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

Notes to the financial statements

In thousands of reais, unless otherwise indicated

1 Operations

PBG S.A, herein also referred to as “Company” or “Parent Company”, is a publicly-held corporation whose shares are traded on the segment Novo Mercado of Bolsa de Valores, Mercadorias e Futuros (BM&FBOVESPA S.A.), under code PTBL3. The Company is controlled by a group of shareholders, formalized by agreement entered into on April 15, 2011, and amended on August 17, 2015 and holds 54% of company’s shares on December 31, 2016. Remaining 46% of shares are held by several shareholders.

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

In addition, the Company holds shareholding interest in subsidiaries: (i) Portobello Shop, administrator of store franchise chains Portobello Shop and Empório Portobello, with network of 144 franchised stores specialized in porcelain tiles and ceramic coatings; (ii) PBTech, which is responsible for managing own Portobello Shop stores and, currently, manages six stores; (iii) Mineração Portobello, which is responsible for providing part of raw material used for ceramic coating production; (iv) Companhia Brasileira de Cerâmica, established in the Northeast and currently not operational; (i) Portobello América, which was established for the purpose of selling Portobello products in the North-American market and currently is not active.

2 Presentation of financial statements

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

These financial statements include:

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

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

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

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

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

The issue of individual and consolidated financial statements was authorized by the Board of Directors on March 16, 2017.

b) Measuring basis

The individual and consolidated financial statements were prepared based on the historical cost, except for the following items recognized in the financial statements:

Notes to the financial statements

In thousands of reais, unless otherwise indicated

- the defined benefit actuarial assets are recognized as the plan assets, plus actuarial losses, net of actuarial gains and the present value of the defined benefit obligation and it is limited as Note 3.18.
- derivative financial instruments measured at fair value; and

c) Functional and presentation currency

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

d) Use of estimates and judgments

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

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

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

e) EmpresasNet (ENET) system

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

3 Significant accounting policies

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

3.1 Consolidation

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 shareholding interest in subsidiaries as of December 31, 2016, is as follows: Portobello América, Inc. 100%, PBTech Com. Serv. Revest. Cer. Ltda 99.94%, Portobello Shop S/A 99.90%; Mineração Portobello Ltda 99.76% and Companhia Brasileira de Cerâmica 98.00%.

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

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

b) Transactions and non-controlling interests

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 controlling 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 variations 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 35.

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. Foreign exchange variation on investment abroad was recorded as accumulated translation adjustment in shareholders' equity under the caption "Equity valuation adjustment".

3.4 Financial assets

3,4,1 Rating

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

a) Loans and receivables

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

i) Cash and cash equivalents

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

ii) Trade accounts receivable

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

b) Derivative financial instruments

Derivatives are initially measured at their fair value; any attributable transaction costs are recognized in profit or loss when incurred. After the initial recognition, derivatives are measured at fair value and changes are recorded in profit or loss.

Notes to the financial statements

In thousands of reais, unless otherwise indicated

The Company holds derivative financial instruments that correspond to contracted operations to hedge its exposure to foreign currency and interest rate changes of debts and future commitments. The Company does not carry out speculative financial transactions with derivatives or any other risk instrument.

c) Measured at fair value through profit or loss

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

i) Financial investments and derivatives

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

3,4,2 Recognition and measurement

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

3.5 Impairment of financial assets

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

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

i) Issuer or debtor's relevant financial difficulties;

ii) a breach of contract, such as a default or delay on payment of interest or the principal;

iii) it is likely that the debtor will declare bankruptcy or other financial reorganization;

iv) the disappearance of an active market for that financial asset due to the financial difficulties; or

v) observable data indicating a measurable reduction in estimated future cash flows from a financial asset portfolio since the initial recognition of the assets, even if the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

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

3.6 Inventories

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

3.7 Judicial deposits

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

3.8 Receivables - Eletrobrás

The receivables from Eletrobras result from noncontroversial value and are recognized based on the calculation of the Federal Justice expert. Up to July 2014, value was adjusted at inflation rate plus 12% p.a., when the Company decided to discontinue asset adjustment until a new decision is made on value and criteria used in this process, as detailed in note 15.

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 foreign exchange variation of investment in the subsidiary Portobello América Inc., variations in the value of investment derived exclusively from foreign exchange variation are recorded under “Equity valuation adjustment”, in the Company’s shareholders’ equity, and are only recorded in the result for the year when the investment is sold or written off to loss.

The provision for losses on investments is recognized when there are losses on investments in subsidiaries and these losses exceed the limit of the book value of investment. The Company classifies the provision in non-current liabilities, under the caption “Provision for losses on investments” with a corresponding entry recorded in the income (loss), under the caption “Equity in earnings of subsidiaries”. Other investments are recognized at historical cost and adjusted by the provision for impairment, in case there is indication of loss (Note 19).

3.10 Property, plant and equipment

Property, plant and equipment are recorded at the deemed cost less accumulated depreciation. The corresponding entry of the revaluations is recorded in an account of the shareholders’ equity and under deferred taxes in noncurrent 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.

Notes to the financial statements

In thousands of reais, unless otherwise indicated

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 divestitures 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 21, under the straight-line method, considering the useful life defined for the asset.

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

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

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

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

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.

Notes to the financial statements

In thousands of reais, unless otherwise indicated

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

Loans 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 Company and its subsidiaries have an unconditional right to defer settlement of the liability for at least 12 months after the end of the year.

3.15 Provisions for contingencies, contingent liabilities and contingent assets

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

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

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

3.16 Current and deferred income and social contribution taxes

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

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

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

3.17 Employee benefits

a) Private pension plan

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

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

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

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

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

b) Profit sharing plan

This interest is recognized monthly in current liabilities, under the caption "Other" and in the income statement under the caption "Other operating expenses". It is calculated based on a formula that considers the attainment of 80% of income before estimated interest and taxes.

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

Notes to the financial statements

In thousands of reais, unless otherwise indicated

3.18 Capital

The Company's capital is represented solely by common shares and is classified in shareholders' equity in conformity with Note 31.

3.19 Total Dividends and Interest on Own Capital of the period

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

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

3.20 Income recognition

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

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

a) Sale of goods - Wholesale

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

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

Notes to the financial statements

In thousands of reais, unless otherwise indicated

b) Income from royalties

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

c) Financial income

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

3.21 Statement of added value

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

3.22 Financial expenses

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

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

Several new standards or changes in standards and interpretations will be effective for annual period starting on or after January 1, 2017.

- Disclosure Initiative (Amendments to CPC 26 / IAS 7 and CVM Resolution No. 761/2016)

The changes require additional disclosures that allow users of financial statements to understand and assess changes in liabilities arising from financing activities. The Company did not adopt these changes for preparation of these financial statements and does not expect to early adopt it.

- Financial Instruments (CPC 38/ IFRS 9)

The amendment includes new models for the classification and measurement of financial instruments and measurement of expected credit losses for financial and contractual assets, and new requirements on hedge accounting. The new standard maintains the IAS 39 guidelines about acknowledging and disacknowledging financial instruments.

Effective impact of this adoption on the Company’s financial statements for 2018, when this standard becomes effective, may not be reliably estimated, as it will depend on the Company’s scenario and on economic conditions, as well as on future decisions and accounting judgments. The new standard will require the review of accounting procedures and internal controls related to the classification and measurement of financial instruments. The Company has not yet conducted a preliminary evaluation of possible effects deriving from application of said pronouncement.

Pronouncements applicable to the Company from January 01, 2017

- IFRS 15 – Income from contracts with clients: This pronouncement establishes principles for an entity to recognize income from transfer of products or services in the amount that reflects what the entity expects to receive in exchange for delivered product or rendered service. This rule also establishes five steps for income recognition. In addition, it provides instructions on disclosure of information to users about the nature, quantity, timeliness and uncertainty of income and cash flow deriving from contracts of the entity with clients. The Company is evaluating the possible effects from the implementation of the aforementioned pronouncement.

Notes to the financial statements

In thousands of reais, unless otherwise indicated

4 Estimates and critical accounting judgments

4.1 Estimates

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

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

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

b) Provisions for contingencies

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

c) Allowance for inventory losses

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

d) Deferred income and social contribution taxes

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

e) Private pension plan

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

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

Other major assumptions for pension plan obligations are partly based on current market conditions. Additional information is disclosed in Note 29.

4.2 Critical judgments in applying the Entity's accounting polices

a) Receivables - Eletrobrás

The recognition of the receivables from Eletrobras 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) Receivables from 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 receivables 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 13.

c) Installment MP 470

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

The Company has already requested a court ruling to obtain judicial approval for the installment plan referred to in Provisional Measure No. 470. Said legal action – a writ of mandamus – is expected to be considered as valid by the court, in the opinions of the Company's legal area, and of two highly specialized law firms (Demarest Almeida and Souza Cescon). As clarification, injunction 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 23a). The Federal Supreme Court issued decisions for direct actions for unconstitutionality, which declared the unconstitutionality of several state laws that granted ICMS tax benefits without the prior agreement between the states. Although it does not have ICMS tax incentives judged by the Federal Supreme Court, the Company has been monitoring, together with its legal counsel, the progress of this matter in the courts to determine any impacts on its operations and consequent effects on financial statements.

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

e) Tax assessment notice

On December 8, 2014, the Company was notified of Tax Assessments 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 28b).

Notes to the financial statements

In thousands of reais, unless otherwise indicated

5 Financial risk management

5.1 Financial risk factors

The activities of the Company and its subsidiaries expose it to various financial risks: market, risk and liquidity risk. The global risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the consolidated financial performance.

The management of risk is conducted by the Treasury and Financial Executive Board, under the policies approved by the Board of Directors. The Treasury and the Finance Division identify, evaluate and protect the Company and its subsidiaries against possible financial risks, in cooperation with the operating units. The Board of Directors establishes principles, for global risk management and for specific areas such as exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and cash surplus investment.

a) Market risk

i) Foreign exchange risk

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

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

	In reais			
	Parent company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Accounts receivable	43,969	47,775	43,969	47,775
Checking account	1,186	594	1,186	594
Receivables from subsidiaries	66,727	79,947	-	-
Exposed assets	111,882	128,316	45,155	48,369
Provision for loss in investments	(66,647)	(79,676)	-	-
Accounts payable, net of advances	(9,317)	(17,640)	(9,317)	(17,640)
Loans and financing	(77,402)	(175,283)	(77,402)	(175,283)
(-) Swap transaction	21,778	76,630	21,778	76,630
Exposed liabilities	(131,588)	(195,969)	(64,941)	(116,293)
Net exposure	(19,706)	(67,653)	(19,786)	(67,924)

Notes to the financial statements

In thousands of reais, unless otherwise indicated

	In Euros				In dollar			
	Parent company		Consolidated		Parent company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Accounts receivable	367	458	367	458	9,887	9,412	9,887	9,412
Checking account	-	-	-	-	364	152	364	152
Receivables from subsidiaries	-	-	-	-	20,474	20,474	-	-
Provision for loss in investments	-	-	-	-	(20,448)	(20,392)	-	-
Accounts payable, net of advances	(282)	(1,468)	(282)	(1,468)	(2,567)	(2,953)	(2,567)	(2,953)
Loans and financing	-	-	-	-	(23,750)	(44,889)	(23,750)	(44,889)
(-) Swap transaction	-	-	-	-	19,624	19,624	19,624	19,624
	85	(1,010)	85	(1,010)	3,584	(18,572)	3,558	(18,654)

The strategy adopted to mitigate exchange rate exposure in the Company's assets and liabilities has been to maintain a liability exchange rate exposure at approximate amounts up to one year of exports.

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

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

With basis on several different scenarios, the Company manages the cash flow risk associated with the interest rate by using an interest rate swap transaction which receives variable interest rates and pays fixed interest rates and has the economic effect of converting the floating rate of loans into fixed rates. The fixed rates, which are the result of that swap transaction, are lower than those that would be available if the Company had taken the loans directly at fixed rates. By means of interest rate swap transactions, the Company agrees with other parties to exchange, at specified intervals, the difference between the fixed contractual rates and the amounts of interest at floating rates, calculated by using reference (notional) values agreed upon by the parties.

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

Regarding interest earning bank deposits, they are mostly made in investment funds as described in Note 6 and 8.

b) Credit risk

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

c) Liquidity risk

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

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

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

Notes to the financial statements

In thousands of reais, unless otherwise indicated

	Parent company							
	December 31, 2016				December 31, 2015			
In years:	* Loans and debentures	Financial lease	Supplier and grant	Installment payment of tax liabilities	* Loans and debentures	Financial lease	Supplier and grant	Installment payment of tax liabilities
<1	196,975	782	98,557	9,788	210,808	705	128,623	9,018
1–2	224,882	349	68,990	20,158	252,243	1,124	47,923	18,618
2–5	146,726	-	-	30,237	191,774	-	-	27,927
>5	25,134	-	-	18,479	51,303	-	-	26,374
	593,717	1,131	167,547	78,662	706.1 28	1,829	176,546	81,937

*Difference between total loans presented in this table and balance sheet derives from Prodec's AVP, see note 23a).

	Consolidated							
	December 31, 2016				December 31, 2015			
In years:	* Loans and debentures	Financial lease	Supplier and grant	Installment payment of tax liabilities	* Loans and debentures	Financial lease	Supplier and grant	Installment payment of tax liabilities
<1	196,975	782	102,929	9,857	210,808	705	143310	9,081
1–2	226,071	349	68,990	20,296	253,353	1,124	47,923	18,744
2–5	146,726	-	-	30,444	191,774	-	-	28,116
>5	25,134	-	-	18602	51,303	-	-	26,554
	594,906	1,131	171,919	79,199	707238	1,829	191,233	82495

* Difference between total loans presented in this table and balance sheet derives from Prodec's AVP, see note 23a).

Additionally, the Company had a credit facility approved by the Banco do Nordeste do Brasil S/A in the amount of R$ 147,784, the purpose of which is to invest in the manufacturing unit in the city of Marechal Deodoro (AL), of which the Company obtained an amount of R$ 96,819.

d) Sensitivity analysis

i) Sensitivity analysis of variations in the interest rates

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

On December 31, 2016, the Management considered CDI rate at 13.63% and Selic of 13% as the probable scenario. The probable rate was then adjusted at 25% and 50%, as parameter for possible and remote scenarios, respectively.

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

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In thousands of reais, unless otherwise indicated

	Consolidated in reais							
	December 31, 2016	Risk	Probable		Possible (25%)*		Remote (50%)*	
Operation			%	R$	%	R$	%	R$
Investments (remunerated at 98.2% CDI)	101,025	Low CDI	13.63%	13,522	10.22%	10,141	6,82%	6,761
	101,025			13,522		10,141		6,761
Operation								
Loans – Export credit note	(152,543)	CDI high	13.63%	(20,792)	17.04%	(25,990)	20.45%	(31,187)
Loans - Trade 4131 Swap	(14,387)	CDI high	13.63%	(1,961)	17.04%	(2,451)	20.45%	(2,941)
Debentures	(199,799)	CDI high	13.63%	(27,233)	17.04%	(34,041)	20.45%	(40,849)
Installment payment	(79,199)	Increase in SELIC	13.00%	(10,296)	16.25%	(12,870)	19.50%	(15,444)
	(445,928)			(60,282)		(75,352)		(90,421)

*Possible and remote scenarios calculated based on probable rate.

ii) Sensitivity analysis of variations in the exchange rates

The Company has assets and liabilities linked to foreign currency in the balance sheet as of December 31, 2016 and adopted, for sensitivity analysis purposes, the future market rate in effect during the preparation of this quarterly information as the probable scenario. The probable rate was then adjusted at 25% and 50%, as parameter for possible and remote scenarios, respectively.

Accordingly, the schedule below simulates the effects of currency fluctuations on income (loss):

	Consolidated in reais						
	December 31, 2016	Probable		Possible (25%)*		Remote (50%)*	
		US$ rate	Gain (loss)	US$ rate	Gain (loss)	US$ rate	Gain (loss)
Accounts receivable	43,969	3,570	4,194	4,463	10,992	5,355	21,985
Checking account	1,186	3,570	113	4,463	297	5,355	593
Accounts payable, net of advances	(9,317)	3,570	(889)	4,463	(2,329)	5,355	(4,659)
Loans and financing	(77,402)	3,570	(7,384)	4,463	(19,351)	5,355	(38,701)
(-) Swap transaction	2 1 . 7778	3,570	2,077	4,463	5,445	5,355	10,889
Net exposure	(1 9,786)	3,570	(1,889)	4,463	(4,946)	5,355	(9,893)

* Possible and remote scenarios calculated based on probable rate, based on the Brazilian Central Bank (BACEN) Focus Report on January 13, 2017.

5.2 Capital management

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

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

The financial leverage ratios on December 31, 2016 and 2009 can be summarized as follows:

Notes to the financial statements

In thousands of reais, unless otherwise indicated

	Parent company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Loans and financing	585,472	696,618	586,661	697,728
Installment payment of tax liabilities	78,662	81,937	79,199	82,495
Less: Cash and cash equivalents	(100,085)	(81,761)	(105,745)	(87,664)
Credits with other related parties	(89,423)	(84,601)	(89,423)	(84,601)
Interest earning bank deposits	(6,451)	(100,478)	(6,451)	(100,478)
Net debt	468,175	511,715	464,241	507,480
Total shareholders' equity	238,448	231,846	238,459	231,856
Total capital	706,623	743,561	702,700	739,336
Leverage ratio (%)	66	69	66	69

5.3 Financial instruments by category

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

	Parent company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Assets, loans and receivables				
Cash and cash equivalents	100,085	81,761	105,745	87,664
Trade accounts receivable	202,658	175,837	215,379	208,367
Credits with other related parties	89,423	84,601	89,423	84,601
Assets, valued at fair value through profit or loss				
Interest earnings bank deposits	6,451	100,478	6,451	100,478
Derivatives	-	5,435	-	5,435
	398,617	448,112	416,998	486,545
Liabilities, other financial liabilities				
Suppliers and grant	120,079	128,307	124,451	142,994
Loans, financing and debentures	585,472	696,618	586,661	697,728
Installment payment of tax liabilities	78,662	81,937	79,199	82,495
Derivatives	2,452	-	2,452	-
	786,665	906,862	792,763	923,217

6 Cash and cash equivalents

	Parent company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Checking account	6,211	5,553	11,172	9,147
Interest earnings bank deposits	93,874	76,208	94,573	78,517
	100,085	81,761	105,745	87,664

In thousands of reais, unless otherwise indicated

Financial investments designated as cash equivalents are shares of investment funds. These funds' average yield in December 2016 was equivalent to 98.2% of the interbank deposit certificate (CDI) rate. The investment can be redeemed at any time without penalties.

7 Financial instruments

The tradable derivatives are classified as current and non-current assets or liabilities. The total fair value of a hedge derivative is classified as a noncurrent asset or long-term liability if the remaining time for maturity of the hedged item exceeds 12 months, or as a current asset or current liability if the remaining time for maturity of the hedged item is less than 12 months.

The Company has Swap, transactions intended to hedge future payments of loans and financing of types the listed below from fluctuations in US dollar and interest rates. These transactions are classified in current and non-current liabilities, as follows:

a) In December 2012, the Company entered into a transaction under the rules of Law No. 4.131 (exporting trading companies) in the amount of R$ 50,000 at the prefixed cost of 9.8% per annum, but using the swap for CDI+1.60% per annum with 60 months for payment and a 24-month grace period. Amortizations are made on a half-annual basis.

b) In November 2014, the Company executed an Export Credit (NCE) transaction in the amount of US$15,000, equivalent to R$37,600 at the cost of 1.65% p.a. + LIBOR-03 + foreign exchange variation, per annum, with swap of 109% CDI p.a. and payment period of 36 months with grace period of 11 months. Amortizations are made on a quarterly basis. This contract was renegotiated in June 2015 and then in August 2015 to adjust initial parity of the transaction.

c) In July 2015, the Company entered into a transaction under the rules of Law No. 4.131 (exporting trading companies) in the amount of R$ 20,000 at the cost of 2.97% per annum + foreign exchange rate, but using the swap for CDI+1.60% per annum with 12 months for payment and a 4-month grace period. Amortizations are made on a quarterly basis. This contract was renegotiated in August 2015 to adjust initial parity of the transaction.

d) In September 2015, the Company entered into a transaction under the rules of Law No. 4.131 (exporting trading companies) in the amount of R$ 7,200 at the cost of 2.97% per annum + foreign exchange rate, but using the swap for 111% of CDI and with 12 months for payment and a 4-month grace period. Amortizations are made on a quarterly basis.

Fair values of these transactions' gains and losses were recorded under caption "Other" in current liabilities as of December 31, 2016 (current assets in 2015).

Agreements	Maturity	Notional value	December 31, 2016	December 31, 2015
a) Law 4131	Dec2017	28,774	(55)	(119)
b) Export Credit	Nov 2017	48,608	(2,200)	3,917
c) Law 4131	Jun2016	-	-	1,097
d) Law 4131	Aug2016	-	-	540
		77,382	(2,255)	5,435

The Company does not carry out speculative financial transactions with derivatives or any other risk instrument.

Notes to the financial statements

In thousands of reais, unless otherwise indicated

8 Pledged financial investments

In 2016, the Company released recognition of liens written in Debenture contracts' guarantees and redeemed linked financial investments that were recorded in current (R$100,478 as of December 31, 2015). In non-current, they are linked to contract with Banco do Nordeste do Brasil S/A.

9 Trade accounts receivable

	Parent company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Accounts receivable from third parties:				
Domestic market	158,989	128,120	171,710	160,650
Foreign market	43,969	47,775	43,969	47,775
	202,958	175,895	215,679	208,425
Accounts receivable from related parties	2,548	1,280	2,548	1,280
Entities related to the Management	2,548	1,280	2,548	1,280
Impairment of trade accounts receivable:				
Allowance for doubtful accounts	(2,848)	(1,080)	(2,848)	(1,080)
Recomposition of the nominal value to present value	-	(258)	-	(258)
	(2,848)	(1,338)	(2,848)	(1,338)
	202,658	175,837	215,379	208,367

Management understands that allowance for doubtful accounts is sufficient to cover probable losses in the settlement of accounts receivable considering the situation of each client and respective guarantees offered. Its amount represents the estimate of risk of non-realization of overdue receivables under the analysis of the manager in charge.

The formation and write-off of the allowance to accounts receivable are recorded in income (loss) as business expenses.

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

	Parent company							
	December 31, 2016	Trade notes falling due not provisioned	Trade notes overdue not provisioned	Allowance for doubtful accounts	December 31, 2015	Trade notes falling due not provisioned	Trade notes overdue not provisioned	Allowance for doubtful accounts
Falling due	191,258	191,258	-	-	169,633	169,633	-	-
Overdue - in days:								
Up to 30	5,733	-	5,733	-	4,168	-	4,168	-
31–90	2,011	-	1,908	103	1,576	-	1,536	40
91–180	1,251	-	824	427	936	-	724	212
181–360	4,388	-	2,904	1,484	312		23	289
>360	865	-	31	834	550	-	11	539
	205,506	191,258	11,400	2,848	177,175	169,633	6,462	1,080

Notes to the financial statements

In thousands of reais, unless otherwise indicated

	Consolidated							
	December 31, 2016	Trade notes falling due not provisioned	Trade notes overdue not provisioned	Allowance for doubtful accounts	December 31, 2015	Trade notes falling due not provisioned	Trade notes overdue not provisioned	Allowance for doubtful accounts
Falling due	203,154	203,154	-	-	201,016	201,016	-	-
Overdue - in days:								
Up to 30	6,144	-	6,144	-	4,731	-	4,731	-
31–90	2,191	-	2,088	103	2,074	-	2,034	40
91–180	1,298	-	871	427	1,001	-	789	212
181–360	4,570	-	3,086	1,484	333		44	289
>360	870	-	36	834	550	-	11	539
	218,227	203,154	12,225	2,848	209,705	201,016	7,609	1,080

The Company's receivables constitute a guarantee of some of the loans and financings obtained, as described in Note 23. Its sum is calculated based on a percentage of the residual balance of the debt. On December 31, 2016, the total amount of accounts receivable pledged as collateral was R$ 83,642 (R$ 97,780 on December 31, 2015).

10 Inventories

	Parent company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Finished goods	152,789	167,498	153,064	167,701
Work in process	6,279	5,756	6,279	5,756
Raw materials and consumption materials	31,693	33,410	31,693	33,410
Provision for inventory appraisal at realizable value	(9,496)	(6,169)	(9,496)	(6,169)
Imports in transit	4,340	4,593	4,340	4,593
	185,605	205,088	185,880	205,291

11 Advance to suppliers

	Parent company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Domestic market	2,428	2,528	2,040	1,785
Foreign market	597	268	597	268
	3,025	2,796	2,637	2,053

In thousands of reais, unless otherwise indicated

12 Recoverable taxes

	Parent company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Current				
ICMS	8,060	12,313	8,524	12,821
IPI (a)	1,948	1,549	2,295	1,975
IRPJ/CSLL	4,330	4,964	5,017	6,020
PIS/COFINS	-	1,112	427	1,521
INSS (b)	2,496	-	2,496	-
Other	109	215	320	438
	16,943	20,153	19,079	22,775
Non-current*				
ICMS	3,051	3,807	3,051	3,807
PIS/COFINS	3,073	6,670	3,073	6,670
	6,124	10,477	6,124	10,477

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

a) Reduction in IPI (Excise Tax) rate percentages

The decrease in percentages of the rates of IPI (excise tax) levied on the products produced and traded by the Company originally allowed by Decree no. 7,032 of December 14, 2009, was maintained up to March 31, 2014 according to Decree 7.796 of August 30, 2012, and was revoked by the Federal Decree 7.879 dated December 27, 2012, which establishes zero rate for Excise Tax - IPI of the sector for an indefinite period. This measure originates credits that are used on a quarterly basis to offset federal taxes.

b) INSS untimely tax credits

In August 2016, the Company contracted an advisory firm to perform tax review that identified unused INSS credits (proportional calculation by payroll and gross income) in the amount of R$7,085, deriving from revenues earned from sale of products that are subject to CPRB levy and that were proportionately reduced from Employers' Contribution on payroll at amount lower than permitted, and are offset at the administrative sphere.

13 Credits with other related parties

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

The Federal Supreme Court made a pronouncement in mid-2009 defining the nullifying milestone of this incentive on October 4, 1990, abolishing the pretensions of use of this credit. Given this fact the Company adhered to the payment scheduling provided for in Law No. 11.941/09, then including the debt resulting from the use of the credit acquired from "Refinadora".

In thousands of reais, unless otherwise indicated

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

At the time of adhesion to the payment scheduling of Law No. 11.941/09, the Company and "Refinadora" signed an instrument confirming such credits as a guarantee, and as suitable to cover all the tax debts payable in installments. On December 31, 2016, these credits that also originate in proceeding 87.00.00967-9, represent R$ 89,423 (R$ 84,601 on December 31, 2015) and are restated by the SELIC rate, according to the contract.

It should be mentioned that the pledged credits have already become court-ordered debt payment. In fact, the Company received four installments out of a total of 10 annual installments, as provided for in the contract. Receipts occurred in August 2011, March 2013, and April 2014 and December 2015, in the amounts of R$ 8,505, R$ 9,824, R$ 9,995 and R$ 10,000, respectively. Also, in September 2016, the amount of R$2,167 was received to supplement installment 4. Installments 5 and 6 are already deposited to the Refining company, however, transfer depends on release permit, which is in progress.

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

14 Judicial deposits

The Company and its subsidiaries are parties involved in tax, civil and labor lawsuits (see Note 27) and are discussing these issues in both the administrative and judicial scopes and, when applicable, said lawsuits are backed by judicial deposits. These are recorded at the original value restated by the indices relating to the basic remuneration of the savings account, TR (reference rate) + 0.5%.

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

	Parent company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Civil (a)	69,043	47,924	69,061	47,944
Labor	8,111	9,407	8,111	9,407
Tax	4,539	2,568	4,570	2,573
	81,693	59,899	81,742	59,924

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

15 Receivables - Eletrobrás

The Company filed a lawsuit against Centrais Elétricas Brasileira S/A - Eletrobras aiming at the reimbursement of the compulsory loan paid through the electricity bills between the years 1977 and 1993, based on Law No. 4156/62.

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In thousands of reais, unless otherwise indicated

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

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

After final decision on award calculation proceedings, an accounting expert was hired to quantify credit, which will be the object of future execution of judgment proceedings. Expert report presented value R$16,413 lower than that recognized by the Company. This balance was written-off in 2016, and R$9,562 referred to adjustments that were reversed against financial income, and R$6,851 were recognized in other operating expenses. On December 31, 2016, the amount of the assets is R$ 32,208 (R$ 48,261 on December 31, 2015).

16 Income and social contribution taxes

a) Income and social contribution taxes on net income

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

	Current assets				Current liabilities			
	Parent company		Consolidated		Parent company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Income tax	4,137	3,675	4,716	4,522	-	-	(227)	(415)
Social contribution	193	1,289	301	1,498	-	-	(84)	(156)
	4,330	4,964	5,017	6,020	-	-	(311)	(571)

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

b) Deferred income and social contribution taxes

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

Notes to the financial statements

In thousands of reais, unless otherwise indicated

	Parent company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Tax losses	7,393	-	11,741	-
Temporary credit differences	35,295	34,863	35,300	34,863
Foreign exchange variation at cash basis	6,207	13,720	6,207	13,720
Provision for adjustment to market value	2,494	1,836	2,494	1,836
Provision for contingencies	8,914	9,605	8,914	9,605
Provision for PIS and COFINS with a reduced basis for ICMS	7,969	3,902	7,969	3,902
Provision for profit sharing and long-term incentives	2,486	4,275	2,486	4,275
Other temporary difference - assets	7,225	1,525	7,230	1,525
Temporary liability differences	(50,291)	(56,528)	(50,291)	(56,528)
Portobello Private Pension	(1,485)	(3,291)	(1,485)	(3,291)
Realization of revaluation reserve	(19,091)	(19,708)	(19,091)	(19,708)
Receivables - Eletrobrás	(10,951)	(16,531)	(10,951)	(16,531)
Contingent assets - IPI premium credit - Phase II	(9,090)	(7,724)	(9,090)	(7,724)
Adjustment to present value	(3,187)	(3,691)	(3,187)	(3,691)
Adjustment of depreciation (for the useful life of assets)	(6,487)	(5,583)	(6,487)	(5,583)
Deferred income and social contribution taxes, net	(7,603)	(21,665)	(3,250)	(21,665)

The net changes in income and social contribution taxes at December 31, 2016 are as follows:

	Parent company	Consolidated
December 31, 2015	(21,665)	(21,665)
Tax losses	7,393	11,741
Temporary credit differences	432	437
Temporary liability differences	5,620	5,620
Revaluation reserve	617	617
December 31, 2016	(7,603)	(3,250)

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

Notes to the financial statements

In thousands of reais, unless otherwise indicated

	Parent company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Deferred tax asset charged to (recognized in) income				
Tax losses	7,393	-	11,741	-
Foreign exchange variation at cash basis	(7,513)	11,404	(7,513)	11,404
Provision for mark-to-market	658	(373)	658	(373)
Provision for contingencies	(691)	1,135	(691)	1,135
Provision for PIS and COFINS with a reduced basis for ICMS	4,067	3,408	4,067	3,408
Provision for profit sharing and long-term incentives	(1,789)	(1,009)	(1,789)	(1,009)
Other temporary difference - assets	5,700	(876)	5,705	(876)
	7,825	13,689	12,178	13,689
Realization of revaluation reserve	617	618	617	618
Receivables from Eletrobrás	5,580	-	5,580	-
Contingent assets - IPI premium credit - Phase II	(1,366)	(2,493)	(1,366)	(2,493)
Adjustment to present value	504	(888)	504	(888)
Adjustment of depreciation (for the useful life of assets)	(904)	(841)	(904)	(841)
Portobello Private Pension	1,806	(1,566)	1,806	(1,566)
	6,237	(5,170)	6,237	(5,170)
	14,062	8,519	18,415	8,519

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

Income and social contribution tax expenses are as follow:

	Parent company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Income (loss) before taxes	(10,787)	64674	(5,887)	76,381
Tax calculated based on nominal rate - 34%	3,668	(21 996)	2,002	(26,053)
Income (loss) of subsidiaries by the equity method	7,664	3,680	-	-
Non-deductible expenses	1,748	3,711	1,748	3,711
Depreciation of revalued assets	(617)	(487)	(617)	(487)
Tax credits on tax losses and temporary differences	(12,463)	(5,449)	(12,369)	(9,398)
Current tax on income for the year	-	(20,541)	(9,236)	(32227)
Formation of deferred income and social contribution taxes	12,912	8,519	17,265	8,519
Income and social contribution tax expense	12,912	(12,022)	8,029	(23,708)
Effective rate	-	18.6%	-	31,0%

17 Tax assets

The Company has a lawsuit claiming the recognition of tax benefits entitled ‘IPI premium credit’, in different calculation periods. Proceeding no. 1987.0000.645-9 referring to the period from April 1, 1981 to April 30, 1985, already having a decision in favor of the Company, is in the award calculation stage with the amounts already determined by the accounting unit of the federal courts, the amount recognized in November 2009, restated up to December 31, 2016 is R$ 19,843 (R$ 17,396 as of December 31, 2015).

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In thousands of reais, unless otherwise indicated

As regards lawsuit no. 1984.00.020114-0, referring to the period from December 7, 1979 to March 31, 1981, after final decision issued more than 10 years ago, stage for award calculation and execution of judgment started, and an expert report prepared by a court expert was presented. Parties were notified of the *'quantum'* calculated to respond about report acceptance or impugnation. The Company agreed with presented calculations. The Union, represented by the National Treasury Attorney's Office, did not respond, leading to a tacit agreement and estoppels. Therefore, the suit is concluded for sentencing and no challenge is allowed. In 2015, the Company recognized amount determined by judicial expert, R$4,983, and, as the Company understands that success of said suit is practically certain, it recorded tax assets in June 2015, which, adjusted through December 31, 2016 is R$6,891 (R$5,322 as of December 31, 2015).

The total sum of tax assets on December 31, 2016 is R$ 26,735 (R$ 22,718 on December 31, 2015).

18 Contingent assets

The contingent asset refers to lawsuit 1998.34.00.029022-4 and also involve the recognition of tax benefits entitled 'IPI premium credit'. In fact, award calculation of suit no. 1998.34.00.029022-4 received final decision in March 2015. The Company is conducting the execution of judgment. Law firm Souza Cescon Barrieu & Flesch, when asked to calculate the value of stated judicial credits, quantified the Company's right before Federal Union as R$112,736, date base February 2012. These values are not accounted for as they do not comply with recognition criteria as provided for in CPC 25 Provision contingent liabilities and contingent assets.

19 Investments

a) Equity in income of subsidiaries

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

	Shareholders' equity	Income (loss) for the year	Ownership interest	December 31, 2015	Exchange variation	Paid-up capital	Equity income (loss)	Proposed dividends	December 31, 2016
Investments									
Portobello América Inc. and other	(66,647)	(161)	100%	(79,677)	13,191	-	(161)	-	(66,647)
PBTech Ltda.	719	3,268	99.94%	(2,547)	-	-	3,266	-	719
Portobello Shop S.A.	480	15,910	99.90%	480	-	-	15,894	(15,894)	480
Mineração Portobello Ltda.	246	548	99.76%	(302)	-	-	547	-	245
Companhia Brasileira de Cerâmica S.A.	(8,029)	3,056	98.00%	(10,863)	-	-	2,995	-	(7,868)
Other	10			-	-	10	-		10
Net total of investment in subsidiaries				(92,909)	13,191	10	22,541	(15,894)	(73,061)
Equity in income of subsidiaries [1]				480					1,454
Provision for loss on investments				(93,389)					(74,515)

[1] In Dec 2015, interest in subsidiaries refers only to company Portobello Shop. In Dec 2016, also considers income from subsidiaries PBTech and Mineração, which became positive. Remaining amount is still in provision for losses.

The subsidiaries are closely-held companies, where the parent company's interest in the assets, liabilities and income for the year is as follows:

Notes to the financial statements

In thousands of reais, unless otherwise indicated

	Organization Country	Ownership interest	Assets	Liabilities	Income	Income (loss)
December 31, 2015						
Portobello América Inc.	United States	100.00%	287	79,964	-	(88)
PBTech Ltda.	Brazil	99.94%	5,268	7,815	44,806	1,528
Portobello Shop S/A	Brazil	99.90%	23,147	22,667	64,693	20,613
Mineração Portobello Ltda.	Brazil	99.76%	1,527	1,829	5,699	(17)
Companhia Brasileira de Cerâmica S/A	Brazil	98.00%	27,643	11,731	62,311	(11,237)
December 31, 2016						
Portobello América Inc. and other	United States	100.00%	83	66,730	-	(161)
PBTech Ltda.	Brazil	99.94%	11,437	10,718	61,652	3,268
Portobello Shop S/A	Brazil	99.90%	22,546	22,066	64,165	15,893
Mineração Portobello Ltda.	Brazil	99.76%	1,958	1,713	8,764	547
Companhia Brasileira de Cerâmica S/A	Brazil	98.00%	1,654	9,801	(67)	2,994

b) Advances for future capital increase

Parent Company PBG S.A. has an advance for future capital increase with subsidiary Companhia Brasileira de Cerâmica, in the amount of R$13,976 (R$ 27,321 as of December 31, 2015), stated in non-current assets.

20 Property, plant and equipment

a) Breakdown

		Parent company				Consolidated	
		December 31, 2016			December 31, 2015	December 31, 2016	December 31, 2015
	Annual average depreciation rate	Cost	Accumulated depreciation	Net value	Net value	Net value	Net value
Land		12,141	-	12,141	12,141	13,062	13,062
Buildings, civil works and improvements	3%	203,119	(35,205)	167,914	164,853	164,634	163,773
Machinery and equipment	15%	518,200	(281,525)	236,675	224,665	236,676	224,665
Furniture and fixtures	10%	9,444	(8,183)	1,261	1,418	1,277	1,440
Computers	20%	18,974	(15,094)	3,880	4,123	3,893	4,147
Other fixed assets	20%	209	(187)	22	30	10,353	5,494
Construction in process		3,363	-	3,363	29,449	3,453	31,613
		765,450	(340,194)	425,256	436,679	433,348	444,194

In 2010, upon the initial adoption of international standards CPC 37 and IFRS 1, as well as the adoption of CPC 43 and ICPC 10, the Company adopted the option to use the fixed asset revaluation made in 2006 as deemed cost, understanding that the same represented substantially the fair value at the date of transition (see Note 31e).

As provided for in Technical Interpretation ICPC 10 of the Accounting Pronouncement Committee, approved by CVM Resolution no. 619/09 and effective as of 01/01/2009, the Company reviewed and altered the economic useful life of its fixed assets in 2008, based on the Technical Report issued by the Company's engineers, and since then, reviews of rates are regularly performed and the last change was in 2015.

Notes to the financial statements

In thousands of reais, unless otherwise indicated

b) Changes in property, plant and equipment

	Parent company									
	December 31, 2014	Additions	Transfers	Depreciation	Write-offs	December 31, 2015	Additions	Transfers	Depreciation	December 31, 2016
Land	12,141	-	-	-	-	12,141	-	-	-	12,141
Buildings and improvements	100,944	-	69,163	(5,254)	-	164,853	-	10,050	(6,989)	167,914
Machinery and equipment	135,008	1,012	109,426	(20,462)	(319)	224,665	696	34,627	(23,313)	236,675
Furniture and fixtures	1,018	49	535	(184)	-	1,418	-	37	(194)	1,261
Computers	1,861	1,618	1,530	(886)	-	4,123	389	597	(1,229)	3,880
Other fixed assets	41	-	-	(11)	-	30	-	-	(8)	22
Construction in process	136,438	74,029	(181,018)	-	-	29,449	19,225	(45,311)	-	3,363
	387,451	76,708	(364)	(26,797)	(319)	436,679	20,310	-	(31,733)	425,256

	Consolidated										
	December 31, 2014	Addition	Transfers	Depreciation	Write-offs	December 31, 2015	Additions	Transfers	Depreciation	Write-offs	December 31, 2016
Land	13,062	-	-	-	-	13,062	-	-	-	-	13,062
Buildings and improvements	100,844	-	69,163	(6,234)	-	163,773	-	10,050	(9,189)	-	164,634
Machinery and equipment	135,008	1,012	109,426	(20,462)	(319)	224,665	697	34,627	(23,313)	-	236,676
Furniture and fixtures	1,041	52	535	(188)	-	1,440	-	37	(197)	(3)	1,277
Computers	1,891	1,622	1,530	(896)	-	4,147	396	591	(1,241)	-	3,893
Other fixed assets	1,973	200	3,332	(11)	-	5,494	-	5,038	(8)	(171)	10,353
Construction in process	138,766	77,326	(184,350)	-	(129)	31,613	22,183	(50,343)	-	-	3,453
	392,585	80,212	(364)	(27,791)	(448)	444,194	23,276	-	(33,948)	(174)	433,348

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

	Parent company		Consolidated	
	Accumulated			
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Cost of products sold	28,603	19,185	28,603	19,185
Commercial expenses	2,115	1,634	4,320	2,617
Administrative expenses	1,015	914	1,025	925
Other	-	5,064	-	5,064
	31,733	26,797	33,948	27,791

Notes to the financial statements

In thousands of reais, unless otherwise indicated

21 Intangible assets

a) Breakdown

	Parent company					Consolidated	
	December 31, 2016				December 31, 2015	December 31, 2016	December 31, 2015
	Annual average rate of amortization	Cost	Accumulated amortization	Net value	Net value	Net value	Net value
Trademarks and patents	-	150	-	150	150	150	150
Software	20%	20,261	(13,663)	6,598	2,032	6,598	2,032
Right to exploration of outcrops	20%	1,000	(1,000)	-	773	729	1,164
Goodwill	-	-	-	-	-	6,831	7,039
Software under development	-	653	-	653	5,315	653	5,315
Management system (a)	21%	18,886	(13,294)	5. 592	9,540	5,592	9,540
		40,950	(27,957)	12,993	17,810	20,553	25,240

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

b) Changes in intangible assets

	Parent company									
	December 31, 2014	Additions	Amortizations	Transfer	December 31, 2015	Additions	Amortizations	Transfer	Write-offs	December 31, 2016
Trademarks and patents	150	-	-	-	150	-	-	-	-	150
Software	139	1,802	(272)	363	2,032	548	(1,172)	5,190	-	6,598
Right to exploration of outcrops	50	1,015	(292)	-	773	-	(29)	-	(744)	-
Software under development	2,803	2,512	-	-	5,315	528	-	(5,190)	-	653
Management system	13,495	-	(3,955)	-	9,540	-	(3,948)	-	-	5,592
	16637	5329	(4,519)	363	17,810	1,076	(5,149)	-	(744)	12993

	Consolidated									
	December 31, 2014	Additions	Amortizations	Transfer	December 31, 2015	Additions	Amortizations	Transfer	Write-offs	December 31, 2016
Trademarks and patents	150	-	-	-	150	-	-	-	-	150
Software	139	1,802	(272)	363	2,032	548	(1,172)	5,190	-	6,598
Right to exploration of outcrops	494	1,015	(345)	-	1,164	745	(436)	-	(744)	729
Goodwill	4,240	2,799	-	-	7,039	-	-	-	(208)	6,831
Software under development	2,803	2,512	-	-	5,315	528	-	(5,190)	-	653
Management system	13,495	-	(3,955)	-	9,540	-	(3,948)	-	-	5,592
	21,321	8,128	(4,572)	363	25240	1,821	(5,556)	-	(952)	20,553

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

Notes to the financial statements

In thousands of reais, unless otherwise indicated

	Parent company		Consolidated	
	Accumulated			
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Cost of products sold	712	181	1,119	234
Commercial expenses	2,841	2,884	2,841	2,884
Administrative expenses	1,596	1,454	1,596	1,454
	5,149	4,519	5,556	4,572

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

	2017	2018	2019	2020	2021–2023	Total
Software	1,621	1,590	1,581	1,370	436	6,598
Right to exploration of outcrops	439	51	51	51	137	729
Management system	3,674	1,918	-	-	-	5,592
	5,734	3,559	1,632	1,421	573	12,919

The brands and patents, goodwill and software items under development in the total amount of R$ 7,634 did not undergo amortization due to their undefined useful life. However, they are subject to impairment, as described in main accounting policies disclosed in these financial statements for the year of the year.

22 Suppliers and credit grant

a) Suppliers

	Parent company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Domestic market	89,220	96,740	93,592	111,427
Foreign market	9,337	16,241	9,337	16,241
Breakdown of the nominal value to present value	-	(316)	-	(316)
Current	98,557	112,665	102,929	127,352
Domestic market (a)	68,990	47,923	68,990	47,923
Non-current	68,990	47,923	68,990	47,923
	167,547	160,588	171,919	175,275

(a) Provision for payment to gas supplier resulting from matter mentioned in note 14

b) Suppliers' credit grant

The Company carried out suppliers' credit granting transactions with prime financial institutions, in the amount of R$21,522 in 2016 and R$15,642 in 2015, for the purpose of providing its partner suppliers with more attractive credit facilities aiming at maintaining commercial relations.

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

Notes to the financial statements

In thousands of reais, unless otherwise indicated

23 Loans and financing

a) Loans and financing

	Currency	Maturities	Charges	Parent company		Consolidated	
				December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Current							
Working capital	R$			-	15,541	-	15,541
Financial lease (a)	R$	Mai/2018	11.48% p.a.	782	705	782	705
Banco do Nordeste S.A. (b)	R$	Jun/2025	3.00% p.a.	9,801	9,015	9,801	9,015
BNDES	R$			-	2,362	-	2,362
Law 4131 (c)	R$	Dec/2017	15.23% p.a.	14,387	14,488	14,387	14,488
Law 4131 (c)	US$			-	24,482	-	24,482
NCE (d)	R$	Mai/2019	15.10% a.a.1	88,543	63,790	88,543	63,790
Prepayment (e)	US$	Mai/2018	5.57% p.a.+VC	4,083	4,896	4,083	4,896
PRODEC (f)	R$	Set/2019	4.00% a.a.1	10,897	13,514	10,897	13,514
FINEP (g)	R$	Mai/2021	8.24% a.a.1	10,161	6,866	10,161	6,866
DEG (h)	US$	Out/2021	6.12% p.a.+VC	10,394	12,497	10,394	12,497
FINAME (i)	R$	Ago/2023	3.00% a.a.1	422	415	422	415
ACC	US$			-	15,365	-	15,365
NCE (d)	US$	Nov/2017	14.86% p.a.	21,779	26,117	21,779	26,117
Debentures 1st series (j)	R$	Nov/2022	17.18% p.a.	10,298	336	10,298	336
Debentures 2nd series (j)	R$	Nov/2020	16.78% p.a.	15,457	325	15,457	325
Total current			12,85% a.a.1	197,004	210,714	197,004	210,714
Total local currency				160,748	127,357	160,748	127,357
Total foreign currency				36,256	83,357	36,256	83,357
Non-current							
Working capital	R$			-	-	1,189	1,110
Financial lease (a)	R$	Mai/2018	11.48% p.a.	349	1,124	349	1,124
Banco do Nordeste S.A. (b)	R$	Jun/2025	3.00% p.a.	73,353	76,446	73,353	76,446
Law No. 4.131 (c)	R$			-	14,286	-	14,286
NCE (d)	R$	Mai/2019	15.10% a.a.1	42,221	48,716	42,221	48,716
Prepayment (e)	US$	Mai/2018	5.57% p.a.+VC	2,037	7,322	2,037	7,322
PRODEC (f)	R$	Set/2019	4.00% a.a.1	34,386	33,934	34,386	33,934
FINEP (g)	R$	Mai/2021	8.240% a.a.1	20,739	19,986	20,739	19,986
DEG (h)	US$	Out/2021	6.12% p.a.+VC	39,109	58,572	39,109	58,572
FINAME (i)	R$	Ago/2023	3.00% a.a.1	2,230	2,648	2,230	2,648
NCE (d)	US$			-	26,032	-	26,032
Debentures 1st series (j)	R$	Nov/2022	17.18% p.a.	89,619	98,419	89,619	98,419
Debentures 2nd series (j)	R$	Nov/2020	16.78% p.a.	84,425	98,419	84,425	98,419
Total non-current			11.44% aa.1	388,468	485,904	389,657	487,014
Total local currency				347,322	393,978	348,511	395,088
Total foreign currency				41,146	91,926	41,146	91,926
Overall total			11.92% aa.1	585,472	696,618	586,661	697,728
Total local currency				508,070	521,335	509,259	522,445
Total foreign currency				77,402	175,283	77,402	175,283

[1] Weighted average rate

VC – Foreign exchange variation

Notes to the financial statements

In thousands of reais, unless otherwise indicated

b) Contract details

Nota	Contract	Data		Funding	Term (months)	Amortization	Grace period (months)	Guarantees
		Disbursement	Maturity					
(a)	Financial lease	May2015	May2018	R$ 2,192	36	Monthly		Machinery and equipment
	Banco do Nordeste	Aug2014	Jun2025	R$ 96,819	133	Monthly	24	Mortgage of properties and machinery and equipment
(b)	*Contract executed in Jun 2013, in the amount of R$147,700. First tranche of financing was released by the Bank in Aug 2014 in the amount of R$29,221, 2nd tranche was released in Jan 2015 in the amount of R$45,765, 3rd tranche was released in Sep 2015 in the amount of R$14,700, 4th portion was released in Mar 2016 in the amount of R$4,713, and 5th tranche was released in Dec 2016 in the amount of R$2,418.*							
	4131 Trade	Dec2012	Dec2017	R$ 50,000	60	Semi-annual	24	Receivables from Portobello S.A, in the amount of 50% of the debit balance of the contract
(d)	Export credit (NCE)	Jan2013	Dec2017	R$ 20,000	60	Semi-annual	24	Receivables from Portobello S.A, in the amount of 50% of the debit balance of the contract
		Mar 2014	Jan2017	R$ 15,000	35	Monthly	12	
		Mar 2014	Jan2017	R$ 13,300	35	Monthly	12	
		Apr2014	May2017	R$ 15,000	36	Monthly	12	
		May 2014	Apr2017	R$ 15,000	35	Monthly	8	
		Sep2014	Sep2017	R$ 10,000	36	Quarterly	3	Clean operation
		Nov2014	Nov2017	USD 15,000	36	Quarterly	12	Receivables from Portobello S.A, in the amount of 15% of the debit balance of the contract
		Feb2015	Jan2018	R$ 50,000	36	Quarterly	9	
		May2016	May2018	R$ 50,000	24	Semi-annual	12	
		Jun2016	May2019	USD 10,000	36	Quarterly	12	During grace period (up to June 1, 2017) - 50% of financial investment + 50% of trade notes; - During amortization - (June 2, 2017 to May 24, 2019) - 80% of trade notes + 20% financial investment. This contract has two minimum covenants that were complied with
		Jun2016	May2019	USD 20,000	36	Quarterly	12	
(e)	Prepayment	Jun2013	May2018	US$ 5.000	60	Quarterly	15	Commercial pledge
	PRODEC				48	Bullet	Bullet	
(f)	*(Programa de Desenvolvimento da Empresa Catarinense) - Santa Catarina State special regime obtained in July 2009. Balance is subject to adjustment to present value and rate used is current working capital average (12.58% p.a.). The deferred amount is 60% of the balance of the tax generated in the month that exceeds R$ 761 (average tax paid in the year 2007 and 2008); with a grace period of 48 months, a term of 120 months and monetary restatement of 4% per annum and changes in the UFIR rate.*							
(g)	Finep	Jul2010	Sep2018	R$ 30,103	99	Monthly	24	Bank guarantee
		All five financing tranches were released by the Bank, as follows: 1st - R$5,000 in Jul 2010, 2nd - R$5,100 in Aug 8 2010, 3rd - R$3,146 in Sep 2010, 4th - R$5,572 in Dec 2012 and 5th - R$11,282 in Aug 2013.						
		Jul 2014	May2021	R$ 25,107	84	Monthly	24	Bank guarantee
		Contract executed in Jul 2014 in the amount of R$57,300, and first tranche of financing, in the amount of R$12,627, was released by the Bank in the same month. 2nd tranche was released in Jan 2016 in the amount of R$12,479.						
	DEG	May 2014	Oct2021	USD 18,000	90	Semi-annual	23	Machinery and equipment and promissory notes
(h)	*This contract has minimum covenants that were not complied with, however, the Company has already received a waiver for the 4Q16 and balance remains in non-current.*							
(i)	Finame	May2013	May2023	R$ 39	120	Monthly	25	Machinery and equipment
		May2013	Apr2023	R$ 601	120	Monthly	24	
		Jul2013	Jul2023	R$ 107	120	Monthly	25	
		Jul2013	Ago2023	R$ 1,890	120	Monthly	26	
		Jan 2014	Jun2023	R$ 577	114	Monthly	18	
(j)	Debentures 1st Series	Dec2015	Nov2022	R$ 100,000	83	Semi-annual	24	Real Guarantee and additional Fidejussory Guarantee
	Debentures 2nd Series	Dec2015	Nov2020	R$ 100,000	59	Semi-annual	24	Real Guarantee and additional Fidejussory Guarantee
	On November 17, 2015, PBG S.A Board of Directors approved 2nd issuance of simple debentures, not convertible into shares, of the species with real guarantee and additional fidejussory guarantee, in two series, for public distribution with restricted distribution efforts. Funds obtained with Issuance will be allocated to extend Issuer's indebtedness profile of debts matured in 2015 and 2016; and remaining balance is allocated to reinforce issuer's cash. This contract has minimum covenants that were complied with.							

For the other loans granted, real estate mortgages, equipment, receivables of the Parent company (Note 9) and of subsidiary (note 41), and sureties of the controlling shareholders and subsidiary were pledged in guarantee, inventory of finished products totaling R$ 11,016.

The long-term loans have the following payment schedule:

	Parent company		Consolidated	
Maturities on January 1	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
2017	-	149,553	-	149,553
2018	128,921	98,435	130,110	99,545
2019–2025	259,547	237,916	259,547	237,916
	388,468	485,904	389,657	487,014

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In thousands of reais, unless otherwise indicated

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

	Parent company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Reais	508,070	521,335	509,259	522,445
US Dollars	77,402	175,283	77,402	175,283
	585,472	696,618	586,661	697,728

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

d) Debentures

On November 17, 2015, the Company's Board of Directors approved 2nd Issuance of simple debentures, not convertible into shares, of the species real guarantee and additional fidejussory guarantee, in two series, for public distribution with restricted distribution efforts. *Funds obtained through Issuance will be allocated to extending Issuer's indebtedness profile, in relation to debt maturities in 2015 and 2016; and remaining balance is allocated as reinforcement of issuer's cash.*

	December 31, 2016	December 31, 2015
Fund raising value		
Debentures 1st series	101,551	100,668
Debentures 2nd series	101,515	100,647
Gross balance	203,066	201,315
Funding costs	(3,267)	(3,817)
Net balance	199,799	197,498
Current	25,755	661
Non-current	174,044	196,837

Issuance features	
Issuance	2S
Fiduciary agent	PLANNER TRUSTEE DTVM LTDA.
Agent Bank	Itaú Unibanco S.A.
Coordinating leader	Banco Bradesco S.A.
Depository Bank	ITAU CV S/A
Trading	CETIP
Series number	2
Issuance Volume R$	200,000,000.00
Total number of debentures	2,000
Unit Par Value - R$	100,000.00

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Detailing of the operation per series		
Series	1a	2a
CVM Reg. No.	480/09	
Asset code	PTBL12	PTBL22
Issuing Date	26/11/2015	
Maturity	26/11/2C22	26/11/2020
Volume (R$)	100,000,000.00	100,000,000.00
No. of Debentures	1,000	1,000
Unit Par Value - R$	100,000.00	100,000.00
Method	Regulatory and registered	
Type	Real Guarantee and additional Fidejussory guarantee	
Convertibility	Non-convertible into Issuer's issuance shares.	
Restatement	Nominal Value will not be restated for inflation	
Remuneration	DI rate + 3.55% p.a. (year with basis 252 days)	DI rate + 3.15% p.a. (year with 252 days)
Remuneration Payment	Half-annual, with first remuneration on May 26, 2016	
Amortization	It will be amortized in 11 half-annual consecutive installments beginning as of the 24th month counted as of Issuance Date, with first payment on November 26, 2017.	It will be amortized in 7 half-annual consecutive installments beginning as of the 24th month counted as of Issuance Date, with first payment on November 26, 2017.
Corporate acts:	RCA on 11/17/2015	
Covenants	Division of Net Debt by EBITDA <= 3.35 times (year 2015), 3.00 times (Mar 2016 and Jun 2016), 4.50 times (Sep 2016 and Dec 2016), 4.25 times (Mar 2017), 4.00 times (Jun 2017), 3.75 times (Sep 2017), 3.50 times (Dec 2017), 3.25 times (Mar 2018 and Jun 2018), 3.00 times (Sep 2018 and Dec 2018), 2.50 times (years 2019, 2020, and 2021) and 3.00 times (beginning as of 2022).	
	Division of Current Assets by Current Liabilities >= 1.15 times	

24 Installment payment of tax liabilities

Tax liabilities	Application for installment payments		Parent company		Consolidated	
	Data	Installments falling due	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
LAW No. 11.941/09 (a)	Nov/09	94	78,662	81,937	79,199	82,495

The payment schedule is as follows:

Maturity	Parent company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
2016	-	9,018	-	9,081
2017	9,788	9,309	9,857	9,372
2018–2023 (*)	60,474	55,854	60,888	56,232
2024	8,400	7,756	8,454	7,810
	78,662	81,937	79,199	82,495
Current	9,788	9,018	9,857	9,081
Non-current	68,874	72,919	69,342	73,414

(*) The sum of annual installments totaling R$ 10,079 as of December 31, 2016 and R$ 9,309 as of December 31, 2015 to the Parent Company and R$ 10,148 and R$ 9,372 respectively to the Consolidated.

a) Law no. 11.941/09 (REFIS - Tax Recovery Program)

In May 2011 and June 2011, the Company concluded the process of consolidation of installments established by Law No. 11.941/09, which began with the participation in the Tax Recovery Program in November 2009.

Between such participation and the Consolidation, the Company made the payment of minimum installment of R$ 395 as allowed by law. During this period, more precisely in the consolidation, decisions were made that reflected a positive economic adjustment of R$ 3,013, including R$ 3,613 with impact on other operating income and R$ 600 in financial expense. The main reflection occurred in virtue of the non-confirmation of migration of non-deferred debts in the installments of PM 470 to the installments of Law No. 11.941/09 (see Note 25).

After consolidation, the Company undertakes to pay the monthly installments of R$ 818, as well as withdrew from lawsuits and waive any claim of rights upon which such suits are based, under penalty of immediate termination of the installment, and consequent loss of the benefits introduced by Law No. 11.941/09. These waivers of lawsuits against tax assessment notices do not affect the continuation of the ongoing processes in Court, referred to in Note 17 and 18.

25 Tax debts - Law No. 12.249/10 (PM 470 and PM 472)

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

Upon conversion of this Provisional Measure into Law (Law No. 12.249/10), in June 2010 the use of tax credits arising from tax losses existing as of December 31, 2009 was authorized. The Company used this benefit and recorded R$ 3,252 in 2Q10 considering the paid installments.

The National Treasury Attorney General's Office (PGFN) partially rejected the request in June 2010, claiming the need to withdraw from lawsuits challenging the credit, and exposed that the “undue use” had not been addressed. The Company has expressed its position in order to request the withdrawal/waiver only of lawsuits that challenged the tax assessments received from the SRF. However, the PGFN in Santa Catarina understood that such withdrawal/waiver should be extended to the declaratory actions aimed at recognizing the IPI Premium Credit, referred to in Notes 17 and 18. The Company's Legal Department is taking appropriate measures against the decision of the PGFN for the purpose of removing the demand of withdrawal/waiver of the aforementioned declaratory actions as the proof of “undue use”, manifestly recognized by the Federal Revenue Service of Brazil in the reporting unit. This procedure deliberated by Company Management is supported by an opinion issued by the office of Demarest Almeida, which argues that, for the debts included in the installments of Law 12.249/10, withdrawal from the aforementioned declaratory actions is not enforceable, unlike the provisions of Law 11941/09. Thus, it argues that it’s practically certain to reverse this situation by pursuing the various judicial instances to remove the grounds for rejection based on merit. As clarification, injunction filed to claim court homologation for payment in installments was rejected in the lower court. TRF of the 4th region partially approved the appeal. The Company maintains the proceeding of reversing remaining court dispute in the Higher Court of Justice.

In the remote event that PGFN's decision is maintained through the last legal level, the impact on the Company's results would be a loss of R$ 25,737 at December 31, 2016, based on legal advisors’ opinion, considering the non-acknowledgment of the debt, the loss of the benefits and the maintenance of the debits as contingent liabilities. This possible tax liability will be offset by the credits arising from lawsuit 1998.34.00.029022-4, as mentioned in Note 18.

Notes to the financial statements

In thousands of reais, unless otherwise indicated

26 Taxes, rates and contributions

As of December 31, 2016, taxes, fees and contributions recorded in current liabilities were stated as follows:

	Parent company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
IRRF	2,236	2,251	2,567	2,660
ICMS	9,910	7,245	9,933	7,189
PIS/COFINS	1,760	-	2,176	455
Other	233	344	344	444
	14,139	9,840	15,020	10,748

27 Provisions for contingencies

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

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

	Parent company		Consolidated	
Sum provisioned	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Civil	9,962	7,794	9,987	7,909
Labor	14,494	20,823	14,660	20,823
Tax	26,548	12,458	26,548	12,458
	51,004	41,075	51,195	41,190

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

	Parent company			Total
	Civil	Labor	Tax	
December 31, 2015	7,794	20,823	12,458	41,075
Debited (credited) to the statement of income:	2,774	(4,644)	14,090	12,220
Additional provisions	2,136	1,413	12,083	15,632
Reversals for non-use	(418)	(4,322)	-	(4,740)
Monetary restatement (Note 34)	1,056	(1,735)	2,007	1,328
Reversals by realization	(606)	(1,685)	-	(2,291)
December 31, 2016	9,962	14,494	26,548	51,004

Notes to the financial statements

In thousands of reais, unless otherwise indicated

	Consolidated			Total
	Civil	Labor	Tax	
December 31, 2015	7,909	20,823	12,458	41,190
Debited (credited) to the statement of income:	2,696	(4,477)	14,090	12,309
Additional provisions	2,185	1,582	12,083	15,850
Reversals for non-use	(546)	(4,322)	-	(4,868)
Monetary restatement (Note 34)	1,057	(1,737)	2,007	1,327
Reversals by realization	(618)	(1,686)	-	(2,304)
December 31, 2016	9,987	14,660	26,548	51,195

Comments on civil, labor and tax lawsuits:

Civil

The Company and its subsidiaries are defendants in 228 lawsuits (232 lawsuits on December 31, 2015), in the scope of the Common Courts and Special Civil Courts. Most of the lawsuits are filed by clients and are aimed at compensation for alleged moral and material damages. Judicial deposits were made when applicable (Note 14).

Labor

The Company and its subsidiary Portobello Shop S.A. are defendants in 319 labor claims (372 complaints on December 31, 2015), filed by former employees and third parties. Claims refer mainly to health hazard premium, matter that has already been decided in the TRT (regional labor court) of the 12th Region in favor of the Company. Other claims refer to the payment of severance pay, additional pay, overtime, salary equalization and compensation for moral and material damages arising from occupational accidents/diseases. Provisions are reviewed by company Management in accordance with the Company's legal consultants. Some lawsuits are supported by judicial deposits (Note 14).

Reduction in provision value is backed by the opinion of external legal advisors, supported by the Company's Legal Department, which demonstrates reasonable certainty in accepting such theses in main proceedings at award calculation stage.

Alteration of Criterion for Labor Debt Correction

Superior Labor Court (TST), in a decision published on August 7, 2015, changed labor debts' correction index, so as to replace Reference Rate (TR) by the Special Extended National Consumer Price Index (IPCA-E), with effects retroactive to June 30, 2009. Change in criterion will impact the balance of labor provisions by approximately R$6.5 million. However, Federal Supreme Court (STF), in a decision of Min. Dias Tófoli on Complaint no. 22,012, accepted an injunction suspending effects of TST decision. Accordingly, the Company will not increase its labor provisions while final decision is not published on lawsuit in progress at STF.

Tax

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

The Company filed a writ of mandamus for the purpose of altering PIS and COFINS calculation basis to purge ICMS. Santa Catarina State Federal Court expressed its opinion in a decision on merit in favor of purging ICMS from calculation basis under discussion. Said decision was confirmed by the Federal Regional Court of the 4th Region. Federal Union, through the National Treasury Attorney's Office, appealed on this decision to Higher Courts (STF and STJ). The sum on December 31, 2016 is R$ 23,437 (R$ 11,475 on December 31, 2015).

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

In thousands of reais, unless otherwise indicated

b) PIS and COFINS credits on financial income

In September 2015, the Company filed a writ of mandamus claiming for suspension of Pis/Cofins levy on financial income. Every month, amounts are calculated and paid through escrow deposit. The balance of provision on December 31, 2016 is R$ 1,797 (R$ 382, on December 31, 2015).

28 Lawsuits with significant possible and remote losses

a) Lawsuits with possible loss

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

	Parent company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Civil	2,232	2,677	2,308	2,977
Labor	6,778	8,581	6,788	8,581
	9,010	11,258	9,096	11,558

b) Remote lawsuit referring to Administrative Proceedings no. 10983.721445/2014-78

On December 8, 2014, the Company was notified of Tax Assessments that established IRPJ and CSLL credits (as well as money penalties and interest) for calendar years from 2009 to 2013. As alleged by Tax Authorities, the Company would have committed the following infractions: (a) in 2009, would have: (a.1) taxable income deriving from tax benefits unduly excluded; (a.2) deducted unnecessary expenses related to main tax debts (IPI, PIS and COFINS) that were recorded in prior years' income; (a.3) non-deductible values related to IRPJ and CSLL excluded; (a.4) amounts referring to principal values of temporary additions that transited through prior years' income unduly excluded; and (a.5) non-deductible expenses related to ex-officio fines deducted; (b) in years 2010, 2011 and 2012, supposedly: (b.1) tax losses and CSLL negative bases offset at amounts higher than calculated; and (b.2) IRPJ and CSLL amounts determined by monthly estimate were not paid, which resulted in isolated fine; and (c) in 2013, supposedly offset CSLL negative bases at amounts higher than calculated. On January 6, 2015, the Company presented Impugnation against entries under discussion, rejecting all infractions ascribed to it, so that, since that date (January 6, 2015), it is awaiting a decision on said Impugnation, whose successful outcome, according to PBG S.A legal advisors, is practically certain and will result in cancellation of Tax Assessment Notice; in view of that, the Company understands that likelihood of loss is remote and opted not to record the amount of R$73 million as possible liabilities.

On March 7, 2016, the Company was notified of Tax Assessments referring to tax administrative proceedings no. 11516-720.299/2016-02 and no. 11516.7200300/2016-91, which established tax credits referring to undue IRPJ and CSLL offset. However, the Company defended that this discussion is already being made in proceeding no. 10983.721445/2014-78. Cancellation of challenged tax entry was requested for the amount of R$19 million, due to duplicity of tax authorities.

Notes to the financial statements

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29 Employee benefits

29.1 Private pension plan

The Company and its subsidiaries, since 1997, have sponsored a benefit plan called Portobello Prev, administered by BB Previdência - Banco do Brasil Pension Fund, and has 31 participants. The plan has a defined contribution characteristic, but offers minimal retirement benefit for length of service or age.

Actuarial evaluation adjusted through December 31, 2016 for parent company and consolidated presents surplus of R$4,369 (surplus of R$9,676 as of December 31, 2015), which is recorded in non-current assets under caption “Actuarial Assets”. Under caption “equity valuation adjustments” in shareholders' equity, the Company recorded actuarial losses of R$7,326 (actuarial gains of R$2,789 as of December 31, 2015) as other comprehensive income. Amounts recognized in the balance sheet are presented in table below.

	December 31, 2016	December 31, 2015		December 31, 2016	December 31, 2015
Fair value of the plan assets	60,290	50,355	(Gain) / loss in the actuarial obligations	(12,334)	23,225
Present value of the obligations financed	(55,921)	(40,679)	(Gain) / loss in the plan assets	5,008	(20,436)
Net actuarial assets (liabilities)	4,369	9,676	Actuarial (Gain)/loss	(7,326)	2,789

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

Parent company and Consolidated			Parent company and Consolidated		
Fair value of the plan assets			Defined benefit liability		
December 31, 2015	50,355	62,620	December 31, 2015	40,679	57,545
Benefits paid in the year	(2,549)	(1,689)	Gross cost of current service (with interest)	1,076	1,087
Participant contributions in the year	1,129	1,078	Interest on actuarial obligation	4,381	6,961
Sponsor contributions in the year	924	1,206	Benefits paid in the year	(2,549)	(1,689)
Expected return on assets in the year	5,423	7,576	Liabilities - (gain) or loss	12,334	(23,225)
Assets - gain or (loss)	5,008	(20,436)			
December 31, 2016	60,290	50,355	December 31, 2016	55,921	40,679

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

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	Parent company and Consolidated	
	December 31, 2016	December 31, 2015
Current service cost (with interest)	(1,076)	(1,087)
Interest on actuarial obligations	(4,381)	(6,961)
Expected return on plan assets	5,423	7,576
Participant contributions in the year	1,129	1,078
Actuarial (Gain)/loss	1,095	606

As of December 31, 2016, the Company also recognized income of R$924 (R$1,206 as of December 31, 2015) referring to payments made by the sponsor during the year, with asset effect for employee benefit plan (see note 34).

The main actuarial assumptions used:

	Parent company and Consolidated	
Economic and financial	December 31, 2016	December 31, 2015
Annual interest rate	10.77% p.a. nominal (inflation + 6.00% p.a. real)	12.10% p.a. nominal (inflation + 7.27% p.a. real)
Long-term return on assets	10.77% p.a. nominal (inflation + 6.00% p.a. real)	12.10% p.a. nominal (inflation + 7.27% p.a. real)
Long term inflation		
Projected salary increases	5.15% p.a. (inflation+0.62% p.a. real)	5.15% p.a. (inflation+0.62% p.a. real)
Projected growth of the plan benefits	0.00% p.a.	0.00% p.a.
Factor for determining real value over time (salaries)	0.98	0.98
Factor for determining real value over time (benefits)	0.98	0.98
Biometric and demographic		
- Hypothesis about turnover:	21%	21%
General mortality table	AT-2000	AT-2000
Mortality table of individuals with permanent disability	EXP, IAPC	EXP, IAPC
Table of new disability benefit vested	TASA 1927	TASA 1927
Retirement	100% at 1st eligibility	100% at 1st eligibility
Family composition before retirement	Not applicable	Not applicable
Family composition after retirement:	Royal family	Royal family

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29.2 Employee benefit expenses

	Parent company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Remuneration	138,611	122,032	152,552	143,096
Benefits				
Pension plan	1,029	1,218	1,030	1,199
FGTS	12,900	10,904	14,432	13,031
Other	20,114	16,105	21,261	17,939
Total	172,654	150,259	189,275	175,265

30 Long-term incentive

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

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

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

The first group of members joined the plan in 2012. Currently, there are four plans in progress. The present value of the obligation on December 31, 2016 is R$ 7,312 at the parent company and consolidated (R$ 8,709 at the parent company and R$ 9,336 at the consolidated on December 31, 2015).

31 Shareholders’ equity

a) Capital

After decisions of the Annual Shareholders' Meeting held on April 29, 2016, the Company increased its capital by R$ 20,000, fully realized through capitalization of income, exclusively for the Company’s capitalization, with no change in total number of shares, as provided for in Article 169, paragraph 1 of Law No. 6.404/76. Thus, on December 31, 2016, the Company has a capital subscribed and paid in the amount of R$ 119,565 (R$ 99,565 on December 31, 2015) comprising 158,488,517 common shares, nominative and with no par value.

On December 31, 2016 there were 72,849,374 outstanding shares, equivalent to 45.97% of total shares issued (compared to 72,769,371 on December 31, 2015, equivalent to 45.91% of the total). The balance of outstanding shares is comprised of all securities available for trading on the market, excluding those held by controlling shareholders, members of the Board of Directors and Executive Board.

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b) Legal reserve

The legal reserve is formed annually by the allocation of 5% of net income for the year, and may not exceed 20% of the Company's capital. The purpose of the legal reserve is to guarantee that the capital stock is paid up and it is used solely to offset accumulated losses and increase capital As of December 31, 2016, legal reserve balance is R$15,219 (R$15,113 as of December 31, 2015), as provided for in Article 193 of the Brazilian Corporate Law.

c) Profit retention reserve

The amount of R$ 103,197 refers to the business growth project established in the Company's investment plan, approved in the Annual Shareholders' Meeting on April 29, 2016, and in accordance with according to capital budget proposal, in conformity with Article 196 of the Brazilian Corporate Law.

d) Income at the disposal of the AGO

In General Shareholders' Meeting held on April 29, 2016, the Company's management proposed and approved the allotment of reserves in accordance with Article 199 of Law no. 6.404/76 (Brazilian Corporate Law). With allocation of net income determined in 2016 pursuant to the terms of the law and the Company's Bylaws, profit reserve balance exceeded capital value and, for this reason and based on the same mentioned article, there is the proposal of investing excess to increase capital; shareholders will decide on this proposal in Annual Shareholders' Meeting to be held in April 2017.

e) Equity valuation adjustment - Deemed cost

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

	Equity valuation adjustments			
Parent company and Consolidated	Deemed cost	Accumulated translation adjustments	Other comprehensive income	Total
December 31, 2015	38258	(41,710)	(3,460)	(6,912)
Realization of revaluation reserve	(1,198)	-	-	(1,198)
Actuarial (Gain)/loss	-	-	(7,326)	(7,326)
Foreign exchange variation of foreign subsidiary	-	13,190	-	13,190
December 31, 2016	37,060	(28,520)	(10,786)	(2,246)

32 Incomes

The reconciliation of gross income to net income, presented in the statement of income for the year ended December 31, 2016, is as follows.

Notes to the financial statements

In thousands of reais, unless otherwise indicated

	Parent company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Gross income from sales	1,195,182	1,189,588	1,301,050	1,345,015
Deductions from gross income	(269,106)	(257,715)	(284,650)	(284,620)
Sales tax	(236,908)	(226,614)	(250,264)	(247,973)
Returns	(32,198)	(31,101)	(34,386)	(36,647)
Net sales	926,076	931,873	1,016,400	1,060,395
Domestic market	798,220	798,414	864,858	912,806
Foreign market	127,856	133,459	151,542	147,589

33 Expenses per type

The cost of products sold, selling expenses and administrative expenses for the year ended December 31, 2016 are as follow:

	Parent company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Cost and expenses				
Cost of Goods and/or Services Sold	(649,256)	(612785)	(653,198)	(664,193)
With sales	(202,719)	(166,825)	(250,744)	(214,205)
General and administrative	(29,839)	(31,122)	(37,155)	(34,568)
	(881,814)	(810,732)	(941,097)	(912,966)
Breakdown of expenses by type				
Changes in inventories of finished products and work in process (a)	6,243	347	6,524	(18,883)
Direct production costs (raw materials and inputs)	348,674	310,433	341,377	343,273
General production expenses (including maintenance)	42,524	41,454	42,523	45,710
Cost of goods resold	74,350	132,718	84,253	148,674
Transportation of goods sold	10,606	6,380	10,611	7,086
Salaries, charges and employee benefits (b)	212,131	168,461	232,685	197,673
Outsourced labor and services (c)	69,694	33,705	72,397	40,708
Amortization and depreciation	36,882	26,255	39,504	27,303
Rentals and operating leases	11,212	8,643	14,493	17,266
Sales commissions	26,736	26,277	28,430	27,733
Marketing and advertising expenses	13,787	13,200	23,389	23,300
Reimbursement of contract with subsidiary	(4,480)	-	-	-
Other commercial expenses	29,173	38,163	38,791	47,852
Other administrative expenses	4,282	4,696	6,120	5,271
Total	881,814	810,732	941,097	912,966

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

(b) Growth of these expenditures occurred basically due to lack of adhesion to INSS taxation through exemption in 2016 payroll. Up to 2015, the Company taxed INSS in accordance with payroll exemption rules, and recognized amounts as a deduction to gross income.

(c) Growth of these expenditures refers to expenses with new distribution centers' logistics services.

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In thousands of reais, unless otherwise indicated

34 Other operating income and (expenses), net

Other individual and consolidated operating income and expenses for the year ended December 31, 2016 are as follow:

	Parent company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Other operating income				
Income from services	2,210	594	510	591
Tax credits (a)	14,135	-	14,135	-
Actuarial adjustment (note 29.1)	2,019	1,811	2,019	1,811
Tax asset credit IPI premium (note 17)	673	4,983	673	4,983
Other income	43	652	53	660
Total	19,080	8,040	17,390	8,045
Other operating expenses				
Provision for contingencies (Note 27)	(412)	(321)	(485)	(582)
Provision for long-term incentive (note 30)	1,396	(394)	2,023	(341)
Provision for profit sharing (b)	1,176	(7,619)	1,599	(8,932)
Review of Eletrobras compulsory loan balance (note 15)	(6,851)	-	(6,851)	-
Idle capacity cost (c)	(11,070)	(2,898)	(11,070)	(2,196)
Other expenses	(740)	(6,319)	(2,101)	(9,018)
Total	(16,501)	(17,551)	(16,885)	(21,069)
Net total	2,579	(9,511)	505	(13,024)

(a) ICMS Untimely Credits (R$5,501), INSS (R$7,084), IPI (R$121) and Pis Cofins on inputs (R$293).
(b) Recognition of provision for profit sharing, to be paid to the employees after the end of the year, reversed since minimum requirements for payment were not addressed.
(c) Expenses to make production equipment suitable for production to supply Northeast market demand.

35 Financial income (loss)

The individual and consolidated financial income for the year ended December 31, 2016 is as follows:

	Parent company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Finance income				
Interest	19.068	8.201	19.719	8.863
Asset restatement	10.802	11.416	10.802	11.416
Income from Swap Transactions (a)	-	29.019	-	29.019
Other	465	796	572	946
Total	30.335	49.432	31.093	50.244
Finance expenses				
Interest	(38.221)	(39.183)	(38.515)	(39.342)
Financial charges on taxes	(6.992)	(6.845)	(7.040)	(6.904)
Breakdown of Discount for Provision for Contingencies	(1.445)	(4.743)	(1.450)	(4.859)
Review of Eletrobrás compulsory loan balance (note 15)	(9.562)	-	(9.562)	-
Service fees and commission	(5.050)	(2.785)	(6.180)	(3.498)
Bank expenses/negative goodwill	(579)	(2.649)	(585)	(2.651)
Income from Swap Transactions (a)	(15.641)	(13.529)	(15.641)	(13.529)
Provision for debenture interest	(34.391)	-	(34.391)	-
Other	(2.930)	(5.803)	(3.504)	(5.943)
Total	(114.811)	(75.537)	(116.868)	(76.726)
Net exchange variance				
Trade receivables and payables	(17.056)	20.373	(17.283)	20.429
Loans and financing	21.363	(52.025)	21.363	(51.971)
Total	4.307	(31.652)	4.080	(31.542)
Net total	(80.169)	(57.757)	(81.695)	(58.024)

(a) Provision for income on Swaps, as detailed in note 7.

Notes to the financial statements

In thousands of reais, unless otherwise indicated

36 Earnings per share

a) Basic

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

	Parent company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Income (loss) attributable to Company's shareholders	2,125	52,652	2,125	52,652
Weighted average number of common shares	158,489	158,489	158,489	158,489
Basic earnings (losses) per share	0.01341	0.33221	0.01341	0.33221

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

b) Diluted

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

37 Dividends

On July 4, 2016, the amount of R$7,269 thousand was paid, around R$0.046 (net of payments made in September 2015), being R$2,264 as dividends and remaining amount as interest on own capital. Accordingly, total shareholders' remuneration for 2015 reached R$12,505 thousand, which represented yield (dividend per share divided by final share quotation) of 3.83%. Total remuneration to be distributed to shareholders referring to 2016 will be R$505, which represents 25% of the Company's income.

	December 31, 2016	December 31, 2015
Net income for the year	2,125	52,652
Formation of legal reserve (5%)	(106)	(2,633)
Net income for the year adjusted for dividends purposes	2,019	50,019
Proposed dividends / interest on own capital		
Interest on own capital, net of IRRF	-	5,236
Minimum compulsory dividends	505	7,269
Total annual dividends	505	12,505

38 Information per business segment

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

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

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

Notes to the financial statements

In thousands of reais, unless otherwise indicated

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

Information per business segment, reviewed by the Executive Board:

	December 31, 2016			December 31, 2015		
Continued operations	Brazil	Other countries	Total	Brazil	Other countries	Total
Income	864,858	151,542	1,016,400	912,806	147,589	1,060,395
Cost of products sold	(563,363)	(89,835)	(653,198)	(574,618)	(89,575)	(664,193)
Gross operating income	301,495	61,707	363,202	338,188	58,014	396,202
Operating income (expenses), net	(249,404)	(37,990)	(287,394)	(226,490)	(35,307)	(261,797)
Sales, general and administrative	(250,622)	(37,277)	(287,899)	(215,223)	(33,550)	(248,773)
Other operating income (expenses), net	1,218	(713)	505	(11,268)	(1,756)	(13,024)
Operating income (loss) before financial income (loss)	52,091	23,717	75,808	111,698	22,707	134,405
% on ROL	6%	16%	7%	12%	15%	13%

The Company has no clients that individually represent more than 10% of net sales.

39 Commitments

a) Commitments for the acquisition of assets

Expenditures contracted on the balance sheet date but not yet incurred referring to PP&E on December 31, 2016 totaled R$ 498.

b) Commitment with operational lease

Operational leases refer to acquisition of vehicles. Non-cancellable future minimum payments, on December 31, 2016 and December 31, 2015, amount to R$ 820 and R$ 699, respectively, for less than one year. For more than one year and less than five years, R$ 274 and R$904, respectively.

40 Insurance coverage

Current insurance coverage is considered sufficient by Management to cover possible claims. On December 31, 2016, coverage for fire, ray and explosion of any nature was R$84,000, for windstorm and smoke with impact of vehicles, R$25,000, for loss of profit, R$51,115, and for electric damage, riots and civil liabilities, R$5,600. Policy is valid from June 13, 2016 to June 13, 2017.

The Company also has Civil Liability Insurance for Management (D&O), contracted from ACE Seguradora S.A to cover losses and damages to third parties resulting from actions related to the exercise of their functions and attributions, up to the amount of R$ 10 million, with validity from August 27, 2016 to August 27, 2017.

In addition, the Company contracted a policy from Fairfax Brasil to guarantee labor claim no. 0234100-60.1998.5.05.0015 totaling R$33,548, effective from June 24, 2014 to June 24, 2017.

Notes to the financial statements

In thousands of reais, unless otherwise indicated

41 Related companies and parties

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

Nature	Transactions with subsidiaries and associated companies	December 31, 2016	December 31, 2015
Assets			
Dividends receivable	Portobello Shop S.A.	15,893	14,850
Accounts receivable	Portobello América, Inc.	66,727	79,947
Accounts receivable	PBTech Com. Serv. Cer, Ltda.	2,228	4,268
Amounts receivable	Portobello Shop S.A.	95	48
Receivables from subsidiaries - Non-current		69,050	84,263
Credits with other related parties	Refinadora Catarinense S.A.	89,423	84,601
Liabilities			
Dividends paid in advance	Portobello Shop S.A.	-	5,763
Other transactions			
Advances to suppliers	Mineração Portobello Ltda.	558	752
Accounts receivable - net of advances	Solução Cerâmica Com. Ltda.	442	10
Accounts receivable	Flooring Revest. Cer, Ltda.	370	809
Advance	Flooring Revest. Cer, Ltda.	(527)	(286)
Accounts payable	Gomes Part. Societárias Ltda.	34	-
Accounts payable	Elog Logistica Sul Ltda.	1,007	-
		1,884	1,285

Nature	Transactions with subsidiaries and associated companies	December 31, 2016	December 31, 2015
Income			
Rendering of services	Portobello Shop S.A.	7,623	-
Sale of products	Solução Cerâmica Com. Ltda.	24,698	19,663
Sale of products	Flooring Revest. Cer, Ltda.	9,289	9,971
Sale of products	PBTech Com. Serv. Cer, Ltda.	19,475	20,198
Expenses			
Cost of services rendered	Portobello Shop S.A.	(5,925)	-
Purchase of products	Mineração Portobello Ltda.	(7,296)	(5,712)
Rent	Gomes Participações Societárias Ltda.	(546)	(461)
Freight services	Elog Logistica Sul Ltda.	(1,424)	-
		45,894	43,659

The subsidiary Portobello Shop is guarantor of the Company in certain financing operations (see Note 23).

Notes to the financial statements

In thousands of reais, unless otherwise indicated

Related party transactions

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

Transactions with subsidiaries and associated companies	Nature	December 31, 2016	December 31, 2015	Nature	December 31, 2016	December 31, 2015
	Assets			Income		
Solução Cerâmica Com. Ltda.	Accounts receivable	1,099	361	Royalties	6,173	4,408
Flooring Revest. Cer, Ltda.	Accounts receivable	253	168	Royalties	2,341	2,140
		1,352	529		8,514	6,548

Remuneration of key management personnel

The expenses with remuneration of the key management personnel, comprising members of the Executive Board, Board of Directors, Tax Council and Management in the year ended December 31, 2016 are:

a) Expenses incurred in accumulated figure for 2016 and 2015:

	Parent company		Consolidated	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Fixed Compensation				
Salaries	13,557	10,796	14,969	12,806
Fees	4,816	4,666	4,816	4,666
Variable compensation	3,909	6,634	4,313	7,660
Direct and indirect short-term benefits				
Pension plan	895	1,103	895	1,122
Other	2,910	1,744	3,110	1,997
Termination benefits	-	137	-	469
	26,087	25,080	28,103	28,720

Capital budget proposal

In thousands of reais, unless otherwise indicated

CAPITAL BUDGET TO ESTABLISH PROFIT RESERVE FOR EXPANSION

Management will propose to the Annual Shareholders' Meeting that part of net income for 2016 be retained for expansion of activities, as provided for in Article 196 of Law no. 6,404/76.

Investment plan for 2017, 2018 and 2019 is demonstrated below.

	Investment plan
Sources	**131,597**
Profit retention	95,399
Operating flows net of disbursements expected in transactions	36,198
Investments	**131,597**
Investments 2017	42,531
Investments 2018	43,447
Investments 2019	45,619

The Company intends to invest R$43 million throughout 2017 for the purpose of continuing its expansion strategy.

Of amount intended to be invested in 2017, around 50% is destined to the expansion and modernization project of manufacturing plant in Tijucas, Santa Catarina State (SC); according to such project, approximately R$17.9 million will be reserved to acquired new machinery and equipment, R$2.0 to improve plant, and R$1.0 to update plant safety. In addition, 34% will be destined to commercial efforts for new businesses and expansion.

In 2018 and 2019, investments will be destined to plant improvements and technological development, as well as to process and management improvement.

Sources of financial disbursements for investments will be the proposed 2016 profit retention reserve and generation of cash through operations.

The capital budget presented was approved by the Tax Council on February 14, 2017 and by the Board of Directors in a meeting held on March 16, 2017.

Tijucas, March 17, 2017.

Opinions and Statements / Independent auditors’ report – Unqualified

Independent auditors' report on the financial statements

To the Shareholders, Board Members and Directors of PBG S.A.

Tijucas – Santa Catarina

Opinion

We have examined the individual and consolidated financial statements of PBG S.A. (“Company”), identified as Parent Company and Consolidated, respectively, comprising the balance sheet as of December 31, 2016 and the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, as well as the corresponding notes, comprising the significant accounting policies and other clarifying information.

Opinion on the individual financial statements

In our opinion, the individual aforementioned financial statements present fairly, in all material respects, the financial position of PBG S.A. as of December 31, 2016, the performance of its operations and its cash flows, for the year then ended, in accordance with the accounting practices adopted in Brazil.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of PBG S.A. as of December 31, 2016, the consolidated performance of its operations and its cash flows, consolidated for the year then ended, in conformity with accounting practices adopted in Brazil and International Financial Reporting Standards - IFRS issued by the International Accounting Standards Board (IASB).

Basis for opinion

Our audit was conducted in accordance with Brazilian and international standards on auditing. Our responsibilities, in accordance with such standards, are described in the following section entitled “Auditor’s responsibilities for the audit of individual and consolidated financial statements.” We are independent of the Company and its subsidiaries, according to the significant ethical principles provided in the Accountant’s Code of Professional Ethics and the professional standards issued by the Federal Accounting Council, and we comply with the other ethical responsibilities according to such standards. We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.

Main audit issues

Main audit issues are those which in our professional opinion were the most significant in our audit for the current year. These issues were addressed in the context of our audit of individual and consolidated financial statements as a whole and in expressing our opinion on these individual and consolidated financial statements and, therefore, we do not express a separate opinion on these issues.

Provisions, contingent liabilities and assets - Parent Company and Consolidated

As described in notes 15, 17, 18, 25, and 27, the Company is plaintiff and defendant in ongoing legal and administrative proceedings in courts and government agencies, involving tax, civil and labor issues. This matter required significant judgment by the Company and its legal advisors to determine estimates related to value and likelihood of financial disbursement, and disclosure of amounts involved. As a result of complexity of tax matters and environment in Brazil, changes in assumptions used by the Company or in external conditions, including position of tax, labor and civil authorities, may significantly impact amounts recognized and disclosed in financial statements.

How our audit conducted this issue:

Our audit procedures included evaluation of accounting policies applied by the Company for recognition and measurement of provisions, contingent liabilities and assets, including evaluation of judgment made by the Company. We analyzed provisions recognized and values of contingent liabilities and assets disclosed in financial statements in periodic meetings held with the Company to discuss evolution of significant contingent assets and liabilities, and obtained relevant information for our analysis. Evaluation of gains and loss risks, as well as of amounts involved, comprised analysis of existing documentation, legal opinions and reports prepared by internal and external legal advisors, as well as external confirmations from the Company’s advisors. We also compared them with existing previous decisions in most significant cases. We also evaluated whether the disclosures made in the financial statements are in accordance with the applicable rules and provide information on the nature, exposure and amounts of provisions or disclosures.

Other issues - Statements of added value

Individual and consolidated statements of added value (DVA) for the year ended December 31, 2016, prepared under responsibility of Company's management, and presented as supplementary information for IFRS purposes, were submitted to audit procedures carried out together with the audit of Company's financial statements. In order to form our opinion, we evaluated 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 defined in CPC 09 Technical Pronouncement - Statement of Added Value. In our opinion, these statements of added value were prepared, in all material respects, in accordance with the criteria defined in this Technical Pronouncement and are consistent in relation to the individual and consolidated financial statements taken as a whole.

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

The Company's management is responsible for such other information that comprises the Management Report.

Our opinion on the individual and consolidated financial statements does not include the Management Report and we do not express any form of audit conclusion on such report.

Regarding the audit of individual and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is, in a material way, inconsistent with the financial statements or with our knowledge gained in the audit or otherwise appears to be materially misstated. If, based on the performed work, we conclude that there is material misstatement in the Management Report, we are required to report such fact. We do not have anything to report on this respect.

Responsibilities of management and governance for the individual and consolidated financial statements

The Management is responsible for the preparation and adequate presentation of the individual financial statements in accordance with the accounting practices adopted in Brazil and of the consolidated financial statements in accordance with the accounting practices adopted in Brazil and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as well as for the internal controls that it deemed necessary to enable the preparation of financial statements free of significant distortions, regardless of whether the latter were caused by fraud or error.

In the preparation of individual and consolidated financial statements, management is responsible for assessing the ability of the Company to continue as a going concern, disclosing, where applicable, the matters relating to its going concern and the use of this basis of accounting in preparing the financial statements, unless management intends to wind-up the Company and its subsidiaries or cease its operations, or has no realistic alternative to avoid the closure of operations.

Those charged with governance of the Company and its subsidiaries are the people responsible for overseeing the process of preparation of the financial statements.

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

Our goals are to obtain reasonable assurance that the individual and consolidated financial statements, taken as a whole, are free from material misstatement, whether due to fraud or error, and issue the audit report with our opinion. Reasonable assurance means a high level of security, but not a guarantee that an audit conducted in accordance with Brazilian and international auditing standards always detects any existing material misstatements. Misstatements may be due to fraud or error and are considered material when, individually or taken as a whole, can influence, within a reasonable perspective, the economic decisions of users taken based on these financial statements.

As part of an audit conducted according to the Brazilian and international auditing standards, we exercise professional judgment, and maintain professional skepticism during the audit. In addition:

• We identify and assess the risks of material misstatement of individual and consolidated financial statements, whether due to fraud or error, plan and perform audit procedures in response to such risks and obtain sufficient and appropriate audit evidence for expressing our opinion. The risk of not detecting a material misstatement due to fraud is higher than due to error, since a fraud can involve the act of circumventing internal controls, collusion, falsification, omission or intentional misrepresentations.

• We obtain an understanding of the internal controls relevant to the audit to plan the audit procedures appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal controls of the Company and its subsidiaries.

• We evaluated the adequacy of the accounting procedures used and the reasonableness of the accounting estimates and the respective disclosures made by the management.

• We conclude on the appropriateness of the use of the going concern accounting basis by management, and based on the audit evidence obtained, whether there is significant uncertainty in relation 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 there is a material uncertainty, we must highlight the related disclosures in the individual and consolidated financial statements in our report, or include a modification in our opinion if disclosures are inadequate. Our conclusions are based on the audit evidences obtained until the date of our report. However, future events or conditions may cause the Company and its subsidiaries to no longer continue as a going concern.

• We evaluate the overall presentation, structure and content of financial statements, including disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner consistent with the objective of fair presentation.

• We obtain appropriate and sufficient audit evidence regarding the financial information of the entities or business activities of the group to express an opinion on the individual and consolidated financial statements. We are responsible for the management, supervision and performance of the audit of the group, and, consequently, for the audit opinion.

We report to those responsible for governance regarding, among other aspects, the planned scope, the audit timing, and the significant audit findings, including the possible any significant deficiencies in internal controls that we identify during our works.

We also provide those charged with governance with a statement that we complied with relevant ethical requirements, including the applicable requirements of independence, and communicate all potential relationships or matters that could materially affect our independence, including, where applicable, the related safeguards.

Of the issues that were subject of communication with those charged with governance, we determine those that were considered the most significant in the audit of the financial statements for the current year and, thus, represent the main audit issues. We describe these issues in our audit report, unless a law or regulation has prohibited the public disclosure of the issue, or when, under extremely rare circumstances, we determine that the issue shall not be reported in our report, because the adverse consequences from such report may, from a reasonable perspective, exceed the benefits from the report for public interest.

Florianópolis, March 16, 2017

KPMG Auditores Independentes

CRC SC-000071/F-8

Claudio Henrique Damasceno Reis

Accountant CRC SC-024494/O-1

Opinions and Statements / Tax Council opinion or equivalent body

TAX COUNCIL' OPINION

PBG S.A. Tax Council, in compliance with provisions of the Law and the Bylaws, reviewed Financial Statements for fiscal year ended December 31, 2016, including: balance sheet, statements of income for the year, of changes in shareholders' equity, of comprehensive income, of cash flows, of value added, notes, and Management Report and Independent Auditors' Report. Consolidated statements were also reviewed. After reviews and Management clarifications, Tax Council, also considering unqualified opinion of auditors of KPMG Auditores Independentes issued in March 2017 that these financial statements fairly reflect, in all main respects, equity and financial situation of PBG S.A. and its operations results, considers that they can be submitted to Shareholders for appreciation and decision. In addition, Management proposals related to change in capital, capital budgets and dividend distribution were analyzed, and they may also be submitted to Shareholders for appreciation and decision in an Annual Shareholders' Meeting.

Tijucas, March 16, 2017.

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Jorge Muller

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Maro Marcos Hadlich Filho

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, 2016; and

(ii) reviewed, discussed and agreed with the opinions expressed in the KPMG Independent Auditors' Report relating to the Company's Financial Statements for the year ended December 31, 2016.

Members of the Executive Board

Cesar Gomes Júnior - CEO

Cláudio Ávila da Silva – Director Vice-President

John Shojiro Suzuki - CEO and Investor Relations Officer

Mauro do Valle Pereira – Director

Tijucas, March 17, 2017.

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Cesar Gomes Júnior

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Cláudio Ávila da Silva

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John Shojiro Suzuki

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Mauro do Valle Pereira

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

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

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

(i) reviewed, discussed and agreed with the Company's financial statements for the year ended December 31, 2016; and

(ii) reviewed, discussed and agreed with the opinions expressed in the KPMG Independent Auditors' Report relating to the Company's Financial Statements for the year ended December 31, 2016.

Members of the Executive Board

Cesar Gomes Júnior - CEO

Cláudio Ávila da Silva – Director Vice-President

John Shojiro Suzuki - CEO and Investor Relations Officer

Mauro do Valle Pereira – Director

Tijucas, March 17, 2017.

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Cesar Gomes Júnior

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Cláudio Ávila da Silva

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John Shojiro Suzuki

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Mauro do Valle Pereira