Portobello

Portobello S.A.

Report on the review of quarterly information - ITR

KPMG Auditores Independentes
Av. Prof. Othon Gama D´eça, 677 - Salas 603, 604 e 605 - Centro - Ed.The Office Avenida
88015-240 - Florianópolis, SC - Brasil
Caixa Postal 1420
88010-970 - Florianópolis, SC - Brasil

Telefone 55 (48) 3205-5300
Fax 55 (48) 3205-5301
Internet www.kpmg.com/BR

Report on the review of quarterly information - ITR

To the Board Members, Directors and Shareholders of
Portobello S.A.
Tijucas – State of Santa Catarina

Introduction

We have reviewed the interim, individual and consolidated accounting information of Portobello S.A. (“Company”), contained in the Quarterly Information - ITR Form for the quarter ended March 31, 2014, which comprise the balance sheet on March 31, 2014 and related statements of income, of comprehensive income, of changes in shareholders' equity and of cash flows for the quarter then ended, including explanatory notes.

The Company's Management is responsible for the preparation of the individual interim accounting information in accordance with Technical Pronouncement CPC 21 (RI) - Interim Statement and of the consolidated interim accounting information in accordance with CPC 21 (R1) and with international standard IAS 34 - Interim Financial Reporting, issued by the International Accounting Standards Board - IASB, as well as for the presentation of this information in a manner consistent with the standards issued by the Securities Commission, applicable to the preparation of the Quarterly Information - ITR. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of the review

We conducted our review in accordance with the Brazilian and international review standards for interim information (NBC TR 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim information consists in asking questions, chiefly to the persons in charge of financial and accounting affairs, and in applying analytical procedures and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Brazilian and International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion on the individual interim information

Based on our review, we are not aware of any facts that would lead us to believe that the individual interim accounting information included in the quarterly information referred to above was not prepared, in all material respects, in accordance with CPC 21 (R1) applicable to the preparation of Quarterly Information - ITR, and presented in a manner consistent with the standards issued by the Securities Commission.

Conclusion on the consolidated interim information

Based on our review, we are not aware of any facts that would lead us to believe that the consolidated interim accounting information included in the quarterly information referred to above was not prepared, in all material respects, in accordance with CPC 21 (R1) and IAS 34 applicable to the preparation of Quarterly Information - ITR, and presented in a manner consistent with the standards issued by the Securities Commission.

Other issues

Statements of added value

We also reviewed the individual and consolidated value-added statements for the quarter ended on March 31, 2014, prepared by the Company's management, whose presentation in the interim information is required according to the standards issued by the CVM - Securities and Exchange Commission, applicable to the preparation of Quarterly Information - ITR and considered supplementary information by the IFRS, which do not require the presentation of the SVA. These statements were subjected to the review procedures previously described and, based on our review, we are not aware of any other event that make us believe that those were not prepared, in all material respects, in accordance with the individual and consolidated interim accounting information taken as a whole.

Florianópolis, May 8, 2014.

KPMG Auditores Independentes
CRC SC-000071/F-8

Claudio Henrique Damasceno Reis
Accountant CRC SC-024494/O-1

Contents

Individual financial statements / Balance sheet – Assets

(In thousand of reais)

Code of account	Account description	Current quarter 03/31/2014	Prior year 12/31/2013
1	Total assets	954,156	953,107
1.01	Current assets	402,442	427,954
1.01.01	Cash and cash equivalents	21,227	55,389
1.01.03	Accounts receivable	155,705	158,522
1.01.03.01	Trade accounts receivable	155,705	158,522
1.01.04	Inventories	201,275	177,666
1.01.06	Recoverable taxes	11,390	17,281
1.01.06.01	Current taxes recoverable	11,390	17,281
1.01.06.01.01	Income and social contribution tax recoverable	3,943	10,522
1.01.06.01.02	Other current taxes recoverable	7,447	6,759
1.01.08	Others Current assets	12,845	19,096
1.01.08.03	Others	12,845	19,096
1.01.08.03.01	Dividends receivable	2,934	2,934
1.01.08.03.03	Advances to suppliers	5,931	11,388
1.01.08.03.04	Others	3,980	4,774
1.02	Non-current assets	551,714	525,153
1.02.01	Long term assets	250,111	241,993
1.02.01.08	Related party credits	149,552	149,871
1.02.01.08.02	Receivables with subsidiary companies	53,337	55,331
1.02.01.08.04	Other related party credits	96,215	94,540
1.02.01.09	Other non-current assets	100,559	92,122
1.02.01.09.03	Legal deposits	26,257	20,721
1.02.01.09.04	Receivables - Eletrobrás	45,720	43,555
1.02.01.09.05	Recoverable taxes	4,280	3,884
1.02.01.09.06	Tax assets	14,236	13,896
1.02.01.09.07	Actuarial assets	9,547	9,547
1.02.01.09.08	Others	519	519
1.02.02	Investments	5,127	678
1.02.02.01	Equity interest	5,127	678
1.02.02.01.02	Interest in subsidiaries	4,929	480
1.02.02.01.04	Other equity interest	198	198
1.02.03	Property, plant and equipment	279,465	264,424
1.02.04	Intangible assets	17,011	18,058

Individual financial statements/ Balance sheet – Liabilities (In thousand of reais)

Code of account	Account description	Current quarter 03/31/2014	Prior year 12/31/2013
2	Total liabilities	954,156	953,107
2.01	Current liabilities	318,816	347,351
2.01.01	Social and labor obligations	20,498	19,398
2.01.02	Suppliers	113,286	152,441
2.01.03	Tax liabilities	24,409	24,415
2.01.03.01	Federal tax liabilities	24,409	24,415
2.01.03.01.02	Installment payment of tax liabilities	14,874	17,674
2.01.03.01.03	Taxes, duties and contributions	9,535	6,741
2.01.04	Loans and financing	99,746	91,068
2.01.04.01	Loans and financing	99,746	91,068
2.01.05	Other liabilities	42,483	39,458
2.01.05.02	Others	42,483	39,458
2.01.05.02.04	Advances from clients	18,760	18,047
2.01.05.02.06	Dividends payable	15,222	15,224
2.01.05.02.07	Dividends paid in advance	2,191	0
2.01.05.02.08	Others	6,310	6,187
2.01.06	Provisions	18,394	20,571
2.01.06.02	Other provisions	18,394	20,571
2.01.06.02.05	Provision for contingencies	15,030	14,600
2.01.06.02.06	Provision for profit sharing	3,364	5,971
2.02	Non-current liabilities	427,321	413,907
2.02.01	Loans and financing	210,059	201,100
2.02.01.01	Loans and financing	210,059	201,100
2.02.02	Other liabilities	120,270	116,667
2.02.02.02	Others	120,270	116,667
2.02.02.02.03	Suppliers	20,212	15,966
2.02.02.02.04	Related party debts	2,449	2,544
2.02.02.02.06	Installment payment of tax liabilities	97,279	98,082
2.02.02.02.08	Others	330	75
2.02.03	Deferred taxes	30,444	29,154
2.02.03.01	Income tax e Social contribution Deferred assets	30,444	29,154
2.02.04	Provisions	66,548	66,986
2.02.04.02	Other provisions	66,548	66,986
2.02.04.02.04	Provision for loss in investments	53,253	55,231
2.02.04.02.05	Provisions for contingencies	6,321	5,887
2.02.04.02.06	Provision for long-term incentive	6,974	5,868
2.03	Shareholders' equity	208,019	191,849
2.03.01	Realized capital	46,065	46,065
2.03.02	Capital reserves	-2,545	-2,545
2.03.02.05	Treasury shares	-2,545	-2,545
2.03.04	Profit reserves	115,651	115,651
2.03.04.01	Legal reserve	7,808	7,808
2.03.04.05	Profit retention reserve	41,786	41,786
2.03.04.08	Additional dividend proposed	8,597	8,597
2.03.04.10	Profit reserves to be allocated	57,460	57,460
2.03.05	Retained Earnings/Losses	14,943	0

Individual financial statements/ Balance sheet – Liabilities

Code of Account	Account description	Current quarter 03/31/2014	Prior year 12/31/2013
2.03.08	Other comprehensive income	33,905	32,678

Individual financial statements / Statement of income

(In thousand of reais)

Code of account	Account description	Accumulated of the current year, 01/01/2014–03/31/2014	Accumulated of the prior year, 01/01/2013–03/31/2013
3.01	Income from sales of goods and/or services	191,905	164,979
3.02	Cost of goods and/or services sold	-130,267	-115,878
3.03	Gross income	61,638	49,101
3.04	Operating expenses or income	-37,778	-26,575
3.04.01	Sales expenses	-29,497	-21,954
3.04.02	General and administrative expenses	-6,060	-4,683
3.04.04	Other operating income	683	833
3.04.04.01	Other operating income	683	833
3.04.05	Other operating expenses	-7,713	-2,722
3.04.05.01	Other operating expenses	-5,426	-1,740
3.04.05.02	Other gains (losses), net	-2,287	-982
3.04.06	Equity income (loss)	4,809	1,951
3.05	Income (loss) before financial income (loss) and taxes	23,860	22,526
3.06	Financial income (loss)	-4,483	-4,195
3.06.01	Financial income	5,788	5,349
3.06.01.01	Financial income	5,355	4,659
3.06.01.02	Net exchange variation	433	690
3.06.02	Financial expenses	-10,271	-9,544
3.06.02.01	Financial expenses	-10,271	-9,544
3.07	Income (loss) before income tax	19,377	18,331
3.08	Income and social contribution taxes	-4,827	-5,269
3.08.01	Current	-3,537	-5,801
3.08.02	Deferred assets	-1,290	532
3.09	Net income (loss) of continued operations	14,550	13,062
3.11	Net Income (loss) for the period	14,550	13,062
3.99	Earnings per share - (Reais / Shares)		
3.99.01	Basic earnings per share		
3.99.01.01	ON	0.09150	0.08215
3.99.02	Diluted earnings per share		
3.99.02.01	ON	0.09150	0.08215

Individual financial statements / Statement of comprehensive income

(In thousand of reais)

Code of account	Account description	Accumulated of the current year, 01/01/2014–03/31/2014	Accumulated of the prior year, 01/01/2013–03/31/2013
4.01	Net income for the period	14,550	13,062
4.02	Other comprehensive income	1,620	604
4.02.02	Exchange variation of foreign subsidiary	1,620	604
4.03	Comprehensive income for the period	16,170	13,666

Individual financial statements / Statement of cash flows - Indirect method

(In thousands of reais)

Code of account	Account description	Accumulated of the current year, 01/01/2014–03/31/2014	Accumulated of the prior year, 01/01/2013–03/31/2013
6.01	Net cash from operational activities	-32,453	-22
6.01.01	Cash generated in operations	23,023	28,576
6.01.01.01	Profit or loss for the year before taxes	19,377	18,331
6.01.01.02	Depreciation and amortization	6,372	3,518
6.01.01.03	Equity in net income	-4,809	-1,951
6.01.01.07	Provision for contingencies	130	1,709
6.01.01.08	Provision for labor obligations	-1,700	1,292
6.01.01.09	Provision for profit sharing	-1,501	1,070
6.01.01.10	Other provisions	103	-1,780
6.01.01.12	Restatement of Eletrobrás compulsory loans	-2,165	-1,932
6.01.01.13	Adjustments to Tax Assets	-340	-212
6.01.01.14	Restatements of credits with other related parties	-1,675	-1,231
6.01.01.15	Finance charges on tax installments	650	1,643
6.01.01.16	Decomposition of discount of provisions for contingencies	734	1,133
6.01.01.17	Accrued interest on loans	5,815	3,068
6.01.01.18	Negative goodwill on receivables received from related parties	0	1,430
6.01.01.19	Others	2,032	2,488
6.01.02	Changes in assets and liabilities	-51,802	-22,913
6.01.02.01	(Increase) Decrease in accounts receivable	2,560	-3,328
6.01.02.02	Increase /(Decrease) in Advances from clients	713	-3,597
6.01.02.04	(Increase) Decrease in inventories	-24,334	-14,068
6.01.02.05	(Increase) Decrease in legal deposits	-5,536	-171
6.01.02.06	(Increase) / Decrease in receivables from related parties	0	9,824
6.01.02.07	(Increase)/Decrease in Recoverable Taxes	-1,084	0
6.01.02.08	(Increase) Decrease in other assets	794	-865
6.01.02.09	Increase (Decrease) in accounts payable	-34,937	3,420
6.01.02.10	(Increase) Decrease advance to suppliers	5,457	-5,372
6.01.02.11	Increase (Decrease) in installment payments	-4,253	-5,625
6.01.02.12	Increase /(Decrease) in Tax and labor liabilities	8,636	-2,362
6.01.02.13	Increase (Decrease) in other accounts payable	182	-769
6.01.03	Others	-3,674	-5,685
6.01.03.01	Interest paid	-3,674	-1,405
6.01.03.02	Income and social contribution taxes paid	0	-4,280
6.02	Net cash used in investment activities	-17,810	-31,733
6.02.01	Acquisition of property, plant and equipment	-20,355	-30,359
6.02.02	Acquisition of intangible assets	-11	-1,865
6.02.03	Dividends received	2,191	0
6.02.04	Loans (granted to) repaid by related parties	365	491
6.03	Net cash generated (consumed) in financing activities	16,101	38,656
6.03.01	Funding loans and financing	31,062	71,049
6.03.02	Payment of loans and financing	-14,959	-32,393
6.03.04	Payment dividends	-2	0
6.05	Increase (decrease) in cash and cash equivalents	-34,162	6,901
6.05.01	Opening balance of cash and cash equivalents	55,389	56,576

6.05.02	Closing balance of cash and cash equivalents	21,227	63,477

Individual financial statements / Statement of changes in shareholders' equity / DMPL – 01/01/2014–03/31/2014

(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
5.05	Total comprehensive income	0	0	0	14,943	1,227	16,170
5.05.01	Net income for the period	0	0	0	14,550	0	14,550
5.05.02	Other comprehensive income	0	0	0	393	1,227	1,620
5.05.02.07	Exchange variation of foreign subsidiary	0	0	0	0	1,620	1,620
5.05.02.08	Realization of revaluation reserve	0	0	0	393	-393	0
5.07	Closing balances	46,065	-2,545	115,651	14,943	33,905	208,019

Individual financial statements / Statement of changes in shareholders' equity / DMPL – 01/01/2013–03/31/2013

(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	40,798	267	50,069	0	35,985	127,119
5.03	Adjusted opening balances	40,798	267	50,069	0	35,985	127,119
5.05	Total comprehensive income	0	0	0	13,457	209	13,666
5.05.01	Net income for the period	0	0	0	13,062	0	13,062
5.05.02	Other comprehensive income	0	0	0	395	209	604
5.05.02.06	Realization of revaluation reserve	0	0	0	395	-395	0
5.05.02.07	Exchange variation of foreign subsidiary	0	0	0	0	604	604
5.07	Closing balances	40,798	267	50,069	13,457	36,194	140,785

Individual financial statements or Statement of added value

(In thousand of reais)

Code of account	Account description	Accumulated of the current year, 01/01/2014–03/31/2014	Accumulated of the prior year, 01/01/2013–03/31/2013
7.01	Income	240,640	205,875
7.01.01	Sale of merchandise, products and services	238,939	203,987
7.01.02	Other income	1,994	1,975
7.01.04	Allowance for /reversal of Doubtful accounts	-293	-87
7.02	Inputs acquired from third parties	-120,834	-106,890
7.02.01	Cost of goods, merchandise and services sold	-95,608	-88,000
7.02.02	Materials, Energy, Third-party services and other	-25,226	-19,479
7.02.03	Loss/recovery of asset values	0	589
7.03	Gross added value	119,806	98,985
7.04	Retentions	-6,372	-3,518
7.04.01	Depreciation, amortization and depletion	-6,372	-3,518
7.05	Net added value produced	113,434	95,467
7.06	Added value received as transfer	16,092	8,822
7.06.01	Equity income (loss)	4,809	1,951
7.06.02	Financial income	11,283	6,871
7.07	Total added value payable	129,526	104,289
7.08	Distribution of added value	129,526	104,289
7.08.01	Personnel expenses	38,250	27,340
7.08.01.01	Direct remuneration	33,269	23,682
7.08.01.02	Benefits	3,024	2,050
7.08.01.03	F.G.T.S.	1,957	1,608
7.08.02	Taxes, duties and contributions	56,235	50,245
7.08.02.01	Federal	30,181	28,151
7.08.02.02	State	25,819	21,871
7.08.02.03	Municipal	235	223
7.08.03	Third-party capital remuneration	20,491	13,642
7.08.03.01	Interest	18,055	12,046
7.08.03.02	Rents	2,436	1,596
7.08.04	Remuneration of own capital	14,550	13,062
7.08.04.03	Retained earnings / Loss for the period	14,550	13,062

Consolidated financial statements or Balance sheet – Assets

(In thousand of reais)

Code of account	Account description	Current quarter 03/31/2014	Prior year 12/31/2013
1	Total assets	907,441	904,908
1.01	Current assets	412,043	433,732
1.01.01	Cash and cash equivalents	24,330	57,677
1.01.03	Accounts receivable	163,214	163,801
1.01.03.01	Trade accounts receivable	163,214	163,801
1.01.04	Inventories	201,447	177,847
1.01.06	Recoverable taxes	11,978	17,883
1.01.06.01	Current taxes recoverable	11,978	17,883
1.01.06.01.01	Income and social contribution tax recoverable	4,380	10,978
1.01.06.01.02	Other current taxes recoverable	7,598	6,905
1.01.08	Others Current assets	11,074	16,524
1.01.08.03	Others	11,074	16,524
1.01.08.03.03	Advances to suppliers	4,514	9,975
1.01.08.03.04	Others	6,560	6,549
1.02	Non-current assets	495,398	471,176
1.02.01	Long term assets	196,774	186,662
1.02.01.08	Related party credits	96,215	94,540
1.02.01.08.04	Other related party credits	96,215	94,540
1.02.01.09	Other non-current assets	100,559	92,122
1.02.01.09.03	Legal deposits	26,257	20,721
1.02.01.09.04	Receivables - Eletrobrás	45,720	43,555
1.02.01.09.05	Recoverable taxes	4,280	3,884
1.02.01.09.06	Tax assets	14,236	13,896
1.02.01.09.07	Actuarial assets	9,547	9,547
1.02.01.09.08	Others	519	519
1.02.02	Investments	198	198
1.02.02.01	Equity interest	198	198
1.02.02.01.04	Other equity interest	198	198
1.02.03	Property, plant and equipment	280,742	265,572
1.02.04	Intangible assets	17,684	18,744

Consolidated financial statements or Balance sheet – Liabilities

(In thousand of reais)

Code of account	Account description	Current quarter 03/31/2014	Prior year 12/31/2013
2	Total liabilities	907,441	904,908
2.01	Current liabilities	323,326	352,485
2.01.01	Social and labor obligations	21,903	20,483
2.01.02	Suppliers	115,242	153,842
2.01.03	Tax liabilities	26,362	25,853
2.01.03.01	Federal tax liabilities	26,362	25,853
2.01.03.01.01	Income and social contribution tax payable	933	461
2.01.03.01.02	Installment payment of tax liabilities	15,104	18,080
2.01.03.01.03	Taxes, duties and contributions	10,325	7,312
2.01.04	Loans and financing	99,746	91,068
2.01.04.01	Loans and financing	99,746	91,068
2.01.05	Other liabilities	41,080	40,003
2.01.05.02	Others	41,080	40,003
2.01.05.02.04	Advances from clients	19,392	18,440
2.01.05.02.06	Dividends payable	15,237	15,239
2.01.05.02.07	Others	6,451	6,324
2.01.06	Provisions	18,993	21,236
2.01.06.02	Other provisions	18,993	21,236
2.01.06.02.05	Provision for contingencies	15,066	14,635
2.01.06.02.06	Provision for profit sharing	3,927	6,601
2.02	Non-current liabilities	376,083	360,566
2.02.01	Loans and financing	211,059	202,066
2.02.01.01	Loans and financing	211,059	202,066
2.02.02	Other liabilities	120,799	117,200
2.02.02.02	Others	120,799	117,200
2.02.02.02.03	Suppliers	20,212	15,966
2.02.02.02.05	Private pension plan	2,449	2,544
2.02.02.02.06	Installment payment of tax liabilities	97,808	98,616
2.02.02.02.08	Others	330	74
2.02.03	Deferred taxes	30,444	29,154
2.02.03.01	Income tax e Social contribution Deferred assets	30,444	29,154
2.02.04	Provisions	13,781	12,146
2.02.04.02	Other provisions	13,781	12,146
2.02.04.02.05	Provision for contingencies	6,343	5,908
2.02.04.02.06	Provision for long-term incentive	7,438	6,238
2.03	Consolidated shareholders' equity	208,032	191,857
2.03.01	Realized capital	46,065	46,065
2.03.02	Capital reserves	-2,545	-2,545
2.03.02.05	Treasury shares	-2,545	-2,545
2.03.04	Profit reserves	115,651	115,651
2.03.04.01	Legal reserve	7,808	7,808
2.03.04.05	Profit retention reserve	41,786	41,786
2.03.04.08	Additional dividend proposed	8,597	8,597
2.03.04.10	Profit reserves to be allocated	57,460	57,460
2.03.05	Retained Earnings/Losses	14,943	0
2.03.08	Other comprehensive income	33,905	32,678

Consolidated Financial Statements I Balance Sheet Liability

(In thousand of reais)

Code of account	Account description	Current quarter 03/31/2014	Prior year 12/31/2013
2.03.09	Interest of non-controlling shareholders	13	8

Consolidated financial statements or Statement of income

(In thousand of reais)

Code of account	Account description	Accumulated of the current year, 01/01/2014–03/31/2014	Accumulated of the prior year, 01/01/2013–03/31/2013
3.01	Income from sales of goods and/or services	206,540	175,755
3.02	Cost of goods and/or services sold	-129,707	-115,711
3.03	Gross income	76,833	60,044
3.04	Operating expenses or income	-50,479	-35,835
3.04.01	Sales expenses	-35,332	-26,121
3.04.02	General and administrative expenses	-7,349	-6,251
3.04.04	Other operating income	311	267
3.04.04.01	Other operating income	311	267
3.04.05	Other operating expenses	-8,109	-3,730
3.04.05.01	Other operating expenses	-5,822	-2,748
3.04.05.02	Other gains (losses), net	-2,287	-982
3.05	Income (loss) before financial income (loss) and taxes	26,354	24,209
3.06	Financial income (loss)	-4,551	-4,235
3.06.01	Financial income	5,874	5,409
3.06.01.01	Financial income	5,441	4,719
3.06.01.02	Net exchange variation	433	690
3.06.02	Financial expenses	-10,425	-9,644
3.06.02.01	Financial expenses	-10,425	-9,644
3.07	Income (loss) before income tax	21,803	19,974
3.08	Income and social contribution taxes	-7,228	-6,886
3.08.01	Current	-5,938	-7,418
3.08.02	Deferred assets	-1,290	532
3.09	Net income (loss) of continued operations	14,575	13,088
3.10	Net income (loss) of discontinued operations	-20	-23
3.10.02	Net gains/losses on assets from discontinued operations	-20	-23
3.11	Income/loss for the period	14,555	13,065
3.11.01	Attributed to the Parent company's partners	14,550	13,062
3.11.02	Attributed to non-controlling partners	5	3
3.99	Earnings per share - (Reais / Shares)		
3.99.01	Basic earnings per share		
3.99.01.01	ON	0.09150	0.08215
3.99.02	Diluted earnings per share		
3.99.02.01	ON	0.09150	0.82150

Consolidated financial statements or Statement of comprehensive income

(In thousand of reais)

Code of account	Account description	Accumulated of the current year, 01/01/2014–03/31/2014	Accumulated of the prior year, 01/01/2013–03/31/2013
4.01	Consolidated net income for the period	14,555	13,065
4.02	Other comprehensive income	1,620	604
4.02.02	Exchange variation of foreign subsidiary	1,620	604
4.03	Consolidated comprehensive income for the period	16,175	13,669
4.03.01	Attributed to the Parent company's partners	16,170	13,666
4.03.02	Attributed to non-controlling partners	5	3

Consolidated financial statements / Statement of cash flows - Indirect method

(In thousand of reais)

Code of account	Account description	Accumulated of the current year, 01/01/2014–03/31/2014	Accumulated of the prior year, 01/01/2013–03/31/2013
6.01	Net cash from operational activities	-28.914	1,798
6.01.01	Cash generated in operations	30.347	33,364
6.01.01.01	Profit or loss for the year before taxes	21.783	19,974
6.01.01.02	Depreciation and amortization	6.424	3,532
6.01.01.07	Provision for contingencies	130	2,499
6.01.01.08	Provision for labor obligations	-1.700	1,490
6.01.01.09	Provision for profit sharing	-1.474	1,246
6.01.01.10	Other provisions	103	-1,789
6.01.01.12	Restatement of Eletrobrás compulsory loans	-2.165	-1,932
6.01.01.13	Adjustments to tax assets	-340	-212
6.01.01.14	Restatements of credits with other related parties	-1.675	-1,231
6.01.01.15	Finance charges on tax installments	650	1,665
6.01.01.16	Decomposition of discount of provisions for contingencies	736	1,134
6.01.01.17	Accrued interest on loans	5,849	3,068
6.01.01.18	Negative goodwill on receivables received from related parties	0	1,430
6.01.01.19	Others	2.026	2,490
6.01.02	Changes in assets and liabilities	-53.757	-24,582
6.01.02.01	(Increase) Decrease in accounts receivable	327	-3,821
6.01.02.02	Increase /(Decrease) in Advances from clients	952	-3,209
6.01.02.04	(Increase) Decrease in inventories	-24.325	-14,055
6.01.02.05	(Increase) Decrease in legal deposits	-5.536	-170
6.01.02.06	(Increase) / Decrease in receivables from related parties	0	9,824
6.01.02.07	(Increase)/Decrease in recoverable taxes	-1.089	0
6.01.02.08	(Increase) Decrease in other assets	-11	-724
6.01.02.09	Increase (Decrease) in accounts payable	-34.382	2,910
6.01.02.10	(Increase) Decrease advance to suppliers	5.461	-5,469
6.01.02.11	Increase (Decrease) in installment payments	-4.434	-5,860
6.01.02.12	Increase /(Decrease) in Tax and labor liabilities	9.095	-2,795
6.01.02.13	Increase (Decrease) in other accounts payable	185	-1,213
6.01.03	Others	-5.504	-6,984
6.01.03.01	Interest paid	-3.674	-1,405
6.01.03.02	Income and social contribution taxes paid	-1.830	-5,579
6.02	Net cash used in investment activities	-20.534	-32,227
6.02.01	Acquisition of property, plant and equipment	-20.536	-30,362
6.02.02	Acquisition of intangible assets	2	-1,865
6.03	Net cash generated (consumed) in financing activities	16.101	38,656
6.03.01	Funding loans and financing	31.062	71,049
6.03.02	Payment of loans and financing	-14,959	-32,393
6.03.04	Payment of dividends	-2	0
6.05	Increase (decrease) in cash and cash equivalents	-33,347	8,227
6.05.01	Opening balance of cash and cash equivalents	57,677	58,870
6.05.02	Closing balance of cash and cash equivalents	24,330	67,097

Consolidated financial statements / Statement of changes in shareholders' equity / DMPL – 01/01/2014–03/31/2014

(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
5.05	Total comprehensive income	0	0	0	14,943	1,227	16,170	5	16,175
5.05.01	Net income for the period	0	0	0	14,550	0	14,550	5	14,555
5.05.02	Other comprehensive income	0	0	0	393	1,227	1,620	0	1,620
5.05.02.07	Exchange variation of foreign subsidiary	0	0	0	0	1,620	1,620	0	1,620
5.05.02.08	Realization of revaluation reserve	0	0	0	393	-393	0	0	0
5.07	Closing balances	46,065	-2,545	115,651	14,943	33,905	208,019	13	208,032

Consolidated financial statements / Statement of changes in shareholders' equity / DMPL – 01/01/2013–03/31/2013

(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	40,798	267	50,069	0	35,985	127,119	8	127,127
5.03	Adjusted opening balances	40,798	267	50,069	0	35,985	127,119	8	127,127
5.05	Total comprehensive income	0	0	0	13,457	209	13,666	3	13,669
5.05.01	Net income for the period	0	0	0	13,062	0	13,062	3	13,065
5.05.02	Other comprehensive income	0	0	0	395	209	604	0	604
5.05.02.06	Realization of revaluation reserve	0	0	0	395	-395	0	0	0
5.05.02.07	Exchange variation of foreign subsidiary	0	0	0	0	604	604	0	604
5.07	Closing balances	40,798	267	50,069	13,457	36,194	140,785	11	140,796

Consolidated financial statements or Statement of added value

(In thousand of reais)

Code of account	Account description	Accumulated of the current year, 01/01/2014–03/31/2014	Accumulated of the prior year, 01/01/2013–03/31/2013
7.01	Income	255,384	216,294
7.01.01	Sale of merchandise, products and services	256,161	216,454
7.01.02	Other income	-481	-81
7.01.04	Allowance for /reversal of Doubtful accounts	-296	-79
7.02	Inputs acquired from third parties	-123,571	-110,393
7.02.01	Cost of products, goods and services sold	-95,028	-87,809
7.02.02	Materials, Energy, Third-party services and other	-28,523	-23,150
7.02.03	Loss/recovery of asset values	0	589
7.02.04	Others	-20	-23
7.02.04.01	Income from discontinued operations	-20	-23
7.03	Gross added value	131,813	105,901
7.04	Retentions	-6,424	-3,532
7.04.01	Depreciation, amortization and depletion	-6,424	-3,532
7.05	Net added value produced	125,389	102,369
7.06	Added value received as transfer	11,370	6,928
7.06.02	Financial income	11,370	6,928
7.07	Total added value payable	136,759	109,297
7.08	Distribution of added value	136,759	109,297
7.08.01	Personnel expenses	40,728	29,048
7.08.01.01	Direct remuneration	35,424	25,160
7.08.01.02	Benefits	3,138	2,191
7.08.01.03	F.G.T.S.	2,166	1,697
7.08.02	Taxes, duties and contributions	60,683	53,376
7.08.02.01	Federal	34,594	31,263
7.08.02.02	State	25,837	21,871
7.08.02.03	Municipal	252	242
7.08.03	Third-party capital remuneration	20,793	13,808
7.08.03.01	Interest	18,209	12,148
7.08.03.02	Rents	2,584	1,660
7.08.04	Remuneration of own capital	14,555	13,065
7.08.04.03	Retained earnings / Loss for the period	14,550	13,062
7.08.04.04	Interest of non-controlling shareholders in retained earnings	5	3

CONSOLIDATED PERFORMANCE IN THE FIRST QUARTER OF 2014

Portobello S.A. (the "Company"), a public company listed on the New Market of São Paulo Stock Exchange – Bovespa, reports its results for the quarter ended March 31, 2014. The Company's operational and financial information, except when otherwise stated, is presented with consolidated numbers and in Brazilian reais, in accordance with Brazilian accounting practices, including the pronouncements issued by the Committee of Accounting Pronouncements (CPCs) and IFRS (*International Financial Reporting Standards*). The comparisons made on this bulletin take into consideration the quarters of 2013 and 2012.

About Portobello

Portobello is currently the largest ceramics company in Brazil, with net annual sales in excess of R$1 billion. Its production, close to 30 million square meters, serves countries in five continents and Brazil's local market through multi-brand stores, the Portobello Shop chain, and a channel of sales to the engineering industry. The Company has more than two thousand six hundred employees, who are responsible for designing and innovating on items that set trends in Brazil's architecture and decoration markets. Headquartered in Tijucas, Santa Catarina, the Company has reported its developments in social and environmental responsibility since 1997.

HIGHLIGHTS

- Net revenue reached R$206 million, up 18% from the same period in 2013.
- EBITDA totaled R$35 million, margin was 17% and growth was up 22% from the first quarter of 2013.
- Profit was R$15 million, 11% higher than in the first quarter of 2013 and net profit margin was 7%.
- The Annual Shareholders' Meeting held on April 30, 2014 decided on the distribution of dividends 10% higher than in the previous year.

MANAGEMENT REPORT

Portobello's performance in the first quarter of 2014 was consistent with the Company's strategy of pursuing organic, profitable and sustainable growth. This result has been achieved even considering the unstable financial markets at the beginning of 2014, and the downgrading by S&P of Brazil's credit rating to BBB-, among other difficulties like the low growth estimates of Brazil's GDP. These factors have not yet affected demand for construction and finishing material, which kept growing and was up 8% in 2014, according to the Brazilian Association of Construction Materials Industries (ABRAMAT). As for Portobello, its performance was seven percentage points higher than ABRAMAT's index, consolidating its market share gains.

The maintenance of Portobello's market share, its managerial model and distribution system through four different sales channels have boosted sales, while profit margins have increased thanks to the natural scale of operations and an efficient management of costs and expenses.

Management continues to focus on producing higher value added products and on adopting a different production model (own production and outsourced production). The aim is to meet demand for commercial products in a flexible and fast manner. Moreover, as mentioned before, the Company managed costs and expenses efficiently by streamlining activities, seeking productivity and quality gains and reducing industrial costs.

The investments made in 2013 and in the first quarter of 2014, which have increased the Company's debts, are in line with its growth strategy. They will boost results and profitability, will ensure continued gains of market share and will consolidate better service levels.

Management expects that over the next years sales will be boosted by the investments currently underway, by the maturity of the new brand – Pointer, and by the consolidation of the **Portobello** brand, which is the leader in South America's ceramic coating industry.

Amounts in thousands of Brazilian real, except when otherwise indicated

BUSINESS PERFORMANCE

Consolidated results	1Q12	1Q13	1Q14	Var. % 1Q14 x 1Q13
Gross revenue	189,321	220,446	262,080	19%
Net revenue	149,993	175,755	206,540	18%
Gross profit	50,492	60,044	76,833	28%
Gross margin	33.7%	34.2%	37.2%	3.0p.p.
Operating expenses	(28,054)	(34,853)	(48,192)	38%
Selling expenses	(22,486)	(26,121)	(35,332)	35%
General and administrative expenses	(5,484)	(6,251)	(7,349)	18%
Other revenues (expenses)	(84)	(2,481)	(5,511)	122%
EBIT	22,438	25,191	28,641	14%
EBIT margin	15.0%	14.3%	13.9%	*-0.4p.p.*
Finance costs	(5,241)	(5,217)	(6,838)	31%
Taxes on profit	(6,039)	(6,886)	(7,228)	5%
Net profit	11,158	13,065	14,555	11%
Net margin	7.4%	7.4%	7.0%	*-0.4p.p.*
EBITDA	26,473	28,723	35,065	22%
EBITDA margin	*17.6%*	*16.3%*	*17.0%*	*0.7p.p.*

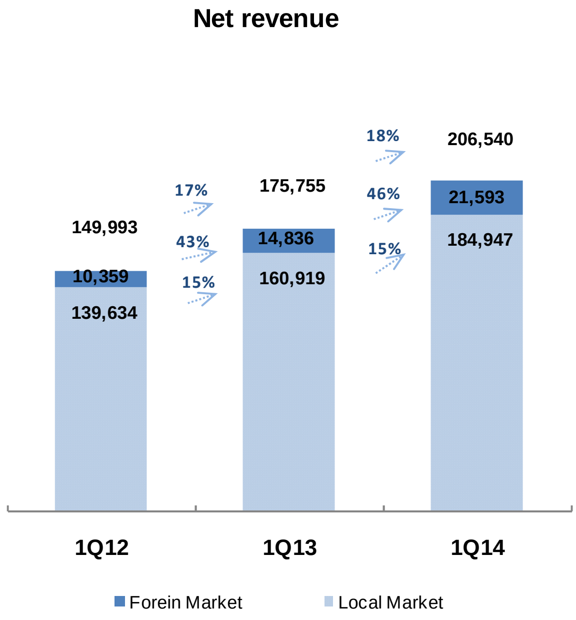
Net revenue

In the first quarter of 2014, consolidated net revenue grew 18%, or R$206 million, when compared with that earned in the same period in 2013, and fell by 10% when compared with the last quarter of 2013, because of the seasonal market fluctuations and the lower number of business days. It is a period of economic slowdown when compared with the pace reported in the quarters following those reported in previous years. Therefore, the fall in net revenue in the first quarter of 2014 when compared with the fourth quarter of 2013 is normal and expected.

The main factors that have contributed to the Company's performance in the first quarter of 2014 were the same reported in the previous quarter - increase in the physical volume of sales and sales of higher quality products whose profitability per sold unit is higher.

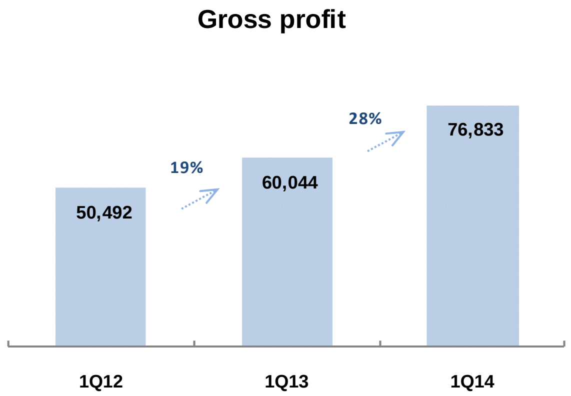
Net revenue in the local market, which accounted for 90% of total sales, grew 15% when compared with the first quarter of 2013. Growth of the Company's market share was a response to the growing demand for more innovative products, with different design and technological solutions. Among the channels are Engineering, multi-brand retailing and Portobello Shop. Portobello Shops have increased their sales and shown better performance and profitability.

Sales in foreign markets benefited from the appreciation of the US dollar against the real (about 12% over the past 12 months), but also from a sophisticated combination of sold products, similar to that offered in local markets. Accordingly, performance was 46% better than that reported in the first quarter of 2013.



Gross profit

Gross profit totaled R$77 million in the first quarter of 2014, up 28% from the same period in the previous year. Gross margin grew three percentage points, from 34.2% to 37.2% in the first quarter of 2014, due to the Company's actions aimed at gaining operating efficiencies. Among them are measures to increase quality, to continually develop industrial processes and to boost the internal meritocracy program aimed at managers and leaders. The growing performance of the Company's gross margin shows a slow development achieved by pursuing a product-focused strategy and optimizing internal funds.



Results from operating activities

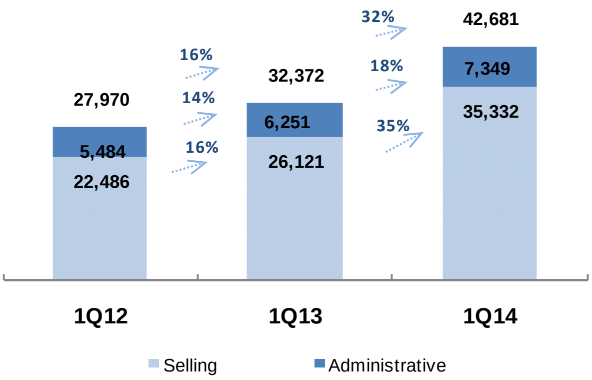
Consolidated selling, general and administrative expenses accounted for a net revenue margin of 17% and 4% in the first quarter of 2014, and 15% and 4% respectively in the first quarter of 2013. They remained at the levels expected by the Company, which aims at boosting growth and operating efficiency.

Sales expenses totaled R$35 million in the first quarter of 2014, 35% higher than in the first quarter of 2013, the result of higher investments in sales force, marketing campaigns and investments in a new logistics model, with the opening of one more distribution center in the state of São Paulo.

Amounts in thousands of Brazilian real, except when otherwise indicated

Administrative expenses, which totaled R$7 million in the first quarter of 2014, 18% up from the same period in the previous year, basically consist of expenses incurred with hiring consulting companies and making adjustments in the personnel through the creation of a project management and meritocracy area to support the Company's growth.

Selling and Administrative Expenses



Other net operating expenses totaled R$6 million in the first quarter of 2014, and consist basically of a long-term incentive program (with full settlement after five years of initial recognition) and provision for employee profit sharing to be paid at the end of the year.

Results from operating activities before net finance costs (EBIT) totaled R$29 million in the quarter, 14% up from the same quarter last year. The EBIT/net revenue ratio was 14%, with EBIT remaining stable when compared with the first quarter of 2013.

EBITDA

As a result of the effects mentioned before, in the first quarter of 2014 cash generation, measured by EBITDA in the first quarter of 2014, was R$35 million, up 22% from the first quarter of 2013 and EBITDA margin was 17%. If we put aside the expenses on the new plant in Alagoas, EBITDA in the first quarter of 2014 would reach R$36 million.

EBITDA	**1Q12**	**1Q13**	**1Q14**	**Var. % 1Q14 x 1Q13**
Profit	11,155	13,062	14,550	11%
Finance costs	5,241	5,217	6,838	31%
Depreciation and amortization	4,035	3,532	6,424	82%
Income and social contribution taxes	6,039	6,886	7,228	5%
Other	3	26	25	-4%
(=) EBITDA	26,473	28,723	35,065	22%
Pre-operating - Alagoas factory	-	-	733	-
(=) Adjusted EBITDA	26,473	28,723	35,798	25%
% of net revenue	17.6%	16.3%	17.0%	0,7 p.p.

Amounts in thousands of Brazilian real, except when otherwise indicated

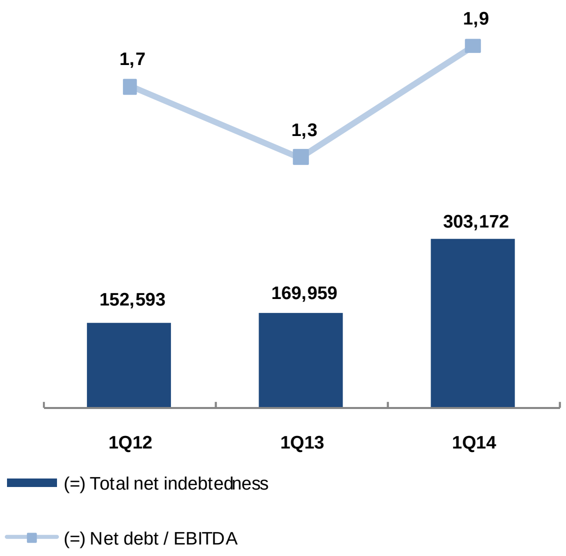
Finance costs

Net finance costs totaled R$7 million in the first quarter of 2014, R$2 million of which consists of exchange rate fluctuation that is the result of the appreciation of the US dollar by 12% over the past 12 months on total indebtedness, pegged to the Company's US dollar rate.

INDEBTEDNESS / CAPITAL STRUCTURE

The Company's net indebtedness in the first quarter of 2014 reached R$303 million in nominal terms, against R$170 million in the first quarter of 2013, and was 1.9 times the EBITDA. The 56% increase is related to expansion investments which will support the Company's growth in the future. Gross indebtedness totaled R$424 million, of which 27% matures in the short term and 73% in the long term.

Total Indebtedness (R$ thousand)



Indebtedness	1Q12	1Q13	1Q14
Bank indebtedness	107,422	206,922	310,805
Tax	144,001	129,212	112,912
(=) Total indebtedness	251,423	336,134	423,717
Cash equivalents and securities	(6,987)	(67,097)	(24,330)
Credits - Refinadora Catarinense	(91,843)	(99,078)	(96,215)
(=) Total net indebtedness	152,593	169,959	303,172
EBITDA (last 12 months)	92,159	131,503	162,467
(=) Net debt / EBITDA	1.7	1.3	1.9

INVESTMENTS

In the first quarter of 2014, investments in fixed assets for growth projects totaled R$21 million. In this period, the Company continues to invest in a new logistics model, mentioned previously, to meet the needs of growth projects, with the same level of service quality, aiming at lower costs. To that end, the Company will set up distribution centers in strategic places. One is already open in the state of Pernambuco and the second has been opened in the state of São Paulo and started operations in this quarter. The expansion program also establishes investments in a factory in the Northeast of Brazil, which is already being built.

Factory in the Northeast

In November 2013 the factory in Alagoas started to be built. The unit has at its disposal one million square meters of area for expansion and at the first phase of operations 1,000 jobs will be created (direct and indirect). Financed by Banco do Nordeste do Brasil S/A, the factory has a budget of R$210 million, which will be disbursed at the beginning of 2015, when production starts. Capex is estimated to reach R$149 million and in 2015 the factory is estimated to produce about 16 thousand square meters, and generate gross revenue of approximately R$211 million. The purpose of the investment is to serve consumers in Brazil's Northern and Northeastern regions, which currently account for 25% of Brazil's ceramic market. With specific public and portfolios the factory will produce the new brand - Pointer.

SHAREHOLDERS' COMPENSATION

The Annual Shareholders' Meeting held on April 30, 2014 approved Management's proposal to distribute additional dividends of 10%, in addition to non-discretionary minimum dividends. The amount payable will be R$23,635 (net of the payments made in August 2013), which consists of interest on equity capital in the gross amount of R$7,675, amounting to R$0.0484259897 per share and dividends in the approximate amount of R$15,960, amounting to about R$0.1007001858 per share. The date of payment will be disclosed soon.

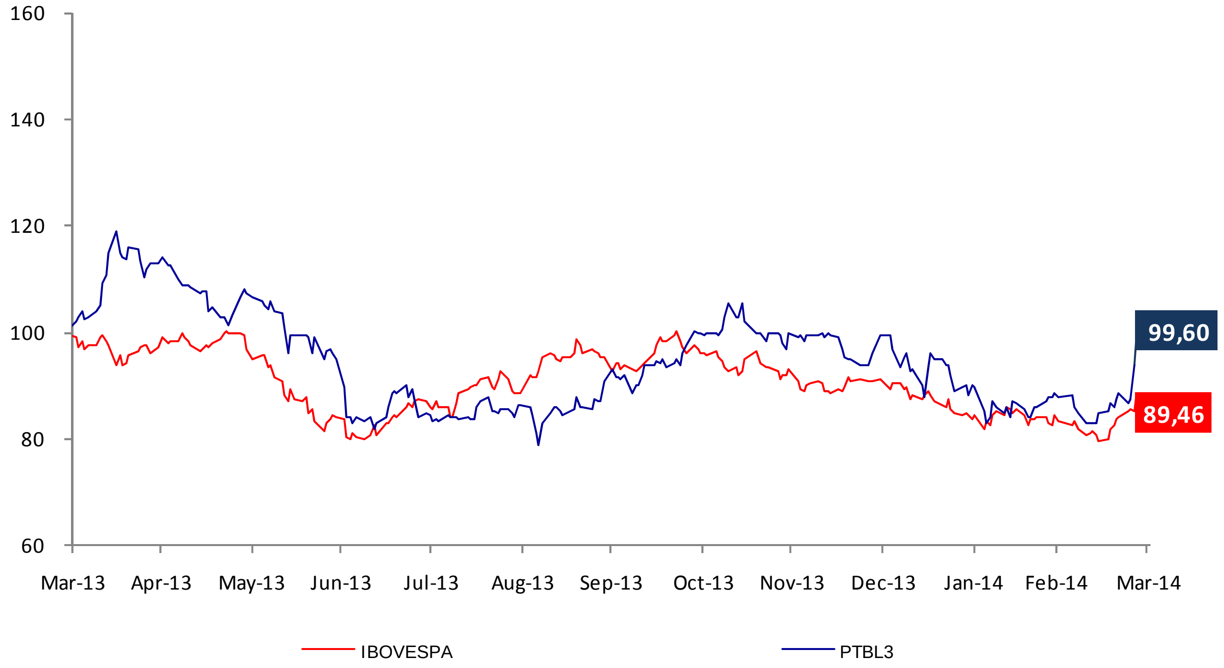
PERFORMANCE OF THE PTBL3 SHARES

The common shares issued by Portobello, traded at BM&FBovespa under code number PTBL3, closed the last trading session of March 2014 at R$4.98, a decrease of 0.2% over the past twelve months, while Ibovespa reported a fall of 11%.

Average financial volumes traded over the past twelve months was R$13 millions, up 114% against R$6.1 million of the same period in 2013.

By the end of the first quarter of 2014, Portobello had a market value of R$792 million (R$795 million as of March 31, 2013).

PTBL3 x Ibovespa
From (100 basis) March 31, 2013 to March 31, 2014



PROSPECTS

- Future expectations show lower growth of Brazil's ceramic coating market, in line with market's lower expectations about GDP growth throughout this year.

- Exports continue to be a growth potential market. However, they have proven to be more challenging, due to exchange rates and the markets in which the Company operates - such as its main export market, in Argentina.

- Specialized stores - Portobello Shop franchise stores are expected to be opened according to the Company's plan for expanding this channel.

- The investigation of dumping practices carried out by SECEX (Foreign Trade Department) to review import tariffs on non-enameled porcelain flooring tiles is an important instrument to boost the competitiveness of Brazilian industry in this specific market segment.

- The construction of the new plant in Alagoas will allow the Company to break into the Northeast market and to enter into the segment of more price competitive products. Portobello intends to serve all the regional market and to export to foreign markets, such as the US and Europe. Construction is underway and operations are expected to start in the second quarter of 2015;

- The increasing difficulties imposed by the market will continue to require the Company to perform further actions in the next months aimed at increasing productivity by cutting operating costs.

- The Company is also focused on developing distribution to make our logistics capabilities a distinguishing business feature over the next years. The whole supply chain will be reviewed and designed. New distribution centers are expected to be created over the subsequent months in 2014.

DESIGN AND RELATIONSHIPS

One of Portobello's major values is the design of its products, which fosters the relationship of the brand with its main target public – the specifier. Architecture and interior design professionals rely on information about materials and trends as a major source for their work. The Company's dialogue with these professionals in turn foster its creation and innovation process.

Two distribution channels are more directly related to architects, interior designers and engineers. They are the following: the Engineering channel, which serves construction companies and corporate clients engaged in major construction works, and Portobello Shop, whose sales are mostly made through the specifier.

The Engineering channel has the Criar program which offers a range of services to this public, such as support to specification, sample express, technical information through digital channels and visits to the factory floor. Architects take part in product clinics during their visits to the factory, when they exchange information and make suggestions to the creation team. This dialogue originates insights for new product and service projects, working as innovation drivers.

In order to encourage the activities of professionals and draw attention to their architectural production, Portobello annually publishes the Brazilian Architecture Book, which includes its major works. In 2014 the third edition of the book was issued, with the participation of more than 20 architects.

The SER program, developed by the Portobello Shop sales channel, has been the Company's major means of relationship with specifiers for ten years. In 2013 a group of architects visited Japan during a cultural trip, and various groups took part in product clinics with the creation team. Brazil's best professionals are celebrated in a special annual award. In 2013 two new channels of communication with the specifiers of this retail channel have been launched. Moda, an information bulletin published every quarter in a partnership with Bamboo magazine, offers information about interior decoration market launches and movements. Casas Portobello is a regular publication available at Portobello Shops with real examples of environments created by interior designers and architects. It is a means of marketing work, inspiring clients and valuing our professionals.

Portobello believes that designs inspire and arouse emotions in people and that dialogue with architecture and interior design professionals is of utmost importance for constantly feeding this process.

INDEPENDENT AUDITORS

Portobello's policy applied to its independent auditors with respect to services unrelated to the audit of its financial statements relies on principles that preserve this professional independence. These principles are based on the assumption that auditors should not inspect their own work, perform managerial activities or represent their client. During the first quarter of 2014 the Company did not hire the independent auditors for other services not related to auditing.

MANAGEMENT TEAM

Management Team

Name	Job
Cesar Gomes Júnior	CEO
Cláudio Ávila da Silva	Deputy CEO
John Shojiro Suzuki	CFO/Investor Relations Director
Mauro do Valle Pereira	Director

Board of Directors

Name	Job
Cesar Bastos Gomes	Chairman
Cesar Gomes Júnior	Deputy Chairman (CEO)
Cláudio Ávila da Silva	Member (Deputy CEO)
Nilton Torres de Bastos Filho	Member
Maurício Levi	Member (Independent)
Plínio Villares Musetti	Member (Independent)
Glauco José Côrte	Member (Independent)
Mário José Gonzaga Petrelli	Member (Independent)
Geraldo Luciano Mattos Júnior	Member (Independent)

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

Directors' Statement about the Financial Statements and Special Review Report of the Independent Auditors

Pursuant to item I, article 28 of Instruction 480/09 issued by the Brazilian Securities and Exchange Commission (CVM), in compliance with the provisions of items V and VI, article 25 of that instruction, the management team of Portobello S.A. states that:

(i) its members have reviewed, discussed and agree with the Company's interim financial statements for the quarter ended March 31, 2014; and

(ii) its members have reviewed, discussed and agree with the special review report issued by KPMG Auditores Independentes on the Company's interim financial statements for the quarter ended March 31, 2014.

Management Team

Cesar Gomes Júnior – CEO

Cláudio Ávila da Silva – Deputy CEO

John Shojiro Suzuki – CFO and Investor Relations Director

Mauro do Valle Pereira – Director

Tijucas, May 15, 2014.

Cesar Gomes Júnior

Cláudio Ávila da Silva

John Shojiro Suzuki

Mauro do Valle Pereira

1 General information

Portobello S.A., herein also referred to as “Company” or “Parent Company”, is a publicly-traded 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 holds on March 31, 2014 59.62% of the company’s shares. Remaining 40.38% 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 América, which was established for the purpose of selling Portobello products in the North-American market and is classified as a discontinued operation, as explained in Note 36; (ii) Mineração Portobello, which is responsible for providing part of raw material used for ceramic coating production; (iii) PBTech, which is responsible for managing own Portobello Shop stores and, currently, manages a store in the city of Belo Horizonte; and (iv) Portobello Shop, administrator of Portobello Shop and Empório Portobello store franchise chain, specialized in ceramic coating. Portobello Shop has a chain of 115 franchised stores specialized in porcelain floor tiles (*porcellanato*) and ceramic coatings.

2 Preparation basis

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

These financial statements include:

- The consolidated financial statements were 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); e

- The individual financial interim statements of the parent company prepared according to the BR GAAP.

The individual financial interim statements of the Parent Company were prepared in accordance with BR GAAP, and, in the case of the Group, these practices differ from the IFRS applicable to separate financial statements due to the fact that investments in subsidiaries are valued under the equity method in BR GAAP, whereas, for IFRS purposes, these investments would be carried at cost or fair value.

However, there is no difference between the shareholders' equity and consolidated result presented by the Group and the shareholders' equity and result of the Parent company in the individual interim Financial Statements.

Accordingly, the interim financial statements of the Group and the Parent Company's individual financial statements are being presented side by side in a single set of financial statements.

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

The issue of individual and consolidated interim financial statements was authorized by the Board of Directors on May 08, 2014.

b) Measuring basis

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

- the defined benefit actuarial assets are recognized as the plan assets, plus the cost of prior service and 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 currency and currency of presentation

These individual and consolidated Interim Financial statements 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 Real was rounded to the closest thousand, except when otherwise indicated.

d) Use of estimates and judgments

The preparation of individual and consolidated interim financial statements according to IFRS and CPCs standards requires management to make judgments, estimates and assumptions that affect the application of accounting principles and the reported amounts of assets, liabilities, income and expenses. The actual results could 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 Interim Statements are included in the Note 4.

3 Significant accounting policies

The main accounting policies applied in the preparation of these interim financial statements are as follows: These policies have been consistently applied to all the periods presented, unless otherwise stated.

3.1 Consolidation

3.1.1 Consolidated interim financial statements

a) Subsidiaries

A subsidiary is any entity in which the Company has the power to determine 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.

The Company's shareholding interest in subsidiaries Portobello América, Inc., PBTech Com. Serv. Revest. Cer. Ltda, Portobello Shop S/A and Mineração Portobello Ltda is 100% - 99.9% - 99.9% and 99.7%, respectively, on March 31, 2014.

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 interim 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.

When the Company or its subsidiaries cease to hold the control, any interest held is remeasured to its fair value, and the change in the book value is recognized in the result. Any amounts previously recognized in other comprehensive results related to that entity are accounted for as if the related assets and liabilities had been directly sold. It means that the amounts previously recognized in other comprehensive results are reclassified in the statement of income.

3.1.2 Individual interim financial statements

In the individual interim 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 evaluation, directly recognized in its shareholders’ equity. These variations are recognized on a reflexive basis, that is, in adjustment of equity evaluation 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. 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 other net gains and losses, except for the financing operations which are recognized in the financial income as described in Notes 34 and 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. The exchange variation on investment abroad was recorded as accumulated translation adjustment in shareholders' equity under the caption "Adjustment de equity evaluation".

3.4 Financial assets

3.4.1 Rating

Financial assets are classified as follows: 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 of its subsidiaries includes "trade accounts receivable", as well as "cash and cash equivalents".

b) 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.

c) 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.

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 they were 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.

3.4.3 Offsetting of financial instruments

Financial assets and liabilities are offset and their net amounts in the balance sheet only when there is a legal right to offset the amounts recognized and there is an intent to settle them on net bases, or realize the asset and settle the liability simultaneously.

3.5 Impairment of financial assets

The Company and its subsidiaries, at the end of each reporting period, 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 Eletrobrás result from noncontroversial value and are recognized based on the calculation of the Federal Justice expert and are restated at inflation index, plus 12% p.a.

3.9 Investments

The investments in subsidiaries are stated under the equity method of accounting, and recognized in income for the year as operating income (or expense). In the case of exchange variation of investment in the subsidiary Portobello América Inc., variations in the value of investment derived exclusively from exchange variation are recorded under “Adjustment of equity evaluation”, 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 noncurrent liabilities, under the caption “Provision for losses on investments” with a corresponding entry recorded in the result, under the caption “Equity pick-up”. The provision for loss on investment in subsidiary Portobello América, which is at discontinuation phase, is recorded in current liabilities.
Other investments are recognized at historical cost and adjusted by the provision for impairment, in case there is indication of loss (Note 18).

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 fixed asset 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 rated detailed in Note 19.

Residual values and the useful lives of material assets are reviewed and adjusted, if adequate, at the end of each year. To date, these reviews do not indicate the need to recognize permanent losses.

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

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

Intangibles 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 calculated under the straight-line method, mentioned in Note 20, 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, and when it is believed that the balances on March 31, 2014 approximate fair value.

3.12 Leases

The commercial leasing of fixed assets in which the Company and its subsidiaries assume substantially the risks and benefits of ownership is classified as financial leasing under the caption “Loans and financing”, and recorded as financed purchase, recognizing, initially, a fixed asset and a financing liability at fair value and subsequently at amortized cost. Property, plant and equipment items acquired in financial leases are depreciated at usual rates described in Note 19.

Leases in which a significant portion of the risks and rewards of ownership are retained by the Company and its subsidiaries and are classified as operating leases. Operating lease expenses are recorded in the result under the straight-line method over the leasing period.

3.13 *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.

3.14 Suppliers

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

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

3.15 Loans and financing

Loans and financing obtained 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).

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

3.16 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 interim financial statements, and those classified as remote losses are neither accrued nor disclosed.

Contingent assets are not recorded for accounting purposes. An asset is only recognized when the Company considers that there are actual guarantees or favorable court decisions for which no further appeals are applicable, satisfying recognition criteria.

3.17 Current and deferred income tax and social contribution

The current income and social contribution taxes are calculated based on the rates of 15% plus a surcharge of 10% on taxable income in excess of R$ 240 (annual base) for income tax and 9% on taxable income for social contribution on net income. 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 against tax liabilities, and the latter relate to income taxes levied by the same tax authority on the same taxable entity.

3.18 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 "Adjustment of equity evaluation".

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.

The Company does not use the corridor method, therefore there was no impact on the change in CPC 33, IAS 19 (R1).

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", based on real expectation of reaching at least the attainment of 80% of income before interest and taxes in accordance with the annual plan of the Company.

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. Total value to be recognized as obligation is determined on an annual basis, considering the following main aspects: EBITDA growth and EBITDA relation with the Company's net debt (Note 29). Total expense value is recognized during the period in which the right is acquired; period during which specific conditions for right acquisition must be met. On the balance sheet date, the entity reviews its estimates based on the conditions of acquisition of rights and recognizes the impact of the review of the initial estimates, if any, in the income statement, with a corresponding adjustment in the liabilities.

3.19 Capital

The Company's capital is represented solely by common shares and is classified in shareholders' equity in conformity with Note 30.

3.20 Issuance costs

Costs of issuance of shares are recognized in the Company's shareholders' equity, less the value of shares issued.

3.21 Total Dividends and Interest on Own Capital of the period

Payment of dividends to Company's shareholders is recognized as a liability in the interim 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 capital is recognized in the statement of income.

3.22 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.

Income from sales is recognized upon the physical delivery of the assets or services, transfer of ownership and when all the following conditions had been met: a) the client assumes the significant risks and benefits resulting from the ownership of the assets; b) the amount of the income can be reliably estimated; c) recognition of other accounts receivable is probable; and d) the costs incurred or to be incurred in connection with the transaction may be measured on a reliable basis.

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; therefore, these sales are not discounted to present value.

b) Income from royalties

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

c) Financial income

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.

3.23 Income from discontinued operations

The result of discontinued operation is presented in a single amount in the income statement, including the total result after income tax on these operations less any impairment loss and is presented in Note 36.

The classification as a discontinued operation is made upon its sale or when the operation fails to meet the criteria for being held for sale, if this occurs before. When an operation is classified as a discontinued operation, the comparative statement of income and the statement of comprehensive income are reissued as if the operation had been discontinued since the beginning of the comparative period.

3.24 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 interim financial statements under BRGAAP applicable to publicly-held companies, whereas under IFRS they represent additional financial information.

3.25 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.

3.26 New accounting standards

Several news standards and amendments to standards will be effective for the years started after January 1, 2014, and have not been considered in the preparation of these Interim Financial Statements.

Those that may be relevant to the Group are listed below.

- IAS 32 - Offsetting of Financial Assets and Liabilities. These reviews clarify the meaning of “currently has a legally enforceable right to offset the recognized amounts” and the criterion that would cause the non-simultaneous settlement mechanisms of the clearinghouses to qualified for clearing. The Company did not identify impacts on its interim accounting information as a result of these reviews.

- IAS 36 – Impairment of assets – Such change introduces requirements for disclosing the computation of recoverable amounts of assets due to the issuance of IFRS 13. Identified impacts are related to disclosure of recoverable value and measurement methodology and did not generate relevant impacts on consolidated financial statements.

Pronouncements applicable to the Company from January 1, 2015

The Group does not intend to early adopt this rule.

- IFRS 9 - “Financial instruments", covers the classification, measuring and the recognition of financial assets and liabilities. IFRS 9 was issued in November 2009 and October 2010 and replaces the parts of IAS 39 related to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified in two categories: measure at fair value and measured at amortized cost. The calculation is made upon initial recognition. The basis for classification depends on the entity’s business model and the contractual cash flow features of the financial instruments. For financial liabilities, the standard maintains most of the requirements established by IAS 39. The main change is that where the option of fair value is adopted for financial liabilities, the portion of change in fair value due to credit risk of the entity undertaking shall be recorded in other comprehensive income and not in the statement of income, except when it results in accounting mismatching. IFRS 9 is applicable only as from January 1, 2015

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 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 counsel, 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 interim 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 28.

4.2 Critical judgments in applying the Entity's accounting polices

a) Receivables - Eletrobrás

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

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. In August 2011, March 2013 and April 2014, Refinadora Catarinense S/A made payments of parts of its debts to the Company corresponding to the first, second and third annual installments, out of 10 installments, according to the contractual provisions.

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).

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 22(h). 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 its Interim financial statements.

5 Financial risk management

5.1 Financial risk factors

The activities of the Company and its subsidiaries expose it to various financial risks: market, credit 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:

In thousands of reais, unless otherwise indicated

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

	In reais			
	Parent company		Consolidated	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Accounts receivable	25,859	24,254	25,859	24,254
Receivables with subsidiary companies	46,333	47,962	-	-
Provision for loss in investments	(46,048)	(47,649)	-	-
Suppliers, net of advances	(22,997)	(40,808)	(22,997)	(40,808)
Loans and financing	(13,886)	(17,551)	(13,886)	(17,551)
Commissions	(1,247)	(1,181)	(1,247)	(1,181)
Exposed net liabilities	(11,986)	(34,973)	(12,271)	(35,286)

	In Euros				In US$			
	Parent company		Consolidated		Parent company		Consolidated	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Accounts receivable	415	341	415	341	8,156	8,082	8,156	8,082
Receivables with subsidiary companies	-	-	-	-	20,474	20,474	-	-
Provision for loss in investments	-	-	-	-	(20,348)	(20,340)	-	-
Suppliers, net of advances	(1,640)	(2,050)	(1,640)	(2,050)	(7,903)	(14,596)	(7,903)	(14,596)
Loans and financing	(90)	(88)	(90)	(88)	(6,013)	(7,371)	(6,013)	(7,371)
Commissions	(72)	(61)	(72)	(61)	(439)	(420)	(439)	(420)
	(1,387)	(1,858)	(1,387)	(1,858)	(6,073)	(14,171)	(6,199)	(14,305)

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 an amount equivalent to that of 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 financial investments, they are mostly made in investment funds as described in Note 6.

In thousands of reais, unless otherwise indicated

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 its subsidiaries, 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.

	Parent company							
	March 31, 2014				December 31, 2013			
	Loans and financing	Financial leases	Suppliers	Installment payment of tax liabilities	Loans and financing	Financial leases	Suppliers	Installment payment of tax liabilities
Less than one year	98,867	1,032	113,338	12,334	90,277	1,007	152,521	17,674
Between one and two years	161,654	209	20,212	20,300	156,043	476	15,966	19,947
Between two and five years	50,586	-	-	30,450	46,996	-	-	29,922
> 5 years	2,805	-	-	49,069	2,545	-	-	48,213
	313,912	1,241	133,550	112,153	295,861	1,483	168,487	115,756

	Consolidated							
	March 31, 2014				December 31, 2013			
	Loans and financing	Financial leases	Suppliers	Installment payment of tax liabilities	Loans and financing	Financial leases	Suppliers	Installment payment of tax liabilities
Less than one year	98,867	1,032	115,294	12,551	90,277	1,007	153,922	18,080
Between one and two years	161,654	209	20,212	20,410	156,043	737	15,966	20,055
Between two and five years	51,586	-	-	30,615	47,962	-	-	30,084
> 5 years	2,805	-	-	49,336	2,545	-	-	48,477
	314,912	1,241	135,506	112,912	296,827	1,744	169,888	116,696

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 as TJLP and CDI.

On March 31, 2014, the Management considered CDI rate at 10.55% and TJLP of 5% as the probable scenario. The probable rate was then adjusted at 25% and 50%, as parameter for possible and remote scenarios, respectively.

In thousands of reais, unless otherwise indicated

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

	Consolidated in reais							
	March 31, 2014	Risk	Probable		Possible 25%		Remote 50%	
Operation			%	R$	%	R$	%	R$
Investments (remunerated at 101.70% CDI)	23,113	Low CDI	10.55%	2,475	7.91%	1,857	5.28%	1,238
	23,113			2,475		1,857		1,238
Operation								
Loans – Working capital	(4,939)	High CDI	10.55%	(521)	13.19%	(651)	15.83%	(782)
Loans - Export credit note	(84,635)	High CDI	10.55%	(8,929)	13.19%	(11,161)	15.83%	(13,393)
Loans - Trade 4131 Swap	(51,506)	High CDI	10.55%	(5,434)	13.19%	(6,792)	15.83%	(8,151)
Loans – BNDES	(30,795)	High TJLP	5.00%	(1,540)	6.25%	(1,925)	7.50%	(2,310)
	(171,875)			(16,424)		(20,529)		(24,636)

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 March 31, 2014 and adopted, for sensitivity analysis purposes, the future market rate in effect during the preparation of these interim financial statements 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						
	March 31, 2014	Probable		Possible 25%		Remote 50%	
		Rate - US$	Gain (loss)	Rate - US$	Gain (loss)	Rate - US$	Gain (loss)
Accounts receivable	25,859	2.2630	-	2.8288	6,465	3.3945	12,930
Suppliers, net of advances	(22,997)	2.2630	-	2.8288	(5,749)	3.3945	(11,499)
Loans and financing	(13,886)	2.2630	-	2.8288	(3,472)	3.3945	(6,943)
Commissions	(1,247)	2.2630	-	2.8288	(312)	3.3945	(624)
Exposed net liabilities	(12,271)	2.2630	-	2.8288	(3,068)	3.3945	(6,136)

5.2 Capital management

The Management's objectives in managing its capital are to safeguard its business continuity capacity to offer return to shareholders, besides offering the best cash management maintaining an optimal capital structure to reduce this cost.

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.

In thousands of reais, unless otherwise indicated

The financial leverage ratios on March 31, 2014 can be summarized as follows:

	Parent company		Consolidated	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Loans and financing	309,805	292,168	310,805	293,134
Installment payment of tax liabilities	112,153	115,756	112,912	116,696
Less: Cash and cash equivalents	(21,227)	(55,389)	(24,330)	(57,677)
Credits with other related parties	(96,215)	(94,540)	(96,215)	(94,540)
Net debt	304,516	257,995	303,172	257,613
Total shareholders' equity	208,019	191,849	208,032	191,857
Total capital	512,535	449,844	511,204	449,470
Leverage ratio (%)	59	57	59	57

On March 31, 2014, the Company has agreed credit facilities, unused, amounting to R$ 97,450. 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 new manufacturing unit in the city of Marechal Deodoro, state of Alagoas.

5.3 Financial instruments by category

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

	Parent company		Consolidated	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Assets, loans and receivables				
Cash and cash equivalents	21,227	55,389	24,330	57,677
Trade accounts receivable	155,705	158,522	163,214	163,801
	176,932	213,911	187,544	221,478
Liabilities, other financial liabilities				
Suppliers	113,286	152,441	115,242	153,842
Loans and financing	309,805	292,168	310,805	293,134
Installment payment of tax liabilities	112,153	115,756	112,912	116,696
	535,244	560,365	538,959	563,672

6 Cash and cash equivalents

	Parent company		Consolidated	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Current account	722	6,410	1,214	6,979
Interest earnings bank deposits	20,505	48,979	23,116	50,698
	21,227	55,389	24,330	57,677

In thousands of reais, unless otherwise indicated

Financial investments designated as cash equivalents are shares of investment funds. These funds' average yield in the first quarter of 2014 was equivalent to 101.52% of the interbank deposit certificate (CDI) rate. The investment can be redeemed at any time without penalties.

7 Derivative financial instruments

The tradable derivatives are classified as 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.

In December 2012, the Company entered into a transaction under the rules of Law No. 4131 (exporting trading companies) in the amount of R$ 50,000 at the cost of 9.8% per year as a fixed rate, but using the swap for CDI as detailed in item "a" below, with 60 months for payment and a 24-month grace period. That transaction is classified in long-term liabilities and linked to the loans and financing group. Amortizations are semi-annual, beginning in December 2014.

a) Interest rate swap

The reference (notional) value of the interest rate swap agreement on March 31, 2014 corresponds to R$ 50,000 at the rate of CDI+1.60% per annum. Amortizations are made on a half-annual basis.

Transaction adjusted value of R$315 was recorded net in current liabilities and the amount recognized in income for the quarter ended March 31, 2014 totals losses of R$255 (R$161 as of December 31, 2013).

8 Trade accounts receivable

	Parent company		Consolidated	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Receivables from third parties:				
Domestic market	129,630	133,795	137,142	139,074
Foreign market	25,859	24,254	25,859	24,254
	155,489	158,049	163,001	163,328
Accounts receivable from related parties				
Entities related to the Management	1,045	1,045	1,045	1,045
	1,045	1,045	1,045	1,045
Impairment of trade accounts receivable:				
Allowance for doubtful accounts	(813)	(520)	(816)	(520)
Recomposition of the nominal value to present value	(16)	(52)	(16)	(52)
	(829)	(572)	(832)	(572)
	155,705	158,522	163,214	163,801

Changes in the provision for impairment of accounts receivable is as follow:

	Parent company	Consolidated
December 31, 2013	520	520
Provision (reversal) of impairment of accounts receivable	293	296
March 31, 2014	813	816

In thousands of reais, unless otherwise indicated

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							
	March 31, 2014	Trade notes falling due not provisioned	Trade notes overdue not provisioned	Allowance for doubtful accounts	December 31, 2013	Trade notes falling due not provisioned	Trade notes overdue not provisioned	Allowance for doubtful accounts
Falling due	143,673	143,673	-	-	150,724	150,724	-	-
Overdue, up to 30 days	8,567	-	8,567	-	6,027	-	6,027	-
Overdue, 31–90 days	1,779	-	1,764	15	1,286	-	1,276	10
Overdue, 91–360 days	2,053	-	1,623	430	978	-	652	326
Overdue, > 360 days	462	-	94	368	79	-	(105)	184
	156,534	143,673	12,048	813	159,094	150,724	7,850	520

	Consolidated							
	March 31, 2014	Trade notes falling due not provisioned	Trade notes overdue not provisioned	Allowance for doubtful accounts	December 31, 2013	Trade notes falling due not provisioned	Trade notes overdue not provisioned	Allowance for doubtful accounts
Falling due	151,115	151,115	-	-	155,936	155,936	-	-
Overdue, up to 30 days	8,620	-	8,620	-	6,047	-	6,047	-
Overdue, 31–90 days	1,781	-	1,766	15	1,319	-	1,309	10
Overdue, 91–360 days	2,068	-	1,635	433	992	-	666	326
Overdue, > 360 days	462	-	94	368	79	-	(105)	184
	164,046	151,115	12,115	816	164,373	155,936	7,917	520

The Company’s receivables constitute a guarantee of some of the loans and financings obtained, as described in Note 22. Its sum is calculated based on a percentage of the residual balance of the debt. On March 31, 2014, the total amount of accounts receivable pledged as collateral was R$ 69,857 (R$ 57,065 on December 31, 2013).

9 Inventories

	Parent company		Consolidated	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Finished goods	184,935	135,728	185,107	135,909
Work in process	6,935	6,808	6,935	6,808
Raw materials and consumption materials	13,605	14,851	13,605	14,851
Provision for inventory appraisal at realizable value	(6,127)	(5,402)	(6,127)	(5,402)
Imports in transit	1,927	25,681	1,927	25,681
	201,275	177,666	201,447	177,847

In thousands of reais, unless otherwise indicated

10 Advances to suppliers

	Parent company		Consolidated	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Domestic market	5,713	11,170	4,296	9,757
Foreign market	218	218	218	218
	5,931	11,388	4,514	9,975

11 Recoverable taxes

	Parent company		Consolidated	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Current				
Value-added tax on sales and services–ICMS	6,118	5,006	6,119	5,006
IPI	1,158	1,313	1,158	1,313
Tax assessment for corporate income tax—IRPJ/Social contribution on net profit—CSLL	3,943	10,522	4,380	10,978
Others	171	440	321	586
	11,390	17,281	11,978	17,883
Non-current				
ICMS on property, plant and equipment	3,465	3,400	3,465	3,400
PIS/COFINS on property, plant and equipment	815	484	815	484
	4,280	3,884	4,280	3,884

The decrease in percentages of the rates of IPI (excise tax) levied on the products produced and traded by Portobello S.A. originally allowed by Decree no. 7,032 of December 14, 2009, was maintained up to March 31, 2014 according to Decree 7796 of August 30, 2012, and was revoked by the Federal Decree 7879 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.

12 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 11941/09, then including the debt resulting from the use of the credit acquired from “Refinadora”.

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.

In thousands of reais, unless otherwise indicated

At the time of adhesion to the payment scheduling of Law 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 March 31, 2014, these credits that also originate in proceeding 87.00.00967-9, represent R$ 96,215 (R$ 94,540 on December 31, 2013) and are restated by the SELIC rate, according to the contract.

It should be mentioned that the pledged credits have already become a writ of payment, effectively. In August 2011 the Company received the amount of R$8,505 relating to the first annual installment, of a total of 10 installments, as provided for in the contract. The second installment, in the amount of R$ 9,824 and third portion in the amount of R$9,995, the Company received respectively in March 2013 and April 2014.

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.

13 Judicial deposits

The Company and its subsidiaries are parties involved in labor, civil and labor lawsuits (see Note 26) 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	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Civil	20,213	16,030	20,213	16,030
Labor	2,876	2,657	2,876	2,657
Tax	3,168	2,034	3,168	2,034
	26,257	20,721	26,257	20,721

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. For this reason, balance of civil deposit in court is approximately R$20 million.

14 Receivables - Eletrobrás

The Company filed a lawsuit against Centrais Elétricas Brasileira S/A - Eletrobrás aiming at the reimbursement of the compulsory loan paid through the electricity bills between the years 1977 and 1993, based on Law 4156/62.

On December 16, 2005 this lawsuit was considered to have grounds and in February 2006 the Company organized the execution action. On this occasion, Eletrobrás and the Federal Government challenged the proceeding, recognizing as an uncontroversial part the amount of R$ 6,286 (amounts on March 1, 2008), represented (i) by means of a bank deposit in the amount of R$ 4,964, on April 1, 2008 and (ii) by the transfer of 61,209 class “B” nominative preference shares of Eletrobrás that were sold on August 13, 2008 for R$ 1,597.

In thousands of reais, unless otherwise indicated

The Federal Courts determined that the accounting unit should determine the remaining amount due to the Company. The accounting unit then determined the amount of R$ 12,064 on February 1, 2006. The Company recognized the amount calculated by the court expert investigation and keeps these amounts updated by the INPC (National Consumer Price Index) plus 12% p.a. As of September 30, 2010, the remaining balance was R$ 15,613 before the restatement.

Having submitted the calculation to review, the accounting unit of the Federal Courts presented new amounts, determining as ‘net court award’ the amount of R$ 24,749. In September 2010 the Company recognized the difference between the amounts calculated previously and the current calculation of the accounting unit of the federal courts in the amount of R$ 9,136, recorded under the heading “Other operating income”. On March 31, 2014, the amount of the restated assets is R$ 45,720 (R$ 43,555 on December 31, 2013).

15 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	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Income tax	1,435	7,156	1,840	7,565	-	-	(696)	(339)
Social contribution	2,508	3,366	2,540	3,413	-	-	(237)	(122)
	3,943	10,522	4,380	10,978	-	-	(933)	(461)

According to Note 3.17, 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 deferred income and social contribution taxes are calculated on the corresponding temporary differences between the calculation basis of tax on assets and liabilities, and book values of Interim financial statements. Such tax rates, currently defined to find the deferred taxes, are of 25% for income tax and 9% for social contribution.
Deferred tax liabilities are recognized inasmuch as it is likely that the future taxable income is available for use to offset temporary differences, based on projections of future income prepared and based on internal assumptions and on future economic scenarios that may, however, be subject to change.

In thousands of reais, unless otherwise indicated

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

	March 31, 2014	December 31, 2013
Assets	12,213	12,198
Negative basis of CSLL	-	160
Timing differences	12,213	12,038
Portobello Private Pension	(2,413)	(2,381)
Provision for adjustment to market value	1,807	1,553
Provision for contingencies	7,215	6,966
Allowance for doubtful accounts	276	177
Provision for profit sharing and long-term incentives	3,515	4,025
Other timing difference assets	1,813	1,698
Liabilities	(42,657)	(41,352)
Timing differences	(42,657)	(41,352)
Realization of revaluation reserve	(17,262)	(17,396)
Receivables - Eletrobrás	(15,545)	(14,809)
Contingent assets - IPI premium credit - Phase II	(4,840)	(4,725)
Adjustment to present value	(1,784)	(1,713)
Adjustment of depreciation (for the useful life of assets)	(4,464)	(4,464)
Foreign exchange variation at cash basis	1,238	1,755
Deferred income and social contribution taxes - net	(30,444)	(29,154)

The net changes in income tax and social contribution at March 31, 2014 were as follows:

	Parent company e Consolidated
December 31, 2013	(29,154)
Negative basis of social contribution on net income	(160)
Temporary credit differences	177
Temporary liability differences	(1,441)
Revaluation reserve	134
March 31, 2014	(30,444)

In thousands of reais, unless otherwise indicated

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

	March 31, 2014	March 31, 2013
Deferred tax asset charged to (recognized in) income		
Negative basis of CSLL	(160)	-
Portobello Private Pension	(32)	(32)
Provision for adjustment to market value	254	209
Provision for contingencies	249	262
Provision for PIS and COFINS with a reduced bases for ICMS	-	705
Allowance for doubtful accounts	99	30
Provision for profit sharing and long-term incentives	(510)	364
Other timing difference assets	115	(729)
	15	809
Realization of revaluation reserve	134	134
Receivables - Eletrobrás	(736)	(657)
Contingent assets - IPI premium credit - Phase II	(115)	(72)
Adjustment to present value	(71)	373
Adjustment of depreciation (for the useful life of assets)	-	42
Foreign exchange variation at cash basis	(517)	(97)
	(1,305)	(277)
	(1,290)	532

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

Income and social contribution tax expenses are as follow:

	Parent company		Consolidated	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
Current tax on income for the year	(3,537)	(5,801)	(5,938)	(7,418)
Deferred tax assets (liabilities)	(1,290)	532	(1,290)	532
Expense de Income tax and social contribution	(4,827)	(5,269)	(7,228)	(6,886)

	Parent company		Consolidated	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
Income (loss) before tax	19,377	18,331	21,803	19,974
Tax calculated based on rates of local taxes	(6,588)	(6,233)	(7,413)	(6,791)
Income (loss) of subsidiaries by the equity method	1,635	664	-	-
Nondeductible expenses for tax purposes	193	366	161	366
Depreciation of revalued assets	(134)	(134)	(134)	(134)
Tax credits on tax losses and temporary differences	1,357	(464)	1,448	(859)
Formation of deferred income and social contribution taxes	(1,290)	532	(1,290)	532
Tax charge	(4,827)	(5,269)	(7,228)	(6,886)
Effective rate	24.9%	28.7%	33.2%	34.5%

In thousands of reais, unless otherwise indicated

16 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 01, 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 Company expects to realize this asset in the medium term. Accordingly, in November 2009 the Company recognized the uncontroversial amount that restated up to March 31, 2014 is R$ 14,236 (R$ 13,896 on December 31, 2013).

17 Contingent assets

The contingent assets refer to lawsuits 1998.34.00.029022-4 and 1984.00.020114-0 and also involve the recognition of tax benefits entitled 'IPI premium credit'. These proceedings are in award calculation stages. Nevertheless, the amounts due by the Federal Government have not yet been determined by the federal courts and cannot and have not yet been recognized as assets. However, the Company requested a calculation by the attorneys of record, who estimate credits net of provisions restated up to December 2009 in the amounts of R$ 54,605 and R$ 1,848, respectively.

18 Investments

a) Equity in income of subsidiaries

The Company is the parent of four businesses and investments are recorded in permanent 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, 2013	Exchange variation	Equity income (loss)	March 31,2014
Provision for loss in investments							
Portobello América Inc.	(46,048)	(20)	100%	(47,649)	1,620	(20)	(46,049)
PBTech Ltda.	(6,578)	165	99.94%	(6,736)	-	165	(6,571)
Mineração Portobello Ltda.	(632)	214	99.76%	(846)	-	213	(6 33)
				(55,231)	1,620	358	(53,253)
Investments – Equity in income of subsidiaries Portobello Shop S.A.	4,934	4,454	99.90%	480	-	4,449	4,929
				480	-	4,449	4,929
Total investments in subsidiaries				(54,751)	1,620	4,807	(48,324)

On March 31, 2014, the Company presents provision for loss on investments of the subsidiary Portobello América Inc. in non-current liabilities. Management's intention is to capitalize the subsidiary's debt.

In thousands of reais, unless otherwise indicated

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

	Organization Country	Ownership interest	Assets	Liabilities	Income	Income (loss)
December 31, 2013						
Portobello América Inc.	United States	100.00%	327	47,976	-	(75)
PBTech Ltda.	Brazil	99.94%	1,966	8,704	5,700	(1,810)
Portobello Shop S/A	Brazil	99.90%	8,775	8,295	55,255	15,134
Mineração Portobello Ltda.	Brazil	99.76%	891	1,735	2,707	62
March 31, 2014						
Portobello América Inc.	United States	100.00%	302	46,350	-	(20)
PBTech Ltda.	Brazil	99.94%	2,092	8,666	1,734	165
Portobello Shop S/A	Brazil	99.90%	14,666	9,737	15,394	4,449
Mineração Portobello Ltda.	Brazil	99.76%	1,055	1,686	976	213

19 Property, plant and equipment

a) Breakdown

		Parent company				Consolidated	
		March 31, 2014			December 31, 2013	March 31, 2014	December 31, 2013
	Annual average depreciation rate	Cost	Accumulated depreciation	Net amount	Net amount	Net amount	Net amount
Land		12,141	-	12,141	12,141	12,695	12,518
Buildings, civil works and improvements	3%	120,750	(19,923)	100,827	99,961	100,899	100,075
Machinery and equipment	7%	366,269	(227,844)	138,425	139,409	138,425	139,409
Furniture and fixtures	10%	8,536	(7,623)	913	960	992	1,045
Computers	20%	14,183	(12,513)	1,670	1,702	1,715	1,747
Other fixed assets	20%	219	(207)	12	15	537	540
Construction in process (a)		25,477	-	25,477	10,236	25,479	10,238
		547,575	(268,110)	279,465	264,424	280,742	265,572

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

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 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 30g).

As provided for in Technical Interpretation ICPC 10 of the Committee of Accounting Pronouncements, approved by Deliberation CVM no. 619/09 and effective as of 1/1/09, 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 the same rates were maintained from 2009 until the present date.

In thousands of reais, unless otherwise indicated

b) Changes in property, plant and equipment

	Parent company								
	December 31, 2012	Additions	Transfers	Depreciation	December 31, 2013	Additions	Transfers	Depreciation	March 31, 2014
Land	11,111	1,030	-	-	12,141	-	-	-	12,141
Buildings and improvements	82,836	-	20,307	(3,182)	99,961	-	1,816	(950)	100,827
Machinery and equipment	78,986	939	72,250	(12,766)	139,409	372	2,793	(4,149)	138,425
Furniture and fixtures	951	229	-	(220)	960	11	-	(58)	913
Computers	1,616	611	-	(525)	1,702	122	-	(154)	1,670
Other fixed assets	30	-	-	(15)	15	-	-	(3)	12
Construction in process	10,311	92,482	(92,557)	-	10,236	19,850	(4,609)	-	25,477
	185,841	95,291	-	(16,708)	264,424	20,355	-	(5,314)	279,465

	Consolidated								
	December 31, 2012	Additions	Transfers	Depreciation	December 31, 2013	Additions	Transfers	Depreciation	March 31, 2014
Land	11,488	1,030	-	-	12,518	177	-	-	12,695
Buildings and improvements	82,985	-	20,307	(3,217)	100,075	-	1,816	(992)	100,899
Machinery and equipment	78,986	939	72,250	(12,766)	139,409	372	2,793	(4,149)	138,425
Furniture and fixtures	1,061	231	-	(247)	1,045	11	-	(64)	992
Computers	1,668	617	-	(538)	1,747	126	-	(158)	1,715
Other fixed assets	89	-	466	(15)	540	-	-	(3)	537
Construction in process	10,779	92,482	(93,023)	-	10,238	19,850	(4,609)	-	25,479
	187,056	95,299	-	(16,783)	265,572	20,536	-	(5,366)	280,742

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

	Parent company		Consolidated	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
Cost of products sold	4,757	3,029	4,757	3,029
Commercial expenses	401	274	447	281
Administrative expenses	156	133	162	139
	5,314	3,436	5,366	3,449

In thousands of reais, unless otherwise indicated

20 Intangible assets

a) Breakdown

		Parent company				Consolidated	
		March 31, 2014			December 31, 2013	March 31, 2014	December 31, 2013
	Annual average rate of amortization	Cost	Accumulated amortization	Net amount	Net amount	Net amount	Net amount
Software	20%	12,369	(12,169)	200	208	200	208
Right to exploration of outcrops	20%	1,000	(800)	200	250	683	746
Trademarks and patents	-	150	-	150	150	150	150
Goodwill	-	-	-	-	-	190	190
Management system (a)	21%	18,887	(2,426)	16,461	17,450	16,461	17,450
		32,406	(15,395)	17,011	18,058	17,684	18,744

(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, 2012	Additions	Amortizations	December 31, 2013	Additions	Amortizations	March 31, 2014
Software	311	-	(103)	208	11	(19)	200
Right to exploration of outcrops	450	-	(200)	250	-	(50)	200
Trademarks and patents	150	-	-	150	-	-	150
Management system	14,209	4,666	(1,425)	17,450	-	(989)	16,461
	15,120	4,666	(1,728)	18,058	11	(1,058)	17,011

	Consolidated								
	December 31, 2012	Additions	Amortizations	Write-offs	December 31, 2013	Additions	Amortizations	Write-offs	March 31, 2014
Software	311	-	(103)	-	208	11	(19)	-	200
Right to exploration of outcrops	457	511	(222)	-	746	-	(50)	(13)	683
Trademarks and patents	152	-	-	(2)	150	-	-	-	150
Goodwill	190	-	-	-	190	-	-	-	190
Management system	14,209	4,666	(1,425)	-	17,450	-	(989)	-	16,461
	15,319	5,177	(1,750)	(2)	18,744	11	(1,058)	(13)	17,684

In thousands of reais, unless otherwise indicated

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

	Parent company		Consolidated	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
Cost of products sold	139	58	139	59
Commercial expenses	704	6	704	6
Administrative expenses	215	18	215	18
	1,058	82	1,058	83

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

	Software	Right to exploration of outcrops	Management system (a)	Total
2014	68	302	3,961	4,331
2015	42	102	3,954	4,098
2016	40	102	3,879	4,021
2017	39	102	3,673	3,814
2018	-	80	1,000	1,080
	189	688	16,467	17,344

The brands and patents and goodwill items in the total amount of R$ 340 did not undergo amortization due to their undefined useful life. However, they are subject to impairment, as described in Note 3.13.

21 Suppliers

	Parent company		Consolidated	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Domestic market (a)	90,790	111,606	92,746	113,007
Foreign market	22,548	40,915	22,548	40,915
Breakdown of the nominal value to present value	(52)	(80)	(52)	(80)
Current	113,286	152,441	115,242	153,842
Domestic market (a)	20,212	15,966	20,212	15,966
Non-current	20,212	15,966	20,212	15,966
	133,498	168,407	135,454	169,808

(a) Refers to the provision for payment to gas supplier resulting from matter mentioned in note 13

In thousands of reais, unless otherwise indicated

22 Loans and financing

	Maturities	Charges	Parent company March 31, 2014	Parent company December 31, 2013	Consolidated March 31, 2014	Consolidated December 31, 2013
Current						
Foreign currency						
"Suppliers credit"		VC (Foreign exchange variation) + 6.20% p.a.[1]	1,064	1,547	1,064	1,547
Prepayment and ACC (a)		Exchange variation–EV+4.25% p.a. [1]	2,138	1,481	2,138	1,481
FINIMP			-	2,730	-	2,730
Total		Exchange variation–EV + 4.90% p.a.	3,202	5,758	3,202	5,758
Local currency						
Exim Pre-shipment TJ 462 (b)		8.00% p.a. [1]	31,164	20,335	31,164	20,335
FINEP (c)		6.25% p.a.	5,202	5,204	5,202	5,204
Export credit note (d)		11.52% p.a. [1]	23,126	20,584	23,126	20,584
Law no. 4,131 (e) – (note 7)		9.80% p.a. + Interbank deposit certificate–CDI	8,649	7,497	8,649	7,497
Financial leases (f)		9.71% p.a. [1]	1,032	1,007	1,032	1,007
BNDES - Progeren (g)		8.46% p.a. [1]	17,462	15,168	17,462	15,168
PRODEC (h)		4.00% p.a. + UFIR	4,959	5,632	4,959	5,632
FINAME (i)		3.00% p.a. [1]	11	11	11	11
Working capital (j)		12.24% p.a. [1]	4,939	9,872	4,939	9,872
Total		8.95% p.a.	96,544	85,310	96,544	85,310
Total current			99,746	91,068	99,746	91,068
Non-current						
Foreign currency						
"Suppliers credit"	Oct 2016	Exchange variation–EV+6.20% p.a. [1]	1,491	1,544	1,491	1,544
Prepayment (a)	May 2018	Exchange variation–EV+4.25% p.a. [1]	9,193	10,249	9,193	10,249
Total		Exchange variation–EV + 4.52% p.a.	10,684	11,793	10,684	11,793
Local currency						
Exim Pre-shipment TJ 462 (b)	Sep 2015	8.00% p.a. [1]	19,167	30,000	19,167	30,000
FINAME /POC						
FINEP (c)	Sep 2018	6.25% p.a. [1]	18,029	19,318	18,029	19,318
Export credit note (d)	Dec 2017	11.52% p.a. [1]	71,615	48,000	71,615	48,000
Law no. 4,131 (e) – (note 7)	Dec 2017	9.80% p.a. + Interbank deposit certificate–CDI	42,857	42,857	42,857	42,857
Financial leases (f)	May 2015	9.71% p.a. [1]	209	476	209	476
BNDES - Progeren (g)	Mar 2016	8.46% p.a. [1]	13,333	17,083	13,333	17,083
PRODEC (h)	Mar 2016	4.00% p.a. + UFIR	28,143	26,128	28,143	26,128
FINAME (i)	Sep 2015	3.00% p.a. [1]	6,022	5,445	6,022	5,445
Working capital			-	-	1,000	966
Total		8.81% p.a.	199,375	189,307	200,375	190,273
Total non-current			210,059	201,100	211,059	202,066
Total			309,805	292,168	310,805	293,134

[1] Average rate
UFIR – Benchmark Tax Unit
ACC - Advance on exchange contract

a) Prepayments and advance on exchange contract - contracts entered into on: (i) 2010 and 2011 of prepayment amounting to US$10,431, maturing in up to 30 months; receivables from Portobello Shop S.A. and Portobello S.A. were pledged in guarantee; and (ii) June 2013 of PPE, in the amount of U$5,000; principal will be paid in 16 installments and interest in 20 quarterly installments, with first installment maturing in September 2013, 100% guaranteed by pledged assets.

b) Exim Pré-Embarque – Exim Pré-Embarque – contracts executed in: (i) August 2013 in the amount of R$30 million to be paid in 12 monthly installments, with first installment maturing in September 2014 and guaranteed by Portobello S.A. receivables in the amount equivalent to 20% of the contract's debt balance; and (ii) September 2013, in the amount of R$20 million to be paid in 18 monthly installments, with first installment maturing in April 2014 and 100% guaranteed by pledged assets and real estate mortgage of Portobello S.A.

c) FINEP (Fund Provider to Studies and Projects) – a contract executed in May 2010 in the amount of up to R$30 million, bearing interest of 5% p.a. and to be paid in 80 months, being 20 months of grace period. The first portion, in the amount of R$13 million, was fully released in September 2010, and the second portion, in the amount of R$5,572, was released in December 2012. This contract required the presentation of a bank guarantee letter at the cost of 1.25% p.a.

d) NCE – Export credit note - contracts entered into on: (i) January 2013, in the amount of R$20 million, to be paid in 7 half-annual installments, with first installment maturing in January 5, 2015; Portobello S.A. receivables were given in guarantee, at an amount equivalent to 50% of the contract's debt balance; (ii) February 2013, in the amount of R$10 million with principal maturing in February 2016. For this contract there are no covenants; clean operation as refers to guarantees; (iii) April 2013, in the amount of R$30 million, to be paid in 5 half-annual installments (April and October 2014; April and October 2015 and April 2016). Receivables of Portobello S.A, in the amount of 20% of the debit balance of the contract were pledged as collateral for this contract; and (iv) June 2013, in the amount of R$10 million, to be paid in 11 monthly installments, with first installment maturing in August 2013. Receivables of Portobello S.A, in the amount of 20% of the debit balance of the contract were pledged as collateral for this contract; (iv) March 2014, in the amount of R$28 million, to be paid in 36 monthly installments, with first installment maturing in April 2014. Receivables of Portobello S.A, in the amount of 50% of the debit balance of the contract were pledged as collateral for this contract.

e) Law 4131 Trade Exporter with Swap for CDI - contracts entered into on: (i) December 2012, in the amount of R$50 million, to be paid in 60 months with grace period of 24 months. Amortizations are semi-annual and receivables of Portobello S.A in the amount of 50% of the debit balance of the contract were pledged as collateral.

f) Financial Lease – contracts executed in: (i) May 2012 with SG Equipment Finance S.A., in the amount of R$2.5 million, to be paid in 36 months; and (ii) July 2012, with HP Hewlett Packard, in the amount of R$450 thousand to be paid in 36 months. The financed assets were pledged as collateral for both contracts

g) BNDES (Progeren) – contract executed in: (i) January 2013, in the amount of R$20 million, with one year grace period and to be paid in 24 monthly successive installments. There are no covenants for this contact; without guarantees; and (ii) March 2013, in the amount of R$10 million, also with one year grace period and to be paid in 24 monthly successive installments. This contract was collateralized by receivables of Portobello S.A. in the amount of 40% of the contractual debt due.

h) PRODEC (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 (11.39% 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.

i) FINAME (industrial credit note) – (i) contract executed from May 2013 to September 2013, in the amount of R$5.5 million, to be paid in 96 monthly installments and with grace period of 24 months. The financed equipment was pledged as collateral for this contract; (ii) contract executed in January 2014, in the amount of R$ 577 thousand, to be paid in 96 monthly installments and with grace period of 17 months. The financed equipment was pledged as collateral for this contract.

In thousands of reais, unless otherwise indicated

j) Working Capital – contract for working capital executed in June 2013, in the amount of R$18 million, to be paid in 11 monthly installments with first installment maturing in August 2013. Receivables da Portobello S.A, in the amount of 20% of the debit balance of the contract were pledged as collateral for this contract.

The loans and financing operations with balances on March 31, 2014 do not present covenants.

For the other loans granted, real estate mortgages, equipment, receivables of the Parent company (Note 8) and of subsidiary (Note 42), and additionally, inventories of finished goods were pledged, in the amount of R$ 30,122.

The long-term loans have the following payment schedule:

	Parent company		Consolidated	
Maturing in March 1	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
2015	87,805	96,818	87,805	96,818
2016	70,154	55,933	71,154	55,933
2017	40,386	39,155	40,386	39,155
2018	8,227	6,032	8,227	6,998
2019–2023	3,487	3,162	3,487	3,162
	210,059	201,100	211,059	202,066

The carrying amounts and the fair values of loans presented in the following currencies:

	Parent company		Consolidated	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Reais	295,919	274,617	296,919	275,583
€	279	285	279	285
US Dollars	13,607	17,266	13,607	17,266
	309,805	292,168	310,805	293,134

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.

In thousands of reais, unless otherwise indicated

Financial lease obligations with the parent company and consolidated are as follows:

	March 31, 2014	December 31, 2013
Gross financial lease obligations - Minimum payments		
Less than one year	1,106	1,101
More than one year and less than 5 years	211	492
Total	1,317	1,593
Future finance charges on financial leases	(76)	(110)
Present value of financial lease liabilities	1,241	1,483
Present value of financial lease liabilities is as follows:		
Less than one year	1,032	1,007
More than one year and less than 5 years	209	476
Total	1,241	1,483

23 Installment payment of tax liabilities

	Tax liabilities	Application for installment payments		March 31, 2014	December 31, 2013
		Date	Installments falling due		
Portobello S.A.	INSS	Dec 2009	8	2,363	3,193
	IPI	Dec 2009	8	1,605	2,169
	PIS and COFINS/ IRPJ and CSLL (Income tax)	Mar 2009	-	-	420
	Value-added tax on sales and services–ICMS	Dec 2013	9	145	-
	LAW 11941/09 (a)	Nov 2009	127	108,040	109,974
Total Parent				112,153	115,756
Portobello Shop S.A.	INSS	Nov 2009	7	175	245
	Corporate income tax—IRPJ, Social contribution on net profit—CSLL and Contribution for social security funding–COFINS	Mar 2009	-	-	107
	LAW 11941/09 (a)	Nov 2009	130	584	588
Total subsidiary				759	940
Total consolidated				112,912	116,696

In thousands of reais, unless otherwise indicated

The payment schedule is as follows:

	Parent company		Consolidated	
Maturity	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
2014	12,334	17,674	12,551	18,080
2015 to 2023 (*)	91,350	89,765	91,845	90,251
2024	8,469	8,317	8,516	8,365
	112,153	115,756	112,912	116,696
Current	14,874	17,674	15,104	18,080
Non-current	97,279	98,082	97,808	98,616

(*) From 2015 to 2023, the annual installments will be R$ 10,150 and R$ 9,974 for the Parent Company and R$ 10,205 and R$ 10,028 for Consolidated, both in March 2014 and December 2013, respectively.

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

In May 2011 and June 2011, the Company concluded the process of consolidation of installments established by Law 11941/09, 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 11941/09 (see Note 24).

After consolidation, the Company undertakes to pay the monthly installments of R$ 1,295 with no delays exceeding three months, 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 11941/09. These waivers of lawsuits against assessments do not affect the continuation of the ongoing processes in Court, referred to in Note 16.

24 Tax debts - Law 12249/10 (MP 470 and MP 472)

In November 2009, the Company enrolled in the installment program established by Provisional Measure 470 (regarding the improper use of IPI premium credits) with the Federal Revenue 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 12249/10), 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 (see Note 33) 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 Note16. 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 thousands of reais, unless otherwise indicated

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$ 14,691 at March 31, 2014, 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 17.

25 Taxes, rates and contributions

	Parent company		Consolidated	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
IRRF	1,109	1,065	1,212	1,123
Value-added tax on sales and services– ICMS	5,422	3,885	5,422	3,889
PIS/COFINS	2,866	1,562	3,366	1,899
Others	138	229	325	401
	9,535	6,741	10,325	7,312

26 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	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Civil	4,817	4,671	4,875	4,727
Labor	14,184	13,511	14,184	13,511
Tax	2,350	2,305	2,350	2,305
	21,351	20,487	21,409	20,543
Current	15,030	14,600	15,066	14,635
Non-current	6,321	5,887	6,343	5,908

In thousands of reais, unless otherwise indicated

Contingencies classified in current assets derive from court analysis and their realization is expected in less than 12 months.

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, 2013	4,671	13,511	2,305	20,487
Debited (credited) to the statement of income:	242	822	45	1,109
Additional provisions	72	258	45	375
Monetary restatement (Note 35)	170	564	-	734
Reversals by realization	(96)	(149)	-	(245)
March 31, 2014	4,817	14,184	2,350	21,351

	Consolidated			Total
	Civil	Labor	Tax	
December 31, 2013	4,727	13,511	2,305	20,543
Debited (credited) to the statement of income:	244	822	45	1,111
Additional provisions	72	258	45	375
Monetary restatement (Note 35)	172	564	-	736
Reversals by realization	(96)	(149)	-	(245)
March 31, 2014	4,875	14,184	2,350	21,409

Comments on civil, labor and tax lawsuits:

Civil

The Company and its subsidiaries are defendants in 169 lawsuits (188 lawsuits on December 31, 2013), 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 13).

The contingent liabilities of a civil nature are listed in Note 27.

Labor

The Company and its subsidiary Portobello Shop S.A. are defendants in 360 labor complaints (355 complaints on December 31, 2013), 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 13).

Also part of the provisions for labor-related suits are tax notification on social security contributions payable by the Company on the remunerations paid to the insured persons, contribution to the financing of benefits on the grounds of working incapacity, and contributions earmarked for third parties (INCRA and SEBRAE), plus late-payment interest and penalty.

In thousands of reais, unless otherwise indicated

Contingent liabilities are evidenced in Note 27.

Tax

a) INSS (social security national institute) on Cooperatives

These are lawsuits filed by the Company (injunction) against the National Institute of Social Security, which demanded the payment of social security contributions set forth in Article 22, item IV of Law 8212/91 as amended by Law 9879/99.

The Company asserts that in the exercise of its activities, it engages cooperatives in various work areas, which provide specialized services, thus subjecting it to the payment of the contribution, but it is understood that there is no constitutional provision for such collection, since this goes against the principles of legality, equality and protection for cooperatives, based on this it seeks preliminary injunction in order that its right not to be subject to the payment of social security contributions be declared, as well as making compensation of amounts unduly paid for such purposes. On March 31, 2014, the balance of provision totals R$ 2,350 (R$ 2,305 on December 31, 2013).

The balance of provisions for tax contingencies are adjusted by the variation in the SELIC rate in the period.

27 Lawsuits that may be lost

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	
	March 31, 2014	December 31, 2013	March 31, 2014	December 31, 2013
Civil	1,936	1,967	2,180	2,211
Labor	12,037	12,009	12,037	12,009
	13,973	13,976	14,217	14,220

These lawsuits are classified as contingent liabilities because a ruling against the Company is unlikely. And, consequently, no outlays will be required to settle the obligations.

28 Employee benefits

28.1 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 39 participants. The plan has a defined contribution characteristic, but offers minimal retirement benefit for length of service or age.

On March 31, 2014, the balance of the special contributions relating to past, to be deposited in individual accounts of those participants who meet the conditions established in the regulations of the plan, amounted to R$ 2,449 (R$ 2,544 on December 31, 2013) and is provisioned in non-current liabilities. At the time that each member participant in this condition becomes eligible, the Company will pay off the related special reserve attributable thereto.

In thousands of reais, unless otherwise indicated

The main actuarial assumptions used:

	Parent company	
	March 31, 2014	March 31, 2013
Economic assumptions		
Discount rate	6% p.a. (real)	6% p.a. (real)
Estimated rate of return for assets	6% p.a. (real)	6% p.a. (real)
Future salary increases	2% p.a. (real) up to 47 years	2% p.a. (real) up to 47 years
Growth of private pension		
benefits and limits	2% p.a. (real) as of 48 years	2% p.a. (real) as of 48 years
Inflation	Disregarded	Disregarded
Capacity factor		
Salaries	100%	100%
Benefits	100%	100%
Demographic assumptions		
Mortality table	AT 83	AT 83
Mortality table for invalids	Exp. IAPC	Exp. IAPC
Table Disability	Hunter and Álvaro Vindas	Hunter and Álvaro Vindas

28.2 Employee benefit expenses

	Parent company		Consolidated	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
Remuneration	23,509	19,536	25,192	20,954
Benefits				
Pension plan	229	231	247	298
FGTS	1,921	1,576	2,131	1,666
Others	2,743	1,790	2,839	1,864
Total	28,402	23,133	30,409	24,782

29 Long-term incentive

Faced with the prospect of creating business value, the long-term incentive (LTI) was established and approved by the Company's Board of Directors on May 10, 2012. This consists of a meritocracy program that aims to attract, retain and recognize the performance of professionals working at the Company, to align the interests of Company executives to those of its shareholders, and to stimulate the professionals to remain at their jobs.

Directors and managers with above-average performance ratings are eligible for the LTI, pursuant to the Company's internal policies on performance assessment, and by signing a contract of adhesion become participants in the program.

The adhesion contract defines the number of securities that each participant will receive. The securities are figuratively called "reference shares" and are not traded in the OTC market. The "appreciation" of the securities is calculated annually by the performance of EBITDA[1] and the ratio between EBITDA and net debt[2].

Payment will be made in three annual installments (2015, 2016, 2017) with two-year deferment at the beginning of the period (2013 and 2014). Settlement will be completed after five years of initial recognition (2017) and the Company will make the payment at an amount proportional to amounts calculated using the plan's metrics.

The first group of participants joined in the year 2012 and the present value of the obligation on March 31, 2014 is R$ 6,974 at the parent company and R$ 7,438 at the consolidated (R$ 5,868 at the parent company and R$ 6,238 at the consolidated on December 31, 2013).

[1]income before interest and net financial expenses, taxes, depreciation and amortization
[2] loans and financing plus installment payment of tax liabilities with discount of cash and cash equivalents, as well as securities.

30 Shareholders' equity

a) Capital

On March 31, 2014, the Company has a capital subscribed and paid in the amount of R$ 46,065 comprising 159,008,924 common shares, nominative and with no par value, as well as on December 31, 2013.

Each common share carries one vote at the General Meetings, according to the rights and privileges established by law and the statutes for the respective kind.

The Company is authorized to increase the share capital up to 1,000,000,000 (one billion) new common shares, nominative and without par value, totaling a capital stock represented by 1,159,008,924 shares, and the issuance of preferred shares or certificates of participation.

On March 31, 2014 there were 63,693,787 outstanding shares, equivalent to 40.06% of total shares issued (63,488,187 on December 31, 2013, equivalent to 39.92% 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 in treasury.

b) Treasury shares

In 1994, Portobello S/A entered into an agreement for financial cooperation with the International Finance Corporation (IFC) and assumed the accessory obligation of fostering participation of employees in its shareholding structure through a stock offer, and permitting these shares to be directly financed by the Company through payroll discount.

While in 1997, as some employees were no longer interested in continuing to amortize financing, they signed a term of waiver transferring ownership of shares to the Company, which exercised them in the fourth quarter of 2013 and recognized them as treasury shares, according to the Board of Directors' approval in October 2013.

The Company recorded treasury shares at market value, taking into consideration studies conducted at the time that verified that historic cost of the asset that originated shares was higher than market value on the date that was accounted.

c) Legal reserve

Legal reserve is recognized at an annual basis through allocation of 5% of net income for the year and may not exceed 20% of capital. The purpose of the legal reserve is to ensure integrity of capital and may only be used to offset accumulated losses or increase capital. On March 31, 2014, legal reserve balance amounts to R$7,808 (equal to as of December 31, 2013) as provided for in Article 193 of the Brazilian Corporate Law.

In thousands of reais, unless otherwise indicated

d) Dividends

	Parent company	Consolidated
Dividends 2012	15,595	15,595
Payment referring to 2012	(15,462)	(15,462)
Dividends paid in advance 2013	2,796	2,796
Advanced interest on capital 2013	3,659	3,659
Payment referring to 2013	(6,404)	(6,404)
Minimum compulsory dividends (net of advances)	15,038	15,038
Dividends payable of subsidiaries	-	15
Current balance	15,222	15,237

On April 30, 2014, the Annual Shareholders' Meeting approved the payment of additional dividends, in the amount of R$8,597, according to note 44. Proceeds payment date will be timely disclosed to the market in a Notice to Shareholders.
Dividends are equivalent to 35% of net income for the year adjusted pursuant to the terms of the Brazilian Corporate Law and the Company's Bylaws.

e) Profit retention reserve

The amount of R$41,786 refers to the business growth project established in the Company's investment plan, approved On April 30, 2013, in the Annual Shareholders' Meeting. On April 30, 2014, in the Annual Shareholders' Meeting was approved the amount of R$68,747, according to capital budget proposal, and in accordance with Article 196 of the Brazilian Corporate Law, as described in note 44.

f) Profit reserves to be allocated

"Profit reserves to be allocated" amount, which, on March 31, 2014, is R$57,460 refers to accumulated earnings remaining balance for 2013, after allocation of 5% to legal reserve, of 25% to minimum mandatory dividends, and R$8,597 to additional dividends, approved On April 30, 2014, in the Annual Shareholders' Meeting.

In Shareholders' Meeting, the Company's management proposed the allocation of reserve in accordance with Article 199 of Law no. 6,404/76 (Brazilian Corporate Law), as described in note 44.

g) Equity evaluation 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 fixed asset revaluation made in 2006 as deemed cost, understanding that the same represented substantially the fair value at the date of transition.

It was formed as a result of the revaluation of land, buildings and improvements, supported by an appraisal report prepared by an independent appraisal company, which determined the values of re-appraised assets, as well as established the new period of remaining useful life, which became the new base for depreciation to the net book value of such assets.

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 asset appraisal adjustment is reflected in P/L for the period, by the depreciation of the re-appraised assets.

In accordance with ICPC 10, the Company recorded an additional amount of R$ 2,517 of income tax and social contribution on the re-appraised balance of land, since in 2006 when the re-appraisal was performed, the legislation did not allow incidence. ICPC 10 instructs Companies to constitute the provision of taxes on land re-appraisal when “it is likely that the economic benefits associated with the non-depreciable asset will revert to the entity itself, whether derived from current sale, the future sale or the very use of the asset.” The deferred income tax and social contribution corresponding to the adjustments to appraisal of land, buildings and improvements are classified as non-current liabilities, as per Note 15(b).

In thousands of reais, unless otherwise indicated

Considering the complement of the asset appraisal adjustment, approved by the Special Shareholders' Meeting on December 29, 2006, the balance of the adjustment to company assets, net of deferred taxes, amounted to R$ 41,740 on March 31, 2014 (R$ 42,133 on December 31, 2013), the expense of depreciation of the re-appraisal, in the quarter ended March 31, 2014, was R$ 393 (R$ 1,580 on December 31, 2013), and the balance of deferred income tax and social contributions adjustments to equity evaluation recorded in non-current liabilities is R$ 17,262 (R$ 17,396 on December 31, 2013), see Note 15(b).

31 Income

The reconciliation of gross income to net income, presented in the statement of income for the period ended March 31, 2014, is as follows.

	Parent company		Consolidated	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
Gross sales	245,621	208,403	262,080	220,446
Deductions from gross income	(53,716)	(43,424)	(55,540)	(44,691)
Sales tax	(47,034)	(39,008)	(48,819)	(40,251)
Returns	(6,682)	(4,416)	(6,721)	(4,440)
Net sales	191,905	164,979	206,540	175,755
Domestic market	171,903	151,988	184,947	160,919
Foreign market	20,002	12,991	21,593	14,836

32 Expenses per type

The cost of goods sold, selling expenses and administrative expenses for the period ended March 31, 2014 are as follow:

	Parent company		Consolidated	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
Changes in inventories of finished products and work in process (a)	(22,925)	(7,735)	(22,925)	(7,735)
Direct production costs (raw materials and inputs)	74,310	57,805	73,332	57,272
General production expenses (including maintenance)	9,195	7,050	9,195	7,050
Cost of goods resold	43,480	37,357	43,898	37,722
Transportation of goods sold	743	573	743	573
Salaries, charges and benefits to employees	32,256	28,560	34,685	30,546
Third-party labor and services	4,869	4,379	6,732	5,812
Amortization and depreciation	6,237	3,472	6,289	3,484
Rentals and operating leases	2,433	1,594	2,581	1,625
Sales commissions	5,173	3,765	5,225	3,792
Marketing and advertising expenses	1,798	1,225	3,570	2,379
Other commercial expenses	7,305	3,724	8,062	4,706
Other administrative expenses	950	746	1,001	857
Total	165,824	142,515	172,388	148,083

(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.

In thousands of reais, unless otherwise indicated

33 Other operating income and (expenses), net

Other individual and consolidated operating income and expenses for the period ended March 31, 2014 are as follow:

	Parent company		Consolidated	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
Other operating income				
Income from services	532	544	157	(33)
Other income	151	289	154	300
Total	683	833	311	267
Other operating expenses				
Provision for contingencies (note 26)	(342)	(506)	(352)	(1,306)
Provision for profit sharing (a)	(1,106)	(1,071)	(1,200)	(1,246)
Provision for long-term incentive (Note 29)	(3,026)	-	(3,314)	-
Pre-operating expenses – Alagoas Plant	(734)	-	(734)	-
Other expenses	(218)	(163)	(222)	(196)
Total	(5,426)	(1,740)	(5,822)	(2,748)
Net total	(4,743)	(907)	(5,511)	(2,481)

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

34 Other gains (losses), net

Operating net foreign exchange variation recorded under caption other net gains (losses) in individual and consolidated financial statements for the period ended March 31, 2014 and 2013 corresponds, respectively, to losses of 2,287 and 982.

35 Financial income (loss)

The individual and consolidated financial income for the period ended March 31, 2014 is as follows:

	Parent company		Consolidated	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
Financial income				
Interest	1,009	1,137	1,088	1,195
Restatement of assets	4,201	3,345	4,201	3,345
Others	145	177	152	179
Total	5,355	4,659	5,441	4,719
Financial expenses				
Interest	(6,253)	(3,993)	(6,355)	(4,054)
Finance charges on taxes	(2,128)	(1,664)	(2,146)	(1,686)
Decomposition of discount of provisions for contingencies (note 26)	(734)	(1,125)	(736)	(1,126)
Discounts/bank expenses (note 12)	(68)	(1,612)	(68)	(1,612)
Others	(1,088)	(1,150)	(1,120)	(1,166)
Total	(10,271)	(9,544)	(10,425)	(9,644)
Net exchange variation				
Loans and financing	433	690	433	690
Total	433	690	433	690
Net total	(4,483)	(4,195)	(4,551)	(4,235)

In thousands of reais, unless otherwise indicated

36 Income from discontinued operations

In August 2010, the Board approved the discontinuation of the operational activities of the subsidiary Portobello América, given that demand in the U.S. market will remain contained for the coming years. The asset is already demobilized and main assets and liabilities of this unit, for the period ended March 31, 2014, are cash and cash equivalents of R$301 (R$326 as of December 31, 2013), debts with related parties of R$46,351 (R$47,975 in 2013), and shareholders' equity negative of R$46,048 (R$47,649 in 2013).

The results of discontinued operations are presented on a consolidated basis, therefore, aside from the results of the subsidiary Portobello América, Inc., (Note 18), considers the portion of the Parent Company’s operations in the discontinued operations. In the first quarter of 2014, result of discontinued operations was losses of R$20 (losses of R$23 on March 31, 2013), represented by some administrative expenses incurred during the period.

37 Earnings per share

a) Basic

In accordance with the CPC 41 (Earnings per share), the basic profit 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	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
Profit attributable to shareholders of the Company	14,550	13,062	14,550	13,062
Weighted average number of common shares (a)	158,489	159,009	158,489	159,009
Basic earnings per share	0.09	0.08	0.09	0.08
Income from continued operations	14,550	13,062	14,570	13,085
Income from discontinued operation	-	-	(20)	(23)
Weighted average number of common shares	158,489	159,009	158,489	159,009
Result from discontinued operations per share	0.09180	0.08215	0.09193	0.08229
Result from discontinued operations per share	-	-	(0.00013)	(0.00014)

(a) Less treasury shares

The consolidated profit attributable to shareholders does not include the non-controlling interest. The same criteria was used for net income (loss) of continued and discontinued operations.

b) Diluted

Diluted earnings per share is equal to basic, since the Company does not hold any financial instrument or contract that gives the holder the right to common shares.

38 Dividends

On August 12, 2013, the Company’s Board of Directors approved the payment in 2013 which totals R$ 2,796 related to interim dividends and R$ 4,170 related to interest on own capital (R$ 3,659, net of income tax). With this decision, amount paid on September 26, 2013 was R$6,959 (R$6,455, net of income tax). On April 30, 2014, the Annual Shareholders' Meeting approved the payment of additional dividends in the amount of R$8,597. Accordingly, distributed total referring to 2013 will be R$30,090, and payment balance in 2014 is R$23,635. Proceeds payment date will be timely disclosed to the market in a Notice to Shareholders.

In thousands of reais, unless otherwise indicated

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

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:

	March 31, 2014			March 31, 2013		
Continued operations	Brazil	Other countries	Total	Brazil	Other countries	Total
Income	184,947	21,593	206,540	160,919	14,836	175,755
Cost of products sold	(116,153)	(13,554)	(129,707)	(106,170)	(9,541)	(115,711)
Gross operating income	68,794	8,039	76,833	54,749	5,295	60,044
Operating income (expenses), net	(45,204)	(5,275)	(50,479)	(33,867)	(1,968)	(35,835)
Sales, general and administrative	(38,221)	(4,460)	(42,681)	(30,697)	(1,675)	(32,372)
Other operating income (expenses), net	(4,935)	(576)	(5,511)	(2,271)	(210)	(2,481)
Other gains (losses), net	(2,048)	(239)	(2,287)	(899)	(83)	(982)
Operating income (loss) before financial income (loss)	23,590	2,764	26,354	20,882	3,327	24,209
% on ROL	13%	13%	13%	13%	22%	14%

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

40 Commitments

a) Commitments for the acquisition of assets

On March 31, 2014, expenditures referring to Property, Plant and Equipment contracted on balance sheet date but not yet incurred amount to R$34,438, of which 98% are expenditures incurred for Alagoas Plant that is under construction.

b) Commitment with operational lease

Operational leases refer to vehicles. Non-cancellable future minimum payments, on March 31, 2014 and December 31, 2013, amount to R$1,177 and R$891, respectively, for less than one year. For more than one year and less than five years, R$902 and R$987, respectively.

41 Insurance coverage

Current insurance coverage is considered sufficient by Management to cover possible claims. On March 31, 2014, 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 April 14, 2014 to April 13, 2015.

In thousands of reais, unless otherwise indicated

42 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	March 31, 2014	December 31, 2013
Assets			
Dividends receivable	Portobello Shop S.A.	2,934	2,934
Amounts receivable	Portobello Shop S.A.	18	22
Receivables with subsidiaries - Current		18	22
Accounts receivable	Portobello América, Inc.	46,333	47,962
Accounts receivable	PBTech Com Serv Cer Ltda.	4,031	4,461
Loans	PBTech Com Serv Cer Ltda.	2,955	2,886
Receivables with subsidiaries - Non-current		53,319	55,309
Credits with other related parties	Refinadora Catarinense S.A.	96,215	94,540
Liabilities			
Dividends paid in advance	Portobello Shop S.A.	2,191	-
Other transactions			
Advances to suppliers	Mineração Portobello Ltda.	1,443	1,426
Accounts receivable - net of advances	Solução Cerâmica Com Ltda.	(426)	(1,305)
Accounts receivable - net of advances	Flooring Revest Cer Ltda.	432	580
		1,449	701

Nature	Transactions with subsidiaries and associated companies	March 31, 2014	March 31, 2013
Income			
Rendering of services	Portobello Shop S.A.	1,497	1,530
Sale of goods	Solução Cerâmica Com. Ltda.	4,354	3,249
Sale of goods	Flooring Revest Cer Ltda.	2,181	1,618
Sale of goods	PBTech Com Serv Cer Ltda.	686	483
Expenses			
Cost of services rendered	Portobello Shop S.A.	(1,124)	(957)
Purchase of products	Mineração Portobello Ltda.	(978)	(533)
Rent	Gomes Participações Societárias Ltda.	(105)	(70)
		6,511	5,320

The loan agreement with the subsidiary PBTech is compensated by a variation of 100% of the CDI and matures on December 31, 2016.

The subsidiary is guarantor of the Company in certain financing operations (see Note 22).

In thousands of reais, unless otherwise indicated

This quarter, the Company presents the balance of accounts receivable from Portobello América Inc. in non-current assets, considering the intention of company Management to capitalize the subsidiary's debt.

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	March 31, 2014	December 31, 2013	Nature	March 31, 2014	March 31, 2013
	Assets			Income		
Solução Cerâmica Com Ltda.	Accounts receivable	438	363	Royalties	1,139	841
Flooring Revest Cer Ltda.	Accounts receivable	259	190	Royalties	575	427
		697	553		1,714	1,268

Remuneration of key management personnel

The remuneration of the key management personnel, comprising members of the Executive Board, Board of Directors, Statutory Audit Board and senior management for the quarter ended March 31, 2014 are:

	Parent company		Consolidated	
	March 31, 2014	March 31, 2013	March 31, 2014	March 31, 2013
Fixed Compensation				
Salaries	2,344	1,784	2,813	2,047
Fees	926	606	926	881
Variable compensation	4,150	332	4,405	382
Direct and indirect short-term benefits				
Pension plan	183	125	197	188
Others	312	260	374	320
	7,915	3,107	8,715	3,818

* The company has no long-term or post-employment benefits.

43 Provisional Measure no. 627, November 11, 2013 ("PM 627")

Management conducted an initial assessment of the provisions found in Provisional Measure 627 dated November 11, 2013 ("MP 627") and Normative Ruling 1397 dated September 16, 2013, as amended by Normative Ruling 1422 dated December 19, 2013 ("IN 1397").

Although the MP 627 comes into effect on January 1, 2015, there is the option (irreversibly) of early adopting it as of January 1, 2014. The Management has not yet concluded whether it should opt for the early adoption or not.

In accordance with analysis made by Management and their advisors, if advance adoption is not chosen, there will be risks related to taxation of (i) dividends paid in excess of taxable income from January 1, 2008 to March 31, 2014; and (ii) the calculation of equity in subsidiaries with basis on shareholders' equity for calendar 2008 to 2013.

44 Annual and Extraordinary General Meeting

Annual Shareholders' Meeting held on April 30, 2014 approved Management's proposal for allocation of income for the year, as follows: R$4,525 to Legal Reserve, R$21,493 to minimum mandatory dividends, R$8,597 to additional dividends, R$30,500 to Capital increase, and R$68,747 to Profit reserves for expansion, according to presented capital budget. Of total allotted to minimum mandatory dividends, amount paid in September 2013 of R$6,455 will be deducted, as described in note 38.

Shareholders present in the meeting approved global Management's fees for that year at the maximum amount of R$12,600, and also defined individual monthly fees of the Supervisory Board's effective members as 10% of Officers' fees.

While the Extraordinary Shareholders' Meeting, also held on April 30, 2014, approved the Company's Capital increase through capitalization of reserves of R$30,500 deriving from caption Profit reserves to be allocated; total number of shares was not altered, therefore, capital will go from R$46,065 to R$76,565. Subsequently, change to the Company's Bylaws was approved to reflect said alteration.

Amounts in thousands of Brazilian real, except when otherwise indicated

BUSINESS PROJECTIONS

Disclosed projections and assumptions

a) Subject matter of the projection

Investment in the expansion and modernization of the manufacturing facilities in Tijucas, with the replacement of a line of production that will be focused on enameled porcelain flooring tiles of large sizes.

b) Projected period and projection's expiration date

Estimated growth starting in the second half of 2013.

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

The increase in production estimated for the second half of 2013 originates from the installation of a new furnace and an increase in production by 4.6 million square meters per year.
In 2014, when the new line will be operating in full capacity, the new unit is estimated to generate annual revenues of R$141 million.
Portobello expects to grow 20% in 2013, according to data for the past five years, and considering that industry entities (ABRAMAT - Brazilian Association of Construction Materials Industries, ANFACER - Brazilian Association of Manufacturers of Ceramic Tile Flooring Equipment and Accessories, ANAMACO - Brazilian Association of Construction Material Sellers and IBGE - Brazilian Institute for Geography and Statistics), the ceramic tile industry is expected to grow by 6%-7% in 2013.
All assumptions are considered to be subject to external factors which are beyond the control of the Company's management and can have an impact on the disclosed projections.

d) Values of projected indicators

Projections	Estimated amounts
Investment in the expansion and modernization of the manufacturing facilities in Tijucas	R$86 million
Production capacity of the new line	4.6 million square meters/year
Net revenue of the new line estimated for 2014	R$141 million
Growth rate target for 2013	20%

In addition to the projections disclosed above, Portobello is studying the setup of an industrial unit, which is expected to be located in the state of Alagoas. The investment is initially estimated to total about R$205 million, although this study has not yet been completed.

The amounts presented above are mere estimates, and are not a promised performance by the Company or its managers.

Amounts in thousands of Brazilian real, except when otherwise indicated

Monitoring and changing disclosed projections

a) Disclose which projections are being replaced by new projections included in the form and which of them are being repeated on the form.

No changes were made in the previously disclosed projections

However, the new production line, one of the targets of the projection, has been fully implemented, with fully automated equipment displaying state-of-the-art Italian technology, high productivity and low energy consumption. The production line was completed in July 2013 and has already been making a major contribution to the Company's results.

b) Regarding the projections about periods already elapsed, compare estimated data with the actual performance of indicators, showing clearly the reasons that caused projections to be missed.

Disclosed projections have not yet been fully realized, but the new production line mentioned above has been completed. It allows a comparison between the investment made and the growth rate target, as shown below.

Projections	Estimated amounts	Realized amounts
Investment in the expansion and modernization of the manufacturing facilities in Tijucas	R$86 million	R$87 million
Growth rate target for 2013	20%	20%

Investments in the expansion and modernization of the manufacturing facilities in Tijucas stayed within the Company's planned target and variation is due to market fluctuations.

The Company's performance in 2013 reached a new gross revenue level, hitting the historic figure of R$1 billion. Revenue has grown consistently at an average of 20% over the past five years when we compare net revenue during that period.

c) Disclose whether projections about ongoing periods remain valid on the date the form is submitted and, if that is the case, explain why they have been dropped or replaced.

Production capacity is expected to reach 4.6 million square meters per year after maturation period. Together with the net revenue generated by the new line that projection remains valid only for 2014, until the financial statements are disclosed, when it will be updated.

Projections	Estimated amounts
Production capacity of the new line	4.6 million square meters/year
Net revenue of the new line estimated for 2014	R$141 million

The study to implement the industrial unit in the state of Alagoas has already gone through the phase of detailing the executive project. The industrial unit is currently under construction, but the projected investment remains the same.