
2Q18
PortobelloGrupo

PBG S.A and subsidiaries

Interim Financial Information for the quarter ended June 30, 2018
In thousands of Brazilian reais - R$, unless otherwise stated.

Company information / Breakdown of Capital

Quantity of shares (Thousand)	Last fiscal year 06/30/2018
Paid-in capital	
Common	**158,489**
Preferred	0
Total	**158,489**
Treasury	
Common	0
Preferred	0
Total	0

PBG S.A and subsidiaries

Interim Financial Information for the quarter ended June 30, 2018
In thousands of Brazilian reais - R$, unless otherwise stated.

Individual financial statements / Balance sheet – Assets

Account Code	Account Description	Current Year 06/30/2018	Previous Year 12/31/2017
1	Total Assets	1,744,430	1,306,897
1.01	Current Assets	686,614	520,623
1.01.01	Cash and Cash Equivalents	218,492	78,756
1.01.03	Accounts Receivable	229,203	203,703
1.01.03.01	Trade receivables	229,203	203,703
1.01.04	Inventory	200,261	179,166
1.01.06	Recoverable Taxes	9,358	14,496
1.01.06.01	Current Taxes Recoverable	9,358	14,496
1.01.06.01.01	Income taxes and contributions recoverable	664	4,034
1.01.06.01.02	Other Current Taxes Recoverable	8,694	10,462
1.01.08	Other Current Assets	29,300	44,502
1.01.08.03	Other	29,300	44,502
1.01.08.03.01	Dividends Receivable	16,079	32,529
1.01.08.03.03	Advances to Suppliers	3,195	4,594
1.01.08.03.04	Other	10,026	7,379
1.02	Noncurrent Assets	1,057,816	786,274
1.02.01	Long-Term Assets	575,848	336,233
1.02.01.08	Related-party Credits	176,562	162,512
1.02.01.08.02	Credit with Subsidiaries	80,276	67,861
1.02.01.08.04	Other Related-party Credits	96,286	94,651
1.02.01.09	Other Noncurrent Assets	399,286	173,721
1.02.01.09.03	Judicial Deposits	99,226	93,47
1.02.01.09.04	Eletrobras Receivables	12,821	12,821
1.02.01.09.05	Recoverable Taxes	5,040	6,407
1.02.01.09.06	Tax Asset	267,119	45,969
1.02.01.09.07	Actuarial Asset	5,758	5,758
1.02.01.09.08	Call deposits	7,092	6,938
1.02.01.09.09	Advance for future capital increase	1,500	-
1.02.01.09.10	Other	730	2,358
1.02.02	Capital expenditure	30,161	9,429
1.02.02.01	Equity Interests	30,161	9,429
1.02.02.01.02	Interests in Subsidiaries	29,865	9,131
1.02.02.01.04	Other Equity Interests	296	298
1.02.03	Property, plant and equipment	443,270	431,122
1.02.04	Intangible assets	8,537	9,49

PBG S.A and subsidiaries

Interim Financial Information for the quarter ended June 30, 2018
In thousands of Brazilian reais - R$, unless otherwise stated.

Individual financial statements/ Balance sheet – Liabilities

Account Code	Account Description	Current Year 06/30/2018	Previous Year 12/31/2017
2	Total Liabilities	1,744,430	1,306,897
2.01	Current Liabilities	433,127	403,124
2.01.01	Social and labor obligations	38,095	27,879
2.01.02	Trade payables	113,674	112,413
2.01.03	Tax Obligations	21,545	28,463
2.01.03.01	Federal Tax Liabilities	21,545	28,463
2.01.03.01.01	Income and social contribution tax payable	-	-
2.01.03.01.02	Financing of Taxes	10,661	14,033
2.01.03.01.03	Taxes, Duties and Contributions	10,884	14,430
2.01.04	Loans and Financing	170,825	146,402
2.01.04.01	Loans and Financing	170,805	98,678
2.01.04.02	Debentures	20	47,724
2.01.05	Other liabilities	86,064	83,678
2.01.05.02	Other	86,064	83,678
2.01.05.02.04	Loans Assignment Suppliers	37,045	35,127
2.01.05.02.05	Customer Advances	12,468	10,959
2.01.05.02.06	Dividends Payable	429	6,002
2.01.05.02.07	Accouts payables from investments	21,112	19,049
2.01.05.02.08	Other	15,010	12,541
2.01.05.02.09	Pre Paid Dividends	-	-
2.01.06	Provisions	2,924	4,289
2.01.06.02	Other Provisions	2,924	4,289
2.01.06.02.06	Provision for profit-sharing	2,924	4,289
2.02	Noncurrent Liabilities	949,369	618,725
2.02.01	Loans and Financing	542,730	365,982
2.02.01.01	Loans and Financing	247,533	238,003
2.02.01.02	Debentures	295,197	127,979
2.02.02	Other liabilities	142,374	140,722
2.02.02.02	Other	142,374	140,722
2.02.02.02.03	Trade payables	84,076	78,496
2.02.02.02.06	Financing of Taxes	57,873	62,226
2.02.02.02.07	Others	425	-
2.02.03	Deferred Taxes	4,086	14,186
2.02.03.01	Deferred Income and Social Contribution Taxes	4,086	14,186
2.02.04	Provisions	198,171	97,835
2.02.04.02	Other Provisions	198,171	97,835
2.02.04.02.04	Provision for devaluation of investments	74,891	67,717
2.02.04.02.05	Provisions for Contingencies	120,985	28,183
2.02.04.02.06	Provision for Long-term Incentive	2,295	1,935
2.03	Shareholders’ Equity	361,934	285,048
2.03.01	Realized Capital	140,000	130,000
2.03.04	Profit Reserves	133,348	159,220
2.03.04.01	Legal Reserve	-	18,426

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

2.03.04.05	Profit Retention Reserve	-	95,400
2.03.04.08	Additional dividend proposed	-	15,232
2.03.04.10	Unallocated Profit Reserve	-	30,162
2.03.05	Retained Earnings/Accumulated Losses	103,991	-
2.03.06	Adjust fixed asset reavaliation	-15,405	-4,172

PBG S.A and subsidiaries

Interim Financial Information for the quarter ended June 30, 2018
In thousands of Brazilian reais - R$, unless otherwise stated.

Individual financial statements / Statement of income

Account Code	Account Description	Current Quarter 04/01/2018 to 06/30/2018	Accumulated of the Current Year 01/01/2018 to 06/30/2018	Same Quarter of the Prior Year 04/01/2017 to 06/30/2017	Accumulated of the Current Year 01/01/2017 to 06/30/2017
3.01	Income from sales of goods and/or services	242,029	465,339	235,871	449,084
3.02	Cost of goods and/or services sold	-155,297	-302,648	-149,025	-287,971
3.03	Gross income	86,732	162,691	86,846	161,113
3.04	Operating expenses/income	60,622	9,531	-48,930	-82,954
3.04.01	Sales expenses	-60,676	-113,115	-52,086	-99,161
3.04.02	General and administrative expenses	-9,824	-18,590	-8,729	-16,839
3.04.04	Other operating income	150,498	150,618	8,890	29,409
3.04.04.01	Other operating income	150,498	150,618	8,890	29,409
3.04.05	Other operating expenses	-26,499	-28,279	-6,608	-14,993
3.04.05.01	Other operating expenses	-26,499	-28,279	-6,608	-14,993
3.04.06	Equity income (loss)	7,123	18,897	9,603	18,630
3.05	Income (loss) before financial income and taxes	147,354	172,222	37,916	78,159
3.06	Financial income (loss)	-5,288	-20,335	-10,193	-25,466
3.06.01	Financial income	11,564	13,385	9,412	17,911
3.06.01.01	Financial income	1,793	3,977	7,853	16,874
3.06.01.02	Net Exchange Variance	9,771	9,408	1,559	1,037
3.06.02	Financial expenses	-16,852	-33,720	-19,605	-43,377
3.06.02.01	Financial expenses	-16,852	-33,720	-19,605	-43,377
3.06.02.02	Net Exchange Variance	0	0	0	0
3.07	Income (loss) before income tax	142,066	151,887	27,723	52,693
3.08	Income (loss) before income tax	-45,658	-48,490	-5,855	-10,961
3.08.01	Current	693	-953	0	0
3.08.02	Deferred assets	-46,351	-47,537	-5,855	-10,961
3.09	Net income (loss) of continued operations	96,408	103,397	21,868	41,732
3.11	Income/loss for the period	96,408	103,397	21,868	41,732

PBG S.A and subsidiaries

Interim Financial Information for the quarter ended June 30, 2018
In thousands of Brazilian reais - R$, unless otherwise stated.

3.99	Earnings per share - (Reais / Shares)	0.00000	0.00000	0.00000	0.00000
3.99.01	Basic earnings per share			0	0
3.99.01.01	Common	0.00000	0.00000	0.00000	0.00000
3.99.02	Diluted earnings per share				0
3.99.02.01	Common	0.60829	0,65239	0.12533	0.26331

PBG S.A and subsidiaries

Interim Financial Information for the quarter ended June 30, 2018
In thousands of Brazilian reais - R$, unless otherwise stated.

Individual financial statements / Statement of comprehensive income

Account Code	Account Description	Current Quarter 04/01/2018 to 06/30/2018	Accumulated of the Current Year 01/01/2018 to 06/30/2018	Same Quarter of the Prior Year 04/01/2017 to 06/30/2017	Accumulated of the Current Year 01/01/2017 to 06/30/2017
4.01	Net Income for the Period	96,408	103,397	21,868	41,732
4.02	Other Comprehensive Income	-10,368	-10,639	-2,860	-1,006
4.02.02	Exchange variance of Overseas Subsidiary	-10,368	-10,639	-2,860	-1,006
4.03	Comprehensive Income for the Period	86,040	92,758	19,008	40,726

PBG S.A and subsidiaries

Interim Financial Information for the quarter ended June 30, 2018
In thousands of Brazilian reais - R$, unless otherwise stated.

Individual financial statements / Statement of cash flows - Indirect method

Account Code	Account Description	Accumulated of the Current Year 01/01/2018 to 06/30/2018	Accumulated of the Prior Year 01/01/2017 to 06/30/2017
6.01	Net cash from operational activities	-14,692	32,819
6.01.01	Cash generated in operations	38,744	58,491
6.01.01.01	Profit or loss for the year before taxes	151,887	52,693
6.01.01.02	Depreciation and amortization	19,692	18,185
6.01.01.03	Equity in net income of subsidiaries	-18,897	-18,630
6.01.01.04	Unrealized Exchange Variation	-8119	-613
6.01.01.05	Provision for inventory at market value	1,358	-616
6.01.01.06	Provision Allowance for doubtful accounts	-1,264	674
6.01.01.07	Provision for contingencies	39,868	-22,115
6.01.01.08	Provision for labor obligations	-9,151	-8,488
6.01.01.09	Reserve for long-term incentive and profit-sharing	-1,005	5,837
6.01.01.10	Other provisions	2,017	2,345
6.01.01.11	Adjustments to tax assets	-159,142	-1,602
6.01.01.13	Restatements of credits with other related parties	-1,635	-3,026
6.01.01.14	Finance charges on tax installments	1,286	2,598
6.01.01.15	Provisioned Loan Interest	19,054	28,164
6.01.01.17	Other operating income (expenses)	2,795	3,085
6.01.02	Changes in assets and liabilities	-33,412	2,760
6.01.02.01	(Increase)/Decrease in accounts receivable	-24,236	-11,127
6.01.02.02	Increase /(Decrease) in Advances from clients	1,509	3,213
6.01.02.04	(Increase)/Decrease in inventories	-22,453	4,470
6.01.02.05	(Increase)/Decrease in Judicial Deposits	-5,756	-5,619
6.01.02.07	(Increase)/Decrease in Recoverable Taxes	3,315	-5,473
6.01.02.08	(Increase)/Decrease in attached financial investment	-154	-285
6.01.02.09	(Increase)/Decrease in other assets	-1,019	-6,351
6.01.02.10	Increase /(Decrease) in Accounts Payable	8,759	12,637
6.01.02.11	(Increase)/Decrease in advance to suppliers	1,399	-1,008
6.01.02.12	(Increase)/Decrease in provisions for contingencies	-872	-1,849
6.01.02.13	Increase /(Decrease) in financing of taxes	-9,011	-5,141
6.01.02.14	Increase /(Decrease) in tax and labor liabilities	14,407	22,340
6.01.02.16	Increase /(Decrease) in other accounts payable	879	-3,047
6.01.03	Other	-20,023	-28,432
6.01.03.01	Interest paid	-20,023	-28,432
6.02	Net cash used in investment activities	-22,245	-6,372
6.02.01	Acquisition of property, plant and equipment	-29,003	-8,541
6.02.02	Acquisition of intangible assets	-1,691	-770
6.02.03	Dividends received	16,450	3,550
6.02.04	(Grant)/Receipt of Credits with Related Parties	-1,199	-576
6.02.05	Receipt from Sale of Permanent Assets	0	-35
6.02.06	Capital stock Related Parties integralization	-5,302	0
6.02.07	Advances for future capital increase	-1,500	0
6.03	Net Cash from Financing Activities	176,673	-42,094
6.03.01	Obtainment of loans and financings	432,780	33,415

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

6.03.02	Payment of loans and financings	-234,662	-74,984
6.03.04	Dividends paid	-24,445	-525
6.05	Increase (Decrease) in Cash and Cash Equivalents	139,736	-15,647
6.05.01	Opening Balance of Cash and Cash Equivalents	78,756	100,085
6.05.02	Closing Balance of Cash and Cash Equivalents	218,492	84,438

PBG S.A and subsidiaries

Interim Financial Information for the quarter ended June 30, 2018
In thousands of Brazilian reais - R$, unless otherwise stated.

Individual financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2018–06/30/2018

Account Code	Account Description	Paid-in share capital	Capita Reserves, Options Awarded and Treasury Stock	Profit Reserves	Retained Earnings or Accumulated Losses	Other Comprehensive Income	Shareholders' Equity
5.01	Opening Balances	130,000	0	159,220	0	-4,172	285,048
5.03	Adjusted Opening Balances	130,000	0	159,220	0	-4,172	285,048
5.04	Shareholders operation	0	0	-15,872	0	0	-15,872
5.04.06	Dividends	0	0	-15232	0	0	-15,232
5.04.07	Interest upon Own Capital	0	0	-640	0	0	-640
5.05	Adjusted Opening Balances	0	0		103,397	-10,639	92,758
5.05.01	Net Income for the Period	0	0	0	103,397	0	103,397
5.05.02	Other Comprehensive Income	0	0		0	-10,639	-10,639
5.05.02.05	Tax Conversion Adjust	0	0		0		0
5.05.02.06	Realization of the Revaluation Reserve	0	0	0	0	-10,639	-10,639
5.05.02.07	Exchange Variance of Overseas Subsidiary	0	0		0	0	0
5.06	Internal changes in shareholders' equity	10,000	0	-10,000	594	-594	0
5.06.01	Reserves constitution	0	0	0	0	0	0
5.06.02	Realization of the Revaluation Reserve	0	0	0	594	-594	0
5.06.03	Tax of Realization of the Revaluation Reserve	0	0	0	0	0	0
5.06.04	Increased Capital	10,000	0	-10,000	0	0	0
5.07	Closing Balances	140,000	0	133,348	103,991	-15,405	361,934

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

Individual financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2017–06/30/2017

Account Code	Account Description	Paid-in share capital	Capita Reserves, Options Awarded and Treasury Stock	Profit Reserves	Retained Earnings or Accumulated Losses	Other Comprehensive Income	Shareholders' Equity
5.01	Opening Balances	119,565	0	121,129	0	-2,246	238,448
5.03	Adjusted Opening Balances	119,565	0	121,129	0	-2,246	238,448
5.04	Shareholders operation	0	0	-75	75	0	0
5.04.07	Interest upon Own Capital	0	0	-75	75	0	0
5.05	Adjusted Opening Balances	0	0	0	42,325	-1,599	40,726
5.05.01	Net Income for the Period	0	0	0	41,732	0	41,732
5.05.02	Other Comprehensive Income	0	0	0	593	-1,599	-1,006
5.05.02.05	Tax Conversion Adjust				0	-271	-271
5.05.02.06	Realization of the Revaluation Reserve	0	0	0	593	-593	0
5.05.02.07	Exchange Variance of Overseas Subsidiary	0	0	0	0	-1,006	-1,006
5.06	Internal changes in shareholders' equity	10,435	0	-10,435	0	0	0
5.06.01	Reserves constitution	0	0	0	0	0	0
5.06.02	Realization of the Revaluation Reserve	0	0	0	0	0	0
5.06.03	Tributos sobre a Realização da Reserva de Reavaliação	0	0	0	0	0	0
5.06.04	Increased Capital	10,435	0	-10,435	0	0	0
5.07	Closing Balances	130,000	0	110,619	42,400	-3,845	279,174

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

Individual financial statements / Statement of added value

Account Code	Account Description	Accrued Value of the Current Year 01/01/2018 to 06/30/2018	Accrued Value of the Prior Year 01/01/2017 to 06/30/2017
7.01	Revenue	719,612	557,510
7.01.01	Sales of Goods, Products and Services	565,969	555,364
7.01.02	Other Revenue	152,379	901
7.01.03	Income from construction of own assets	0	1,919
7.01.04	Allowance/(Reversal of allowance) for doubtful accounts	1,264	-674
7.02	Consumables acquired from third parties	312,419	-246,716
7.02.01	Cost of goods and services sold	-195,206	-193,193
7.02.02	Material, Energy, Outsourced Services and Other	-117,584	-53,337
7.02.03	Loss/Recovery of Assets	371	-186
7.03	Gross Added Value	407,193	310,794
7.04	Retentions	-19,692	-18,185
7.04.01	Depreciation, Amortization and Depletion	-19,692	-18,185
7.05	Net Added Value Produced	387,501	292,609
7.06	Transferred Added Value	57,108	44,780
7.06.01	Equity in Net Income of Subsidiaries	18,897	18,630
7.06.02	Financial Revenue	38,211	26,150
7.07	Total Added Value to be Distributed	444,609	337,389
7.08	Distribution of Added Value	444,609	337,389
7.08.01	Personnel	106,418	101,237
7.08.01.01	Direct Remuneration	89,721	85,782
7.08.01.02	Benefits	10,633	10,039
7.08.01.03	F.G.T.S.	6,064	5,416
7.08.02	Taxes, Duties and Contributions	170,245	137,230
7.08.02.01	Federal	99,439	65,379
7.08.02.02	State	70,171	71,299
7.08.02.03	Municipal	635	552
7.08.03	Interest Expenses	64,549	57,190
7.08.03.01	Interest	58,546	51,616
7.08.03.02	Rent	6,003	5,574
7.08.04	Interest earnings	103,397	41,732
7.08.04.03	Retained Earnings/Loss for the Period	103,397	41,732

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

Consolidated financial statements / Balance sheet – Assets

Code of account	Account description	Current Year 06/30/2018	Previous Year 12/31/2017
1	Total assets	1,685,217	1,252,008
1.01	Current assets	710,067	522,623
1.01.01	Cash and cash equivalents	234,307	94,379
1.01.03	Accounts receivable	246,649	218,412
1.01.03.01	Trade accounts receivable	246,649	218,412
1.01.04	Inventories	200,419	179,323
1.01.06	Recoverable taxes	10,559	15,922
1.01.06.01	Current taxes recoverable	10,559	15,922
1.01.06.01.01	Income and social contribution tax recoverable	680	4,050
1.01.06.01.02	Other current taxes recoverable	9,879	11,872
1.01.08	Other current assets	18,133	14,587
1.01.08.03	Other	18,133	14,587
1.01.08.03.03	Advance to suppliers	4,545	5,136
1.01.08.03.04	Other	13,588	9,451
1.02	Non-current assets	975,150	729,385
1.02.01	Long-term assets	500,406	268,926
1.02.01.08	Related party credits	96,286	94,651
1.02.01.08.04	Other related party credits	96,286	94,651
1.02.01.09	Other non-current assets	404,120	174,275
1.02.01.09.03	Judicial deposits	99,257	93,501
1.02.01.09.04	Receivables - Eletrobrás	12,821	12,821
1.02.01.09.05	Recoverable taxes	5,304	6,407
1.02.01.09.06	Tax assets	267,119	45,969
1.02.01.09.07	Actuarial assets	5,758	5,758
1.02.01.09.08	Interest earning bank deposits	7,092	6,938
1.02.01.09.09	Other	6,769	2,881
1.02.02	Investments	298	298
1.02.02.01	Ownership interest	298	298
1.02.02.01.04	Other ownership interest	298	298
1.02.03	Property, plant and equipment	454,453	440,595
1.02.04	Intangible assets	19,993	19,566

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

Consolidated financial statements / Balance sheet – Liabilities

Code of account	Account description	Current Year 06/30/2018	Previous Year 12/31/2017
2	Total liabilities	1,685,217	1,252,008
2.01	Current liabilities	446,660	414,31
2.01.01	Social and labor obligations	42,985	31,33
2.01.02	Suppliers	116,680	114,569
2.01.03	Tax obligations	24,842	31,157
2.01.03.01	Federal tax obligations	24,842	31,157
2.01.03.01.01	Income and social contribution tax payable	2,274	1,758
2.01.03.01.02	Installment payment of tax obligations	10,735	14,126
2.01.03.01.03	Taxes, rates and contributions	11,833	15,273
2.01.04	Loans and financing	170,825	146,402
2.01.04.01	Loans and financing	170,805	98,678
2.01.04.02	Debentures	20	47,724
2.01.05	Other obligations	88,404	86,563
2.01.05.02	Other	88,404	86,563
2.01.05.02.04	Credit granting from suppliers	37,045	35,127
2.01.05.02.05	Advance from clients	13,539	12,615
2.01.05.02.06	Dividends payable	462	6,035
2.01.05.02.08	Other	37,358	32,786
2.01.06	Provisions	2,924	4,289
2.01.06.02	Other provisions	2,924	4,289
2.01.06.02.06	Provisions for profit sharing	2,924	4,289
2.02	Non-current liabilities	876,597	552,638
2.02.01	Loans and financing	543,913	367,159
2.02.01.01	Loans and financing	248,716	239,180
2.02.01.02	Debentures	295,197	127,979
2.02.02	Other obligations	143,279	141,144
2.02.02.02	Other	143,279	141,144
2.02.02.02.03	Suppliers	84,076	78,496
2.02.02.02.06	Installment payment of tax obligations	58,266	62,648
2.02.02.02.08	Other	938	-
2.02.03	Deferred taxes	4,085	14,186
2.02.03.01	Deferred income and social contribution taxes	4,085	14,186
2.02.04	Provisions	69,505	30,149
2.02.04.02	Other provisions	123,311	30,149
2.02.04.02.05	Provisions for contingencies	121,016	28,214
2.02.04.02.06	Provision for long-term incentive	2,295	1,935
2.03	Consolidated shareholders' equity	361,960	285,060
2.03.01	Realized capital	140,000	130,000
2.03.04	Profit reserves	133,348	159,220
2.03.04.01	Legal reserve	18,426	18,426
2.03.04.05	Profit retention reserve	114,922	95,400
2.03.04.08	Additional dividend proposed	-	15,232

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

2.03.04.10	Profit reserve to be allocated	-15,405	30,162
2.03.05	Retained Earnings/Losses	103,991	-
2.03.06	Equity valuation adjustments	-	-4.172
2.03.09	Non-controlling interest	26	12

PBG S.A and subsidiaries

Interim Financial Information for the quarter ended June 30, 2018
In thousands of Brazilian reais - R$, unless otherwise stated.

Consolidated financial statements / Statement of income

Account Code	Account Description	Current Quarter 04/01/2018 to 06/30/2018	Accumulated of the Current Year 01/01/2018 to 06/30/2018	Same Quarter of the Prior Year 04/01/2017 to 06/30/2017	Accumulated of the Current Year 01/01/2017 to 06/30/2017
3.01	Income from sales of goods and/or services	266,154	512,055	258,528	494,162
3.02	Cost of goods and/or services sold	156,009	-303,639	-149,831	-289,588
3.03	Gross income	110,145	208,416	108,697	204,574
3.04	Operating expenses/income	39,858	-34,804	-68,436	-121,436
3.04.01	Sales expenses	-73,066	-136,891	-62,407	-119,093
3.04.02	General and administrative expenses	-10,043	-19,303	-8,844	-17,119
3.04.04	Other operating income	150,025	150,647	9,360	29,907
3.04.04.01	Other operating income	150,025	150,647	9,360	29,907
3.04.05	Other operating expenses	-27,058	-29,257	-6,545	-15,131
3.04.05.01	Other operating expenses	-27,058	-29,257	-6,545	-15,131
3.05	Income (loss) before financial income and taxes	150,003	173,612	40,261	83,138
3.06	Financial income (loss)	-5,397	-20,600	-10,095	-25,540
3.06.01	Financial income	11,657	13,698	9,669	18,315
3.06.01.01	Financial income	1,886	4,290	8,105	17,267
3.06.01.02	Net Exchange Variance	9,771	9,408	1,564	1,048
3.06.02	Financial expenses	-17,054	-34,298	-19,764	-43,855
3.06.02.01	Financial expenses	-17,054	-34,298	-19,764	-43,855
3.06.02.02	Net Exchange Variance	-	-	-	-
3.07	Income (loss) before income tax	144,606	153,012	30,166	57,598
3.08	Income and social contribution taxes	-48,191	-49,601	-8,290	-15,850
3.08.01	Current	-1,841	-5,896	-2,435	-4,889
3.08.02	Deferred assets	-46,350	-43,705	-5,855	-10,961

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

3.09	Net income (loss) of continued operations	96,415	103,411	21,876	41,748
3.11	Consolidated Net Income/loss for the period	96,415	103,411	21,876	41,748
3.11.01	Attributed to Partners of the Parent Company	96,408	103,397	21,868	41,732
3.11.02	Attributed to Minority Partners	7	14	8	16
3.99	Earnings per share - (Reais / Shares)	-	-	-	-
3.99.01	Basic earnings per share	-	-	-	-
3.99.01.01	Common	0.60829	0.65239	0.12533	0,26331
3.99.02	Diluted Earnings per Share				
3.99.02.01	Common	0.60829	0.65239	0.12533	0.26331

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

Consolidated financial statements / Statement of comprehensive income

Account	Account Description	Current Quarter 04/01/2018 to 06/30/2018	Accumulated of the Current Year 01/01/2018 to 06/30/2018	Same Quarter of the Prior Year 04/01/2017 to 06/30/2017	Accumulated of the Current Year 01/01/2017 to 06/30/2017
4.01	Net Income for the Period	96,415	103,411	21,876	41,748
4.02	Other Comprehensive Income	-10,368	-10,639	-2,860	-1,006
4.02.02	Exchange variance of Overseas Subsidiary	-10,368	-10,639	-2,860	-1,006
4.03	Comprehensive Income for the Period	86,047	92,772	19,016	40,742
	Attributed to Partners of the Parent Company	86,040	92,758	19,008	40,726
	Attributed to Minority Partners	7	14	8	16

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

Consolidated financial statements / Statement of cash flows - Indirect method

Account Code	Account Description	Accumulated of the Current Year 01/01/2018 to 06/30/2018	Accumulated of the Prior Year 01/01/2017 to 06/30/2017
6.01	Net cash from operational activities	-1,209	46,810
6.01.01	Cash generated in operations	61,394	82,629
6.01.01.01	Profit or loss for the year before taxes	153,012	57,598
6.01.01.02	Depreciation and amortization	21,868	19,676
6.01.01.04	Unrealized Exchange Variation		
6.01.01.05	Provision for inventory at market value	1,358	-616
6.01.01.06	Provision Allowance for doubtful accounts	-1,165	674
6.01.01.07	Provision for contingencies	39,868	-22,276
6.01.01.08	Provision for labor obligations	-9,399	-9,176
6.01.01.09	Provisão para Participação nos Lucros	-1,005	5,837
6.01.01.10	Other provisions	2,017	2,345
6.01.01.11	Adjustments to tax assets	-159,142	-1,602
6.01.01.12	Restatements of credits with other related parties	-1,635	-3,026
6.01.01.13	Finance charges on tax installments	1,304	2,615
6.01.01.14	Provisioned Loan Interest	19,060	28,109
6.01.01.19	Unrealized Exchange Variation - PBA	3,097	392
6.01.01.20	Unrealized Exchange Variation on Loans	-10,639	-1,006
6.01.01.17	Other operating income (expenses)	2,795	3,085
6.01.02	Changes in assets and liabilities	-40,899	-4,539
6.01.02.01	(Increase)/Decrease in accounts receivable	-27,072	-12,421
6.01.02.02	Increase /(Decrease) in Advances from clients	924	-1,854
6.01.02.04	(Increase)/Decrease in inventories	-22,454	4,557
6.01.02.05	(Increase)/Decrease in Judicial Deposits	-5,756	-5,600
6.01.02.07	(Increase)/Decrease in Recoverable Taxes	3,096	-5,724
6.01.02.08	(Increase)/Decrease in attached financial investment	-154	-285
6.01.02.09	(Increase)/Decrease in other assets	-4,194	-8,025
6.01.02.10	Increase /(Decrease) in Accounts Payable	9,609	10,629
6.01.02.11	(Increase)/Decrease in advance to suppliers	591	319
6.01.02.12	(Increase)/Decrease in provisions for contingencies	-872	-1,852
6.01.02.13	Increase /(Decrease) in financing of taxes	-9,077	-5,177
6.01.02.14	Increase /(Decrease) in tax and labor liabilities	13,454	23,956
6.01.02.16	Increase /(Decrease) in other accounts payable	1,006	-3,062
6.01.03	Other	-21,704	-31,280
6.01.03.01	Interest paid	-20,023	-28,432
6.01.03.02	Income and social contribution taxes paid	-1,681	-2,848
6.02	Net cash used in investment activities	-35,536	-12,052
6.02.01	Acquisition of property, plant and equipment	-31,967	-10,020
6.02.02	Acquisition of intangible assets	-3,569	-1,998
6.02.04	Receipt from Sale of Permanent Assets	0	-34
6.03	Net Cash from Financing Activities	176,673	-42,114
6.03.01	Obtainment of loans and financings	432,780	33,415
6.03.02	Payment of loans and financings	-234,662	-74,984

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

6.03.04	Dividends paid	-24,445	-545
6.05	Increase (Decrease) in Cash and Cash Equivalents	139,928	-7,356
6.05.01	Opening Balance of Cash and Cash Equivalents	94,379	105,745
6.05.02	Closing Balance of Cash and Cash Equivalents	234,307	98,389

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

Consolidated financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2018–06/30/2018

Account Code	Account Description	Paid-in share capital	Capita Reserves, Options Awarded and Treasury Stock	Profit Reserves	Retained Earnings or Accumulated Losses	Other Comprehensive Income	Shareholders' Equity	Minority interests	Consolidated Shareholders' Equity
5.01	Opening Balances	130,000	0	159,220	0	-4,172	285,048	12	285,060
5.03	Adjusted Opening Balances	130,000	0	159,220	0	-4,172	285,048	12	285,060
5.04	Shareholders operation	0	0	-15,872	0	0	-15,872		-15,872
5.04.06	Dividends	0	0	-15232	0	0	-15,232		-15,232
5.04.07	Interest upon Own Capital	0	0	-640	0	0	-640		-640
5.05	Adjusted Opening Balances	0	0		103,397	-10,639	92,758	14	92,772
5.05.01	Net Income for the Period	0	0	0	103,397	0	103,397	14	103,411
5.05.02	Other Comprehensive Income	0	0		0	-10,639	-10,639		-10,639
5.05.02.05	Tax Conversion Adjust	0	0		0		0		0
5.05.02.06	Realization of the Revaluation Reserve	0	0	0	0	-10,639	-10,639		-10,639
5.05.02.07	Exchange Variance of Overseas Subsidiary	0	0		0	0	0		0
5.06	Internal changes in shareholders' equity	10,000	0	-10,000	594	-594	0		0
5.06.01	Reserves constitution	0	0	0	0	0	0		0
5.06.02	Realization of the Revaluation Reserve	0	0	0	594	-594	0		0
5.06.03	Tax of Realization of the Revaluation Reserve	0	0	0	0	0	0		0
5.06.04	Increased Capital	10,000	0	-10,000	0	0	0		0
5.07	Closing Balances	140,000	0	133,348	103,991	-15,405	361,934	26	361,960

PBG S.A and subsidiaries

Interim Financial Information for the quarter ended June 30, 2018
In thousands of Brazilian reais - R$, unless otherwise stated.

Consolidated financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2017–06/30/2017

Account Code	Account Description	Paid-in share capital	Capita Reserves, Options Awarded and Treasury Stock	Profit Reserves	Retained Earnings or Accumulated Losses	Other Comprehensive Income	Shareholders' Equity	Minority interests	Consolidated Shareholders' Equity
5.01	Opening Balances	119,565	0	121,129	0	-2,246	238,448	11	238,459
5.03	Adjusted Opening Balances	119,565	0	121,129	0	-2,246	238,448	11	238,459
5.04	Shareholders operation	0	0	-75	75	0	0		0
5.04.07	Interest upon Own Capital	0	0	-75	75	0	0		0
5.05	Adjusted Opening Balances	0	0	0	42,325	-1,599	40,726	16	40,742
5.05.01	Net Income for the Period	0	0	0	41,732	0	41,732	16	41,748
5.05.02	Other Comprehensive Income	0	0	0	593	-1,599	-1,006		-1,006
5.05.02.05	Tax Conversion Adjust				0	-271	-271		-271
5.05.02.06	Realization of the Revaluation Reserve	0	0	0	593	-593	0		0
5.05.02.07	Exchange Variance of Overseas Subsidiary	0	0	0	0	-1,006	-1,006		-1,006
5.06	Internal changes in shareholders' equity	10,435	0	-10,435	0	0	0		0
5.06.01	Reserves constitution	0	0	0	0	0	0		0
5.06.02	Realization of the Revaluation Reserve	0	0	0	0	0	0		0
5.06.03	Tributos sobre a Realização da Reserva de Reavaliação	0	0	0	0	0	0		0
5.06.04	Increased Capital	10,435	0	-10,435	0	0	0		0
5.07	Closing Balances	130,000	0	110,619	42,400	-3,845	279,174	27	279,201

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

Consolidated financial statements / Statement of added value

Account Code	Account Description	Accrued Value of the Current Year 01/01/2018 to 06/30/2018	Accrued Value of the Prior Year 01/01/2017 to 06/30/2017
7.01	Revenue	770,817	607,149
7.01.01	Sales of Goods, Products and Services	622,509	608,864
7.01.02	Other Revenue	147,143	-2,960
7.01.03	Income from construction of own assets	0	1,919
7.01.04	Allowance/(Reversal of allowance) for doubtful accounts	1,165	-674
7.02	Consumables acquired from third parties	-319,776	-253,523
7.02.01	Cost of goods and services sold	-195,959	-194,242
7.02.02	Material, Energy, Outsourced Services and Other	-124,188	-58,835
7.02.03	Loss/Recovery of Assets	371	-446
7.03	Gross Added Value	451,041	353,626
7.04	Retentions	-21,868	-19,676
7.04.01	Depreciation, Amortization and Depletion	-21,868	-19,676
7.05	Net Added Value Produced	429,173	333,950
7.06	Transferred Added Value	38,524	26,555
7.06.02	Financial Revenue	38,524	26,555
7.07	Total Added Value to be Distributed	467,697	360,505
7.08	Distribution of Added Value	467,697	360,505
7.08.01	Personnel	118,850	111,329
7.08.01.01	Direct Remuneration	100,489	94,564
7.08.01.02	Benefits	11,520	10,679
7.08.01.03	F.G.T.S.	6,841	6,086
7.08.02	Taxes, Duties and Contributions	178,251	148,022
7.08.02.01	Federal	107,189	75,990
7.08.02.02	State	70,399	71,457
7.08.02.03	Municipal	663	575
7.08.03	Interest Expenses	67,185	59,406
7.08.03.01	Interest	59,135	52,103
7.08.03.02	Rent	8,050	7,303
7.08.04	Interest earnings	103,411	41,748
7.08.04.03	Retained Earnings/Loss for the Period	103,411	41,732
7.08.04.04	Minority interests in retained earnings	14	16

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

CONSOLIDATED EARNINGS RELEASE 2Q18

Tijucas, August 9, 2018. PBG S.A. (B3 S.A. - BRASIL, BOLSA, BALCÃO: PTBL3), **Brazil's largest ceramic tile company**, is submitting its earnings release for the second quarter of 2018.

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

HIGHLIGHTS

	R$ million	1H17	1H18	▲%
PERFORMANCE	Gross revenue	618	631	2.1%
	Net revenue	**494**	**512**	**3.6%**
	Gross margin	*41.4%*	*40.7%*	-0,7 p.p.
	EBITDA	**103**	**195**	**90%**
	EBITDA margin	*20.8%*	*38.2%*	17,4 p.p.
	Profit	**42**	**103**	**148%**
	Net margin	*8.4%*	*20.2%*	11,7 p.p.
	ROCE	**14.0%**	**20.5%**	**6,6 p.p.**
Debt	**Net Debt**	**427**	**446**	**4.4%**
	Net debt-to-EBITDA	2.58	1.58	-39%
PTBL3	**Quotation**	**3.11**	**3.73**	**20%**

- **NET REVENUE** of **R$ 512** million, up by **3.6%** over 1H17;
- **GROSS MARGIN** of **41%** in 1H18, **similarly** to 1H17;
- The federal government acknowledges PBG's right to the IPI premium credit in the lawsuit "**POLO ATIVO**", with an impact of **R$129.6 million** in operating income (loss);
- **EBITDA** of **R$195 million** in 1H18, with a margin of 38.2%. Increase of **90%** and 17.4 p.p. above the margin, when compared to 1H17;
- **PROFIT** of **R$103 million**;
- **Reduction** in **Net Debt-to-EBITDA ratio** from 2.58x (in 1H17) to **1.58x** (in 1H18); **DEBT** reaches R$446 million and debt profile is extended at the end of the 2Q18;
- **Increase** of **6.6 p.p.** in **RETURN** on Invested Capital, ending the quarter at **20.5%** (14.0% in 1H17);
- **PTBL3** shares reach **R$3.73** at the end of 1H18 (R$3.11 in 1H17); **appreciation of 20%** and increase of **102%** in the average financial trading **volume** in the past 12 months.

TELECONFERENCE
(Portuguese Only)

Tuesday, August 14, at 10 a.m.

Data for connection:

Phone: +55 11 3137-8043
Password: PORTOBELLO

WEBCAST

The teleconference audio will be broadcast on the Internet, accompanied by a slide show.

Both will be available 30 minutes in advance at:

www.ri.portobello.com.br/

MANAGEMENT'S COMMENTS

PBG ends the second quarter of 2018 with an above-expected performance, especially when considering the nationwide truck driver's strike within the period. However, the challenge of monetizing the existing assets and reaching the maturity of the new business remain. The focus on increasing profitability and strengthening competitive advantages is internally maintained, in order to optimize the enterprise value and consolidate the brand leading position. The Brazilian economy is oscillating, and 2018 is being an inconstant year, which causes instability in terms of sales projection and market sensitivity. Accordingly, the Company believes that maintaining the high export revenue contributes to diversifying the revenue origin and support the consolidated profit.

In 1H18, net revenue totaled R$512 million, up by 3.6% over 1H17. After almost three years with stagnant sales, 2018 shows a growth in sales volume. Sales in the foreign market continue to stand out. Since the second quarter of 2017, the Company has been recording average quarterly revenue of US$15 million. In 2Q18, we attained a new quarterly record of US$17 million, up by 13% against 2Q17. In Brazilian reais (R$), there was growth of 26% when compared to 2Q17.

In the domestic market, net revenue in the 1H18 was 1.4% lower when compared to the same period in the prior year, mainly due to the drop in sales of real estate construction and development companies. According to Abramat, the finishing construction material market's deflated turnover dropped by 0.5% between 1H18 and 1H17, posting a real drop by 9% between May/17 and May/18, due to the nationwide truck driver's strike.

We continued to focus on sales of a more profitable product mix in the domestic market, despite the lower sales volume. The consolidated gross margin of 41% is similar to the 1H17's.

Cash generation, measured based on the EBITDA, totaled R$195 million and profit reached R$103 million in 1H18, with margins of 38% and 20%, respectively. EBITDA grew by 90% when compared to the 1H17, positively affected by the recognition of the favorable outcome in the lawsuit "Polo Ativo" (described below in the operating income (expenses) and EBITDA table). Should those effects be disregarded, the EBITDA margin and net margin in the 1H18 would be 13% and 3%, respectively, similar to 1H17's.

Portobello Shop maintains its plan on expanding the exhibition area. The network relies on 141 units located in almost all Brazilian states, out of which 11 are own units. The own stores posted the highest historical revenue volume in the 2Q18. The structuring of the area is in progress to strengthen the model and expand autonomy and speed.

The Officina project shows business development, focused on operation and service stability. In April, sales have begun in the operation in São Paulo, which impacts are expected for the 2H18.

As to Pointer brand, the sales growth is noticeable when comparing the 1H18 and the 1H17. The mix qualification and increase in inventory turnover have been leading to more qualified sales at better prices. The unit performance is above that expected by Management for 2018.

In Tijucas, the industry is focused on a more superior production mix. But, at the end of May, the truck driver's strike caused a loss of approximately 500 thousand m².

The net debt-to-EBITDA ratio posted a drop to 1.6 times (2.6 times in the 2Q17). The Company focused on the debt profile extension in the 2Q18, posting the highest funding volume ever reached. In June 2018, the Company conducted the 3rd issue of debentures in the total amount of R$300 million.

Investments are being gradually resumed, focused on sustaining the strategies designed to improve the product mix and margins, without capacity expansions. When compared to 1H17, investments were three times higher.

At the quarter end, Return on Invested Capital was 20.5%, posting 6.6 p.p. growth in the past 12 months.

The Company maintains its endeavors oriented to operational improvements, with confidence in its strategy focused on retail trade and brand building. The organizational structure changes continue so as to strengthen the Company's retail culture. Teams are focused on seeking excellence in key skills and working in a more collaborative way.

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

ECONOMIC AND FINANCIAL PERFORMANCE

	R$ thousand	2Q16	2Q17	2Q18	▲%	1H16	1H17	1H18	▲%
PERFORMANCI	**Gross revenue**	**328,957**	**321,485**	**327,669**	**1.9%**	**636,401**	**617,688**	**630,877**	**2.1%**
	Net revenue	256,575	258,528	266,154	2.9%	497,936	494,162	512,055	3.6%
	Gross profit	**87,058**	**108,697**	**110,145**	**1.3%**	**176,630**	**204,574**	**208,416**	**1.9%**
	Gross margin	33.9%	42.0%	41.4%	-0,6 p.p.	35.5%	41.4%	40.7%	-0,7 p.p.
	EBIT	**20,706**	**40,261**	**150,003**	**273%**	**33,367**	**83,138**	**173,612**	**109%**
	EBIT margin	8.1%	15.6%	56.4%	40,8 p.p.	6.7%	16.8%	33.9%	17,1 p.p.
	Finance income (costs)	(18,873)	(10,095)	(5,397)	-47%	(38,493)	(25,540)	(20,600)	-19%
	Profit	**4,040**	**21,876**	**96,415**	**341%**	**(2,180)**	**41,748**	**103,411**	**148%**
	Net margin	1.6%	8.5%	36.2%	27,8 p.p.	-0.4%	8.4%	20.2%	11,7 p.p.
	EBITDA	**30,447**	**50,094**	**161,026**	**221%**	**52,500**	**102,814**	**195,480**	**90%**
	EBITDA margin	*11.9%*	*19.4%*	*60.5%*	41,1 p.p.	*10.5%*	*20.8%*	*38.2%*	17,4 p.p.
RATIOS	Current liquidity					*1.31*	*1.26*	*1.59*	0.33
	Net debt					554,416	427,309	446,054	4.4%
	Net debt-to-EBITDA					*4.01*	*2.58*	*1.58*	(1.00)
	Net debt-to-equity					*2.33*	*1.50*	*1.23*	(0.27)
PTBL3	Closing quotation					2.31	3.11	3.73	20%
	Market value					366,108	492,899	591,162	
	Monthly trading volume (R$). Average from the past 12 months.					6,682	25,514	51,644	102%

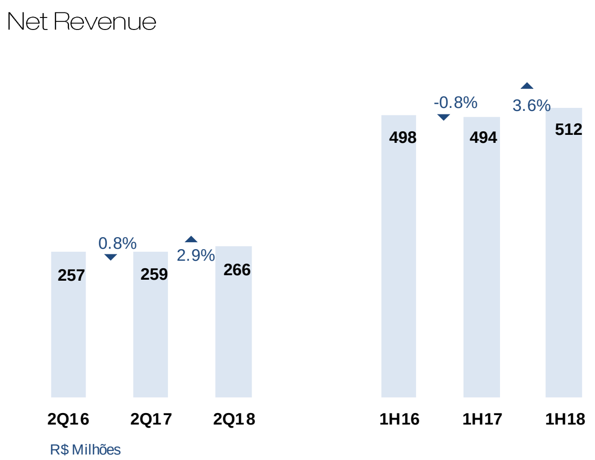
Net revenue

	2Q16	2Q17	2Q18	▲%	1S16	1S17	1S18	▲%
Net revenue	**256,575**	**258,528**	**266,154**	**2.9%**	**497,936**	**494,162**	**512,055**	**3.6%**
Domestic Market	216,002	209,310	204,024	-2.5%	418,495	404,106	398,445	-1.4%
Foreign Market	40,573	49,218	62,130	26%	79,441	90,056	113,610	26%

The consolidated net revenue totaled R$ 266 million in 2Q18 and R$512 million in the accumulated, up by 3.6% when compared to the previous year. After a month (May) affected by the truck driver's strike, sales have shown signs of recovery and a monthly record sales volume was posted by the Group in June.

Sales in the domestic market accounted for 77% of total revenue (81% in 2Q17) and the amount in Brazilian reais (R$) was 2.5% lower than in the 1Q17. In the 1H18, sales in the domestic market dropped 1.4%.

In the foreign market, sales grew by 26% against 1Q17 and 1H17. Exports in 2Q18 attained the quarterly record of US$17 million, roughly 13% higher when compared to the same period in the prior year.

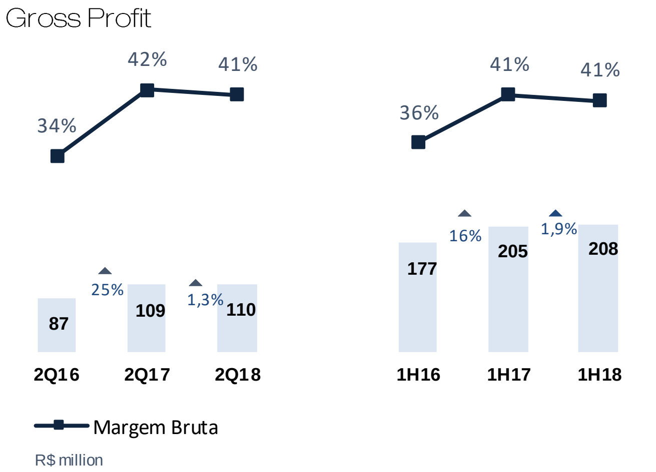


In thousands of Brazilian reais - R$, unless otherwise stated

Gross Profit

In 2Q18, gross profit totaled R$110 million, similarly to 1Q17, which is virtually equal to the prior year. The 1H18 posted a growth by 1.9% compared to the 1H17.

The gross margin remained at 41% as a result of a sales mix involving more profitable products and price structuring and category management actions.



Operating Income (Expenses)

Selling expenses totaled R$73 million in 2Q18 and R$137 million in 1H18, up by 17% when compared to 2Q17 and 15% when compared to 1H17, respectively. The ratio to net revenue in the 1H18 is 27% and posts a growth by 3 p.p. between the 1H18 and 1H17, as a result of the research on the Company's new business and restructuring to reach a new growth level. The Company adopts a cost decrease and revenue increase plan to reach the percentage of selling expenses appropriate to the operation.

	2Q16	2Q17	%RL	2Q18	%NR	▲%	1S16	%RL	1S17	%RL	1S18	%RL	▲%
Operating expenses	**(66,352)**	**(68,436)**	**26%**	**39,858**	**-15%**	**-158%**	**(143,263)**	**29%**	**(121,436)**	**25%**	**(34,804)**	**7%**	**-71%**
Selling expenses	(59,609)	(62,407)	24%	(73,066)	27%	17%	(120,755)	24%	(119,093)	24%	(136,891)	27%	15%
General and administrative expenses	(9,705)	(8,844)	3%	(10,043)	4%	14%	(18,616)	4%	(17,119)	3%	(19,303)	4%	13%
Other income (expenses)	2,962	2,815	-1%	122,967	-46%		(3,892)	1%	14,776	-3%	121,390	-24%	

Administrative expenses totaled R$10 million in 2Q18 and R$19 million in 1H18. As to revenues, it maintains the ratio of 3.8% to net revenue when compared to the same period of the prior year and the rate grew by 0.3 p.p. The Company believes that this is the amount appropriate to currently support its operations.

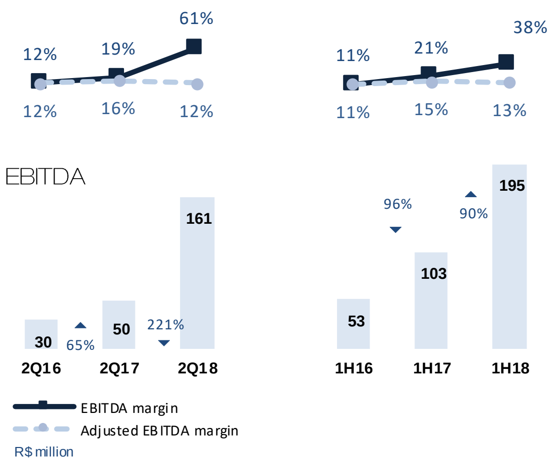
Other operating income amounted to R$123 million and was positively impacted by the favorable outcome of part of the lawsuit named "Polo Ativo". The lawsuit was filed in 1984 and the federal government has issued a statement acknowledging part of the amount as uncontested in the 2Q18.

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

EBITDA

	2Q16	2Q17	2Q18	%NR	▲%	1H16	1H17	1H18	%RL	▲%
Profit	4,040	21,876	96,415	36%	341%	(2,180)	41,748	103,411	20%	148%
(+) Finance income (costs)	18,873	10,095	5,397	2.0%	-47%	38,493	25,540	20,600	4.0%	-19%
(+) Depreciation and amortizatioi	9,741	9,833	11,023	4.1%	12%	19,133	19,676	21,868	4.3%	11%
(+) Income taxes	(2,207)	8,290	48,191	18%	481%	(2,946)	15,850	49,601	10%	213%
EBITDA	**30,447**	**50,094**	**161,026**	**61%**	**221%**	**52,500**	**102,814**	**195,480**	**38%**	**90%**
(-) Reversal of Provision for Tax Risks	-	(9,794)	(129,576)			-	(30,042)	(129,576)		
Adjusted EBITDA	**30,447**	**40,300**	**31,450**	**12%**	**-22%**	**52,500**	**72,772**	**65,904**	**13%**	**-9%**

The Company posts EBITDA of R$195 million and EBITDA margin of 38% at the end of the 1H18. The growth by 90% when compared to the 1H17 is due to the favorable court decisions recognized in the 2Q18. Should these gains on favorable court decisions be disregarded, EBITDA would amount to R$66 million and EBITDA margin would be 13%.

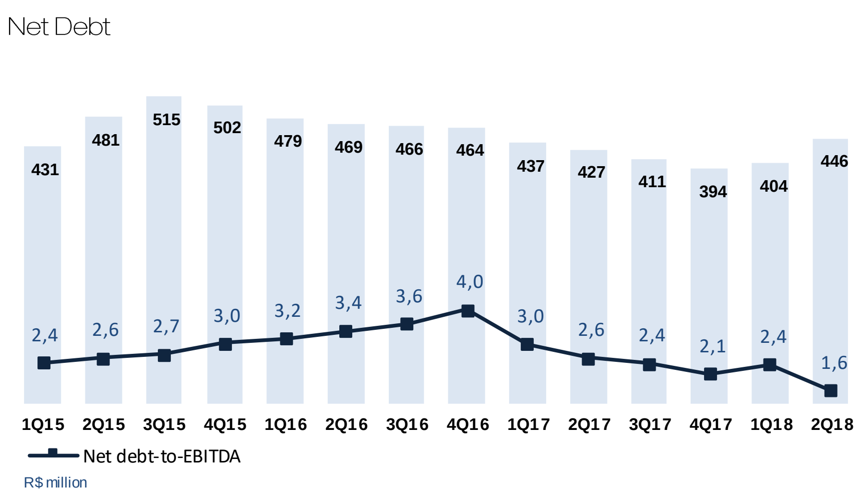


Profit

In 2Q18, profit amounted to R$96 million. The Company recognizes profit of R$103 million at the end of the semester, an amount significantly higher than the same period in the prior year.

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

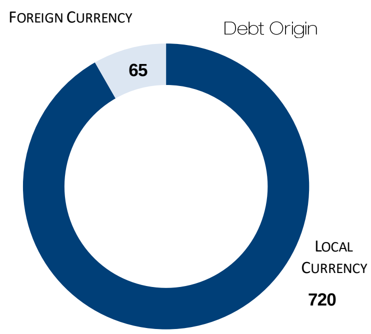
DEBT/CAPITAL STRUCTURE



The Company's net debt reached R$446 million at the end of 2Q18. Net debt-to-EBITDA ratio for the past 12 months is 1.6x and net debt-to-equity ratio is 1.2x. When compared to 2Q17, net debt-to-EBITDA ratio dropped by 1.0x.

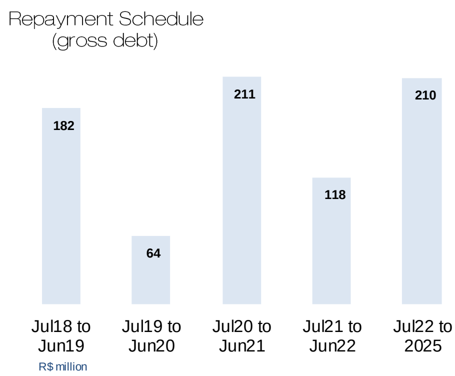
In 2Q18, the lowest net debt-to-EBITDA ratio for the past five years was reached, and the ratio reached the same levels as 2013, when the ratio was 1.4x in the 1Q13.

	Jun-16	Jun-17	Jun-18	▲R$
Bank Indebtedness	658,596	548,246	714,738	166,492
Tax Indebtedness	81,007	76,637	69,001	(7,636)
(=) Gross debt	**739,603**	**624,883**	**783,739**	**158,856**
(+) Cash and cash equivalents	(97,251)	(105,125)	(241,399)	(136,274)
(+) Due from related parties	(87,936)	(92,449)	(96,286)	(3,837)
(=) Net debt	**554,416**	**427,309**	**446,054**	**18,745**
EBITDA (past 12 months)	138,175	165,626	281,683	116,057
Net debt-to-EBITDA ratio	*4.01*	*2.58*	*1.58*	
Net debt-to-equity ratio	*2.33*	*1.50*	*1.23*	

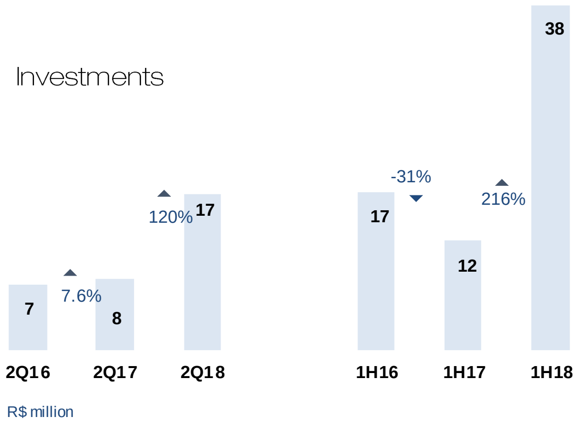


The balance of gross debt is divided into 23% maturing in the short term and 77% maturing in the long term. In the 2Q17, the balance of gross debt was divided into 35% maturing in the short term and 65% maturing in the long term.

The Company focused on the debt profile extension in the 2Q18, which posted the highest funding volume ever reached. In June 2018, the Company conducted the 3rd issue of debentures in the total amount of R$300 million.



INVESTMENTS



Investments are being gradually resumed and are higher than in the past two years. In 1H18, investments amounted to R$38 million, out of which 82% were allocated to Portobello and 18% were allocated to Pointer.

At Portobello, the amount of R$24 million is intended for preparing and upgrading the plant located in Tijucas to manufacture products with higher value added and larger formats, while R$3 million are targeted at IT infrastructure and R$2 million to Officina, own stores and business projects.

At Pointer, investments were mostly allocated to the plant transformation seeking the portfolio profitability and qualification.

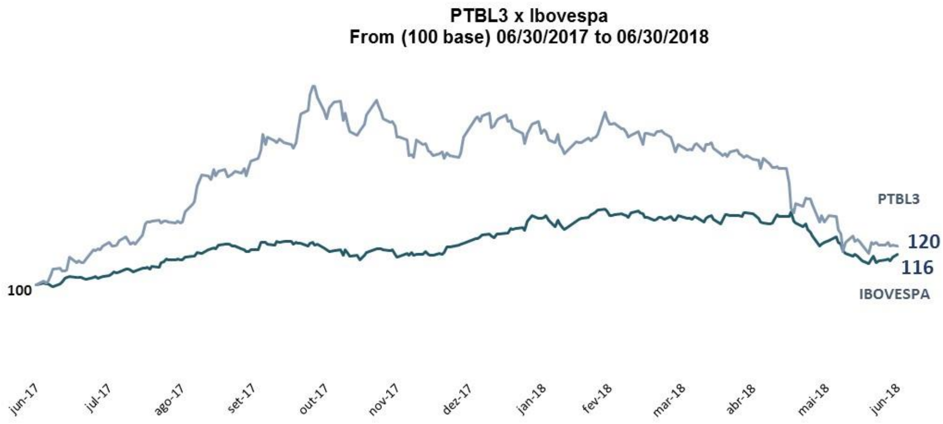
The investment-to-adjusted EBITDA ratio continue at 11% in the 2Q18.

SHAREHOLDERS' COMPENSATION AND SHAREHOLDERS' MEETING RESOLUTIONS

Total shareholders' compensation for 2017 amounted to R$30,464 thousand, which represented a yield of 3.50% (dividend per share divided by the closing share quotation). On May 25, 2018, 2017 residual dividends were paid.

In relation to the 1H18 profit, the Board of Directors approved on August 08, 2018 the distribution of interim dividends in the amount of R$8,939 thousand, in the approximate amount of R$0.0564 per share. Payment is scheduled to be made on August 29, 2018 as dividends and interest on capital.

PERFORMANCE OF PTBL3 SHARES



The common shares issued by PBG S.A., traded on B3 (Brasil, Bolsa, Balcão) under ticker symbol PTBL3, ended the last trading session held in March quoted at R$3.73, i.e., appreciation of 20% in the past 12 months, while Ibovespa rose by 16% in the same period.

In the past 12 months, the average financial trading volume was R$52 million, up by 102% against the R$26 million recorded in the prior year. At the end of 2Q18, PBG S.A.'s market value was equivalent to R$591 million (R$493 million in June 2017).

PROSPECTS

- The domestic market must continue unstable in 2018, contingent on the outlook of the political and economic scenario. Accordingly, internally, the focus is maintained on the qualification of the sales mix, seeking to achieve margin gain through large formats, launchings and customization products;
- Exports are important in this scenario. The foreign market efforts remain concentrated on increasing exports and internationalizing the Company so as to create a more robust structure for ensuring lower dependence on the domestic market;
- Retail trade and exports remain as the industry's growth pillars. Especially in sales through the Portobello Shop channel and expansion of Own Stores;
- The construction market continues to show performance below the expected. The recovery expected for this year must be more clearly reflected in the finishing material industry in early 2019. Accordingly, the product mix, integrated construction solutions, customization services and market niche services will be key to the maintenance of profitability in view of the volume drop trend;
- The plant located in Alagoas and Pointer brand maintain the plan on adjusting to the current market scenario and seeking economic balance. The positive results reached in 1H18 represent the plan effectiveness;
- The plant in Tijucas poses challenges for the maintenance of its production costs in 2018, due to the adjustment in iron ore freight and gas prices in July;

- The Company is gradually recovering the pace of investments for 2018. At the plants located in Tijucas and Alagoas, the focus is driven to production qualification. At own stores, investments are allocated to expanding the current units and creating new units. Investments will be also concentrated on the distribution structure, both in the domestic (for both brands) and foreign markets.
- Upon reviewing the organizational structure, the Company will maintain its efforts to enhance its retail trade-oriented business model, seeking improvements in its processes, technologies, the development of teams and brand positioning.
- In addition, efforts remain concentrated on expanding and enhancing the Portobello Shop business's competitive edges, with new own stores, distribution and the Officina.
- Management will continue to focus on extending and improving the debt profile, as well as on monitoring and maintaining the debt-to-EBITDA ratio. The actions aim to ensure effective cash management, working capital decrease, liquidity maintenance and reduction of finance costs.
- The Company remains confident in its competitive edges and reaffirms its efforts to improve earnings.

INDEPENDENT AUDIT

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

MANAGEMENT

Board of Directors

Name
Cláudio Ávila da Silva
Cesar Gomes Júnior
Nilton Torres de Bastos Filho
Glauco José Côrte
Geraldo Luciano Mattos Junior
Walter Roberto de Oliveira Longo
Marcos Gouvêa de Souza

Executive Board

Name	Title
Cesar Gomes Júnior	Chief Executive Officer
Cláudio Ávila da Silva	Deputy Chief Institutional Relations Officer
John Shojiro Suzuki	Deputy Chief Operations Officer
Mauro do Valle Pereira	Deputy Chief Business Officer

TELECONFERENCE AND WEBCAST
(Portuguese Only)

On Tuesday, August 14, 2018, at 10 a.m., a teleconference will be held in Portuguese language to report the earnings for the second quarter of 2018.

Data for connection: Phone: +55 11 3137-8043 Password: PORTOBELLO

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

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

Balance Sheet

Assets	06/30/2018	12/31/2017	Liabilities	06/30/2018	12/31/2017
Current assets	**710,067**	**522,623**	**Current liabilities**	**446,660**	**414,310**
Cash and cash equivalents	234,307	94,379	Borrowings and debentures	170,825	146,402
Trade receivables	246,649	218,412	Trade payables and credit assignment	153,725	149,696
Inventories	200,419	179,323	Taxes and social contributions	24,842	31,157
Recoverable taxes	10,559	15,922	Payroll and related taxes	42,985	31,330
Prepaid expenses	4,223	1,720	Advances from customers	13,539	12,615
Other current assets	13,910	12,867	Dividends payable	462	6,035
			Other current liabilities	40,282	37,075
Noncurrent assets	**975,150**	**729,385**	**Noncurrent liabilities**	**876,597**	**552,638**
Long-term assets	**500,406**	**268,926**	Borrowings and debentures	543,913	367,159
Escrow deposits	99,257	93,501	Trade payables	84,076	78,496
Recoverable taxes	5,304	6,407	Deferred income tax and social contribution	4,085	14,186
Legal assets	267,119	45,969	Taxes payable in installments	58,266	62,648
Due from related parties	96,286	94,651	Related parties	62,008	-
Due from Eletrobrás	12,821	12,821	Provisions	121,016	28,214
Other noncurrent assets	19,619	15,577	Other	3,233	1,935
			Equity	**361,960**	**285,060**
Investments	**298**	**298**	Capital	140,000	130,000
Property, plant and equipment	**454,453**	**440,595**	Earnings reserves	133,348	143,988
Intangible assets	**19,993**	**19,566**	Other comprehensive income	(15,405)	(4,172)
			Additional proposed dividends	-	15,232
			Retained earnings	103,991	-
			Noncontrolling interests	26	12
Total assets	**1,685,217**	**1,252,008**	**Total liabilities**	**1,685,217**	**1,252,008**

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

1 General information

PBG S.A., hereinafter referred to as "Company" or "Parent", is a publicly-held company and its shares are traded on the *Novo Mercado* segment of the B3 S.A. - Brasil, Bolsa, Balcão (B³), under ticker symbol PTBL3. The Company is controlled by a group of shareholders, formally recognized under the agreement entered into on April 15, 2011, and amended on August 4, 2017, which hold 54% equity interest in the Company as at June 30, 2018. The remaining 46% equity interest is held by several shareholders.

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

Moreover, the Company holds equity interest in the following subsidiaries: (i) Portobello Shop, which manages the Portobello Shop and Empório Portobello franchising networks, with a network of franchised stores specializing in porcelain tiles and ceramic coatings; (ii) PBTech, which manages the Portobello Shop own stores and currently manages 11 stores; (iii) Mineração Portobello, which supplies part of the raw materials used in the manufacture of ceramic coatings; (iv) Companhia Brasileira de Cerâmica, which is established in the Northeast region and currently dormant; and (v) Portobello América, which was established to sell Portobello products in the U.S. market and is currently dormant.

2 Presentation of interim financial information

a) Statement of compliance

This interim financial information includes:

The individual and consolidated interim financial information, herein presented as Parent and Consolidated, respectively, has been prepared in accordance with CPC 21 (R1) - Interim Financial Reporting and IAS 34 - Interim Financial Reporting, issued by the International Accounting Standards Board (IASB), and is being presented in conformity with the standards issued by the Brazilian Securities and Exchange Commission (CVM), applicable to the preparation of Interim Financial Information (ITR).

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

The individual and consolidated interim financial information was authorized for issuance by the Board of Directors on August 08, 2018.

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

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

On January 1, 2018, several new standards became effective: IFRS 9/CPC 48 – Financial Instruments and IFRS 15/CPC 47 – Revenue from Contracts with Customers. As mentioned in Note 3.20 to the financial statements for the year ended December 31, 2017, the Company did not identify any significant impacts arising on the adoption of these new standards in the quarter ended June 30, 2018.

With respect to IFRS 9/CPC 48 – Financial Instruments, in the quarter ended June 30, 2018, the presentation of financial instruments was adjusted as follows:

CPC 48/ IFRS 9 - Financial Instruments

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

(i) Initial recognition and measurement

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

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

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

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

– the amount of changes in the fair value attributable to changes in the credit risk underlying financial liabilities is recognized in other comprehensive income; and

– the remaining amount of changes in fair value is recorded in profit or loss.

(i) Classification

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

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

Management did not designate any financial liabilities at FVTPL.

3 Significant accounting policies

The accounting policies and calculation methods adopted in preparing the interim financial information for June 30, 2018 are the same as those used in preparing the financial statements for the year ended December 31, 2017, except for the adoption of CPC 48/IFRS 9 – Financial Instruments mentioned in Note 2 b).

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

4 Critical accounting estimates and judgments

The critical judgments and uncertainties in estimates adopted in applying the accounting policies are the same as those detailed in the financial statements for the year ended December 31, 2017.

5 Financial risk management

5.1 Financial risk factors

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

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

a) Market risk

i) Foreign exchange risk

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

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

	In Brazilian reais R$			
	Parent		Consolidated	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Trade receivables	70,734	52,785	70,734	52,785
Checking account	5,096	3,806	5,096	3,806
Due from subsidiaries	78,944	67,728	-	-
Exposed assets	154,774	124,319	75,830	56,591
Allowance for investment losses	(74,891)	(67,717)	-	-
Trade payables, commissions, net of advances	(3,416)	(9,718)	(3,416)	(9,718)
Supplier of investiments	(14,248)	(12,392)	(14,248)	(12,392)
(-) Swap transaction	(64,688)	(42,303)	(64,688)	(42,303)
Borrowings and financing	23,587	-	23,587	-
Exposed liabilities	(133,656)	(132,130)	(58,765)	(64,413)
Net exposure	21,118	(7,811)	17,065	(7,822)

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

	In Euro (€)				In U.S. Dollar (US$)			
	Parent		Consolidated		Parent		Consolidated	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Trade receivables	243	317	243	317	13,333	12,659	13,333	12,659
Checking account	-	-	-	-	1,322	1,150	1,322	1,150
Due from subsidiaries	-	-	-	-	20,474	20,474	-	-
Allowance for investment losses	-	-	-	-	(19,423)	(20,471)	-	-
Trade payables, commissions, net of advances	(1,159)	(541)	(1,159)	(541)	(2,491)	(2,288)	(2,491)	(2,288)
Payables for investments	(3,022)	(3,122)	(3,022)	(3,122)	(166)	-	(166)	-
Borrowings and financing	-	-	-	-	(10,660)	(12,788)	(10,660)	(12,788)
	(3,938)	(3,346)	(3,938)	(3,346)	2,389	(1,264)	1,338	(1,267)

Although the net foreign exchange exposure is low, the Company adopts the strategy of maintaining the foreign exchange liability exposure at an amount equivalent to up to one year of exports.

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

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

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

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

b) Credit risk

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

c) Liquidity risk

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

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

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

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

	Parent							
	June 30, 2018				December 31, 2017			
	* Empréstimos e debêntures	Arrendamento financeiro	Fornecedor e cessão	Parcelamento de obrigações tributárias	* Empréstimos e debêntures	Arrendamento financeiro	Fornecedor e cessão	Parcelamento de obrigações tributárias
Up to 1 year	170,825	-	150,719	10,661	146,051	351	147,540	14,033
From 1 to 2 years	252,446	-	84,076	21,642	252,500	-	78,496	21,334
From 2 to 5 years	275,613	-	-	32,463	102,778	-	-	32,001
Over 5 years	14,671	-	-	3,768	14,836	-	-	8,891
	713,555	-	234,795	68,534	516,165	351	226,036	76,259

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

	Consolidated							
	June 30, 2018				December 31, 2017			
	* Empréstimos e debêntures	Arrendamento financeiro	Fornecedor e cessão	Parcelamento de obrigações tributárias	* Empréstimos e debêntures	Arrendamento financeiro	Fornecedor e cessão	Parcelamento de obrigações tributárias
Up to 1 year	170,825	-	153,725	10,735	146,051	351	149,696	14,126
From 1 to 2 years	253,629	-	84,076	21,790	253,677	-	78,496	21,478
From 2 to 5 years	275,613	-	-	32,685	102,778	-	-	32,217
Over 5 years	14,671	-	-	3,791	14,836	-	-	8,953
	714,738	-	237,801	69,001	517,342	351	228,192	76,774

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

d) Sensitivity analysis

i) Sensitivity analysis to interest rate fluctuations

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

As at June 30, 2018, Management considered as the probable scenario the increase in the CDI rate of 6.39% and of the Selic rate of 6.40%. The probable rate was then stressed by 25% and 50% and used as benchmark for the possible and remote scenarios, respectively.

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

	Consolidated in Brazilian reais							
	June 30, 2018	Risco	Provável		Possível (25%)*		Remoto (50%)*	
			%	R$	%	R$	%	R$
Loans – working capital	(1,183)	Alta CDI	6.39%	(76)	7.99%	(94)	9.59%	(113)
Loans – export credit note	(226,577)	Alta CDI	6.39%	(14,478)	7.99%	(18,098)	9.59%	(21,717)
Debentures	(295,217)	Alta CDI	6.39%	(18,864)	7.99%	(23,580)	9.59%	(28,297)
	(522,977)			(33,418)		(41,772)		(50,127)
Tax installment payment	(69,001)	Alta Selic	6.40%	(4,416)	8.00%	(5,520)	9.60%	(6,624)

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

ii) Sensitivity analysis of changes in exchange rates

The Company has assets and liabilities pegged to a foreign currency in the balance sheet as at June 30, 2018, and for sensitivity analysis purposes, it has adopted as probable scenario the future market rate effective in the period of preparation of this interim financial information. The probable rate was then stressed by 25% and 50% and used as benchmark for the possible and remote scenarios, respectively.

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

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

	Consolidated in Brazilian reais						
	June 30, 2018	Provável		Possível (25%)*		Remoto (50%)*	
		Taxa US$	Ganho (Perda)	Taxa US$	Ganho (Perda)	Taxa US$	Ganho (Perda)
Trade receivables	70,733	3.500	(6,527)	4.375	9,525	5.250	25,576
Checking account	5,096	3.500	(470)	4.375	686	5.250	1,843
Trade payables, net of advances	(28,696)	3.500	2,648	4.375	(3,864)	5.250	(10,376)
Borrowings and financing	(64,688)	3.500	5,969	4.375	(8,711)	5.250	(23,390)
(-) Swap transaction	23,587	3.500	(2,177)	4.375	3,176	5.250	8,529
Net exposure	6,032		(557)		812		2,182

*Possible and remote scenarios calculated based on the probable rate, based on the Focus Report from Bacen dated June 10, 2018.

5.2 Capital management

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

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

As at June 30, 2018, financial leverage ratios are summarized as follows:

	Parent		Consolidated	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Borrowings and financing	713,555	512,384	714,738	513,561
Tax installment payment	68,534	76,259	69,001	76,774
Less: Cash and cash equivalents	(218,492)	(78,756)	(234,307)	(94,379)
Due from other related parties	(96,286)	(94,651)	(96,286)	(94,651)
Short-term investments	(7,092)	(6,938)	(7,092)	(6,938)
Net debt	460,219	408,298	446,054	394,367
Total equity	361,934	285,048	361,960	285,060
Total capital	822,153	693,346	808,014	679,427
Leverage ratio (%)	56	59	55	58

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

5.3 Financial instruments by category

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

	Parent		Consolidated	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Assets measured at fair value through profit or loss				
Cash and cash equivalents	218,492	78,756	234,307	94,379
Short-term investments	7,092	6,938	7,092	6,938
Amortized cost				
Due from other related parties	96,286	94,651	96,286	94,651
Trade receivables	229,203	203,703	246,649	218,412
	551,073	384,048	584,334	414,380
Amortized cost				
Trade payables and assignment	234,795	226,036	237,801	228,192
Borrowings, financing and debentures	713,555	512,384	714,738	513,561
Tax installment payment	68,534	76,259	69,001	76,774
	1,016,884	814,679	1,021,540	818,527

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

6 Cash and cash equivalents

	Parent		Consolidated	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Checking account	147,024	12,801	156,778	15,417
Short-term investments	71,468	65,955	77,529	78,962
	218,492	78,756	234,307	94,379

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

7 Financial Instruments

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

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

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

In June 2018, the Company has entered into an Export Credit (NCE) transaction in the amount of US$6,100, corresponding to R$23,999, bearing interest of 2.10% p.a. + LIBOR-03 + exchange rate change per year, with swap for 100% CDI + 1.40% per year and payment date within 36 months with 12-month grace period. Repayments are made on a quarterly basis. An unrealized loss amount of R$523 on the transaction was recognized in June 2018 (note 32).

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

8 Trade receivables

	Parent		Consolidated	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Due from third parties:				
Domestic market	158,973	153,302	175,312	167,560
Foreign marjet	70,734	52,785	70,734	52,785
	229,707	206,087	246,046	220,345
Due from related parties:				
Entities linked to Management	616	-	1,822	451
	616	-	1,822	451
Impairment of trade receivables:				
Allowance for doubtful debts	(1,120)	(2,384)	(1,219)	(2,384)
	(1,120)	(2,384)	(1,219)	(2,384)
	229,203	203,703	246,649	218,412

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

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

a) Aging list of trade receivables

	Parent		Consolidated	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
To be due	225,001	199,172	242,391	213,431
30 days	1,835	2,979	1,881	3,070
31 to 90 days	2,039	1,354	2,039	1,411
91 to 180 days	296	272	332	305
181 to 360 days	417	1,100	417	1,350
Over 360 days	735	1,210	808	1,229
	230,323	206,087	247,868	220,796

The Company’s receivables are pledged as collateral for some of the borrowings and financing, as described in note 21. Its amount is calculated based on a percentage rate of the residual debt balance.

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

As at June 30, 2018, the total receivables pledged as collateral amounts to R$122,476 (R$79,332 as at December 31, 2017).

9 Inventories

	Parent		Consolidado	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Finished products	163,574	144,331	163,615	144,488
Work in process	8,540	6,207	8,548	6,207
Raw materials and consumables	34,526	31,729	34,635	31,729
Allowance for impairment of inventories	(8,401)	(7,043)	(8,401)	(7,043)
Imports in progress	2,022	3,942	2,022	3,942
	200,261	179,166	200,419	179,323

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

10 Recoverable taxes

	Parent		Consolidated	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Current				
State VAT (ICMS)	4,388	5,646	4,868	6,120
Federal VAT (IPI) (a)	2,347	3,051	2,459	3,399
Withholding income tax (I	110	1,612	139	1,635
Corporate income tax (IRI	664	4,034	680	4,050
Taxes on revenue (PIS/CC	-	-	421	421
Reintegra	1,669	-	1,669	-
Other	180	153	323	297
	9,358	14,496	10,559	15,922
Noncurrent*				
ICMS	2,784	2,728	3,048	2,728
PIS/COFINS	2,256	3,679	2,256	3,679
	5,040	6,407	5,304	6,407

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

a) Decrease of IPI rates

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

b) Reintegra

The Special Tax Reintegration Regime for Exporting Companies (Reintegra) consists of returning part of the exported amount in the form of tax credit to reduce federal taxes.
As at June 30, 2018, the Reintegra-related tax credits amounted to R$1,669. As at December 31, 2017, these credits amounted to R$ 862.

11 Due from other related parties

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

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

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

Upon adhering to the installment payment program under Law 11.941/09, the Company and “Refinadora” have entered into an instrument confirming these credits as guarantee capable of satisfying all tax debts payable in installments. As at June 30, 2018, these credits also originating in lawsuit No. 87.00.00967-9 amount to R$96,286 (R$94,651 as at December 31, 2017) and are adjusted based on the SELIC rate, as set forth in the agreement.

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

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

12 Escrow deposits

The Company and its subsidiaries are parties to tax, civil and labor lawsuits (see note 25) e and are discussing these matters at administrative and judicial level, which are supported by escrow deposits, when applicable. These are recorded at the original amount adjusted by the rates relating to the benchmark interest rates applicable to savings accounts, i.e., TR + 0.5%.

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

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

	Parent		Consolidated	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Civil (a)	84,125	78,568	84,125	78,568
Labor	8,650	8,381	8,650	8,381
Tax	6,451	6,521	6,482	6,552
	99,226	93,470	99,257	93,501

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

13 Receivables from Eletrobras

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

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

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

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

In 2017, the Company has filed a court decision enforcement action, in the total amount of R$12,821. In the period up to June 30 the amount remains the same.

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

14 Income tax and social contribution

a) Income tax and social contribution on income

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

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

	Current Asset				Current Libiliaties			
	Parent		Consolidated		Parent		Consolidated	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Income tax	487	2,823	501	2,839	-	-	(1,669)	(1,284)
Social contribution	177	1,211	179	1,211	-	-	(605)	(474)
	664	4,034	680	4,050	-	-	(2,274)	(1,758)

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

b) Deferred income tax and social contribution

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

	Parent		Consolidated	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Tax losses	14,867	15,288	14,867	15,288
Temporary gains	33,166	21,570	37,520	22,092
Exchange differences on cash basis	530	2,873	530	2,873
Provision for adjustment to market value	1,903	1,841	1,903	1,841
Provision for contingencies	12,106	8,585	12,106	8,585
Provision for contingencies Pis/Cofins - Plaintiff	6,927	-	6,927	-
Accrued profit sharing and long-term incentive	1,774	2,116	1,774	2,116
Tax losses in subsidiaries	-	-	4,354	522
Other temporary gains	9,926	6,155	9,926	6,155
Temporary losses	(52,119)	(51,044)	(52,118)	(51,044)
Portobello pension plan	(1,957)	(1,957)	(1,957)	(1,957)
Realization of revaluation reserve	(18,176)	(18,481)	(18,176)	(18,481)
Receivables from Eletrobrás	(4,359)	(4,359)	(4,359)	(4,359)
Contingent assets - IPI premium credit - phase I	(2,647)	(2,591)	(2,647)	(2,591)
Contingent assets - IPI premium credit - phase II	(7,621)	(7,461)	(7,621)	(7,461)
Contingent assets - Semiannual PIS	(3,058)	(3,025)	(3,058)	(3,025)
Contingent assets - adjustment to rural credit notes	(2,607)	(2,552)	(2,607)	(2,552)
Adjustment to present value	(1,090)	(1,405)	(1,090)	(1,405)
Depreciation adjustment (based on the useful life of assets)	(10,604)	(9,213)	(10,604)	(9,213)
Deferred income tax and social contribution - net	(4,086)	(14,186)	268	(13,664)
Noncurrent assets	-	-	4,353	522
Noncurrent liabilities	(4,086)	(14,186)	(57,891)	(14,186)

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

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

	Parent	Consolidated
December 31, 2017	(14,186)	(13,664)
Tax losses	(421)	(421)
Tax losses in subsidiaries	-	3,831
Temporary gains	11,596	11,597
Temporary losses	(1,380)	(1,380)
Revaluation reserve	305	305
Em June 30, 2018	(4,086)	268

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

	Parent	Consolidated
	June 30, 2018	June 30, 2018
Deferred tax asset charged against (credited to) profit or loss		
Tax losses	(421)	(421)
Exchange differences on cash basis	(2,343)	(2,343)
Provision for adjustment to market value	62	62
Provision for contingencies	3,521	3,521
Provision for contingencies Pis/Cofins - Plaintiff	6,927	6,927
Accrued profit sharing and long-term incentive	(342)	(342)
Subsidiares acumuated tax loss	-	3,831
Other temporary gains	3,771	3,772
	11,175	15,007
Portobello previdência		
Realization of revaluation reserve	305	305
Contingent assets - IPI premium credit - phase I	(56)	(56)
Contingent assets - IPI premium credit - phase II	(160)	(160)
Contingent assets - Semiannual Pis	(33)	(33)
Plaintiff - Credit premium IPI	-	-
Contingent assets - adjustment to rural credit notes	(55)	(55)
Adjustment to present value	315	315
Depreciation adjust	(1,391)	(1,391)
	(1,075)	(1,075)
	10,100	13,932

c) Income tax and social contribution expenses

Income tax and social contribution expenses are broken down below:

a) Income tax and social contribution expenses in the second quarter:

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

	Parent		Consolidated	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Profit before taxes	142,066	27,723	144,606	30,166
Tax calculated based on statutory rate - 34%	(48,302)	(9,426)	(49,166)	(10,256)
Share of profit of subsidiaries	2,421	3,265		-
Non-deductible expenses for tax purposes	201	306	201	306
Depreciation of revalued assets	(153)	(153)	(153)	(153)
Other	175	153	927	1,813
Expense of income and social contribution taxes	(45,658)	(5,855)	(48,191)	(8,290)
Effective tax rate	32.1%	21.1%	33.3%	27.5%

b) Income tax and social contribution expenses in the first semester:

	Parent		Consolidated	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Profit before taxes	151,887	52,693	153,012	57,598
Tax calculated based on statutory rate - 34%	(51,642)	(17,916)	(52,024)	(19,583)
Share of profit of subsidiaries	6,425	6,334	-	-
Non-deductible expenses for tax purposes	529	620	529	620
Depreciation of revalued assets	(305)	(305)	(305)	(305)
Other	(3,497)	306	2,199	3,418
Expense of income and social contribution taxes	(48,490)	(10,961)	(49,601)	(15,850)
Effective tax rate	31.9%	20.8%	32.4%	27.5%

15 Judicial asset

	Parent		Consolidated	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
IPI premium credit (a)				
Case No. 1987.0000.645-9	22,414	21,945	22,414	21,945
Case No. 1984.00.020114-0	7,784	7,621	7,784	7,621
Semiannual PIS (b)	8,994	8,896	8,994	8,896
Adjustment to rural credit notes (c)	7,667	7,507	7,667	7,507
IPI premium credit – Plaintiff	220,260	-	220,260	-
	267,119	45,969	267,119	45,969

a) IPI premium credit

The Company is a party to a lawsuit claiming the recognition of tax benefits called ‘IPI premium credit’, in different calculation periods. Lawsuit No. 1987.0000.645-9, relating to the period between April 01, 1981 and April 30, 1985, which was decided favorably to the Company, is in the award calculation phase with the amounts already calculated by the accounting office of the Federal Court; the amount recognized in November 2009, adjusted up to June 30, 2018 is R$22,414.

Regarding Lawsuit No. 1984.00.020114-0, for the period between December 07, 1979 and March 31, 1981, after a final and unappealable decision handed down more than 10 years ago, the award calculation and decision enforcement phase has started, followed by an expert report prepared by a legal expert. The parties were notified about the amount determined so that they can agree with or object against the report. The Company has agreed with the calculations made. The Federal government, represented by the General Attorneys' Office of the National Treasury has not issued an opinion, which implies tacit agreement, resulting in preclusion. Therefore, the lawsuit is concluded and there is no more possibility of objection. The Company has recognized in 2015 the amount calculated by the legal expert of R$4,983, and since the Company understands that a favorable decision on the lawsuit is virtually certain, it has recorded the tax asset in June 2015, which amount adjusted up to June 30, 2018 is R$7,784.

b) Semiannual payment of the PIS

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

c) Adjustment to rural credit notes

In March 2017, the Company, based on a court decision handed down in relation to the Civil Class Action filed by the General Attorneys' Office against the Federal government, has filed an individual Court Decision Enforcement action for collection of the amount corresponding to the difference between the inflation adjustments rates applied on transactions involving rural credit notes carried out in March 1990. The amount of the uncontested portion adjusted up to June 30, 2018 is R$7,667.

d) IPI premium credit – Plaintiff

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

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

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

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

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

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

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

16 Contingent assets

The contingent asset that refers to lawsuit No. 1998.34.00.029022-4 which also mentioned in note 14d, it keeps as a Contingent asset, once the Federal Government diverged the calculated amount.

The Federal Government affirms there is a difference between the basis provided by Company and the basis of Federal Government, which totalize the amount R$ 11,665 (in august/15).

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

17 Investments

a) Interests in subsidiaries

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

	Country of establishment	Interest	Asset	Liability	Revenue*	Profit or loss*
On December 31, 2017						
Portobello América Inc.	Estados Unidos	100.00%	26	67,743	-	(67)
PBTech Ltda.	Brasil	99.94%	14,359	8,425	62,772	5,215
Portobello Shop S/A	Brasil	99.90%	40,380	39,900	63,510	32,528
Mineração Portobello Ltda.	Brasil	99.76%	2,079	1,495	9,336	339
Companhia Brasileira de Cerâmica S/A	Brasil	98.00%	2,121	(2)	-	8
On June 30, 2018						
Portobello América Inc. e outros	Estados Unidos	100.00%	4,213	79,104	41	(337)
PBTech Ltda.	Brasil	99.94%	20,530	11,748	35,875	2,848
Portobello Shop S/A	Brasil	99.90%	37,429	23,819	29,667	13,130
Mineração Portobello Ltda.	Brasil	99.76%	3,197	2,374	5,251	239
Companhia Brasileira de Cerâmica S/A	Brasil	99.91%	7,575	935	24	3,017

** For December 31, 2017, the information refers to the 12-month period and for June 30, 2018 refers to the three-month period*

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

	Equity	Profit or loss the period	Interest	December 31, 2017	Exchange differences	Payment of capital f	Share of profit (loss) subsidiaries	June 30, 2018
Investments								
Portobello América Inc. e outros	(66,394)	(337)	100%	(67,717)	(10,639)	3,802	(337)	(74,891)
PBTech Ltda.	7,447	2,850	99.94%	5,934	-	-	2,848	8,782
Portobello Shop S.A.	7,142	13,143	99.90%	480	-	-	13,130	13,610
Mineração Portobello Ltda.	710	240	99.76%	584	-	-	239	823
Companhia Brasileira de Cerâmica S/A	5,956	3,020	99.91%	2,123	-	1,500	3,017	6,640
Others	10	-	100%	10	-	-	-	10
Total net investment in subsidiaries				(58,586)	(10,639)	5,302	18,897	(45,026)
Interest in subsidiaries				9,131				29,865
Allowance for investment losses				(67,717)				(74,891)

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

18 Property, plant and equipment

a) Breakdown

		Parent				Consolidated	
		June 30, 2018			December 31, 2017	June 30, 2018	December 31, 2017
	Taxa média anual de depreciação	Custo	Depreciação acumulada	Valor líquido	Valor líquido	Valor líquido	Valor líquido
Land		12,603	-	12,603	12,141	13,524	13,062
Buildings, constructions and improveme	3%	203,450	(45,680)	157,770	161,341	164,885	169,413
Machiney and equipment	15%	577,264	(317,073)	260,191	230,268	261,502	230,269
Furniture and fixtures	10%	9,456	(8,473)	983	1,079	1,029	1,092
Computers	20%	24,259	(17,175)	7,084	4,321	7,185	4,325
Other property, plant and equipment	20%	367	(201)	166	15	224	14
Constructions in progress		4,473	-	4,473	21,957	6,104	22,420
		831,872	(388,602)	443,270	431,122	454,453	440,595

In 2010, upon the first-time adoption of international standards CPC 37 and IFRS 1, as well as the adoption of CPC 43 and ICPC 10, the Company has elected to adopt the revaluation of the property, plant and equipment carried out in 2006 as deemed cost, as it understands that it significantly represented the fair value on transition date (note 28.3).

Pursuant to Technical Interpretation ICPC 10 of the Accounting Pronouncements Committee, approved by CVM Resolution 619/09, effective beginning January 01, 2009, the Company has revised and changed the useful life of its property, plant and equipment items in 2008, based on the Technical Report issued by the Company's engineers, and since then, it periodically conducts an annual review; there was no significant impact on the useful life of property, plant and equipment items in 2017.

b) Variation in property, plant and equipment

	Parent					
	31 de dezembro de 2017	Additions	Transfers	Depreciation	Write-offs	June 30, 2018
Land	12,141	462	-	-	-	12,603
Buildings and improvements	161,341	43	75	(3,493)	(196)	157,770
Machinery and equipment	230,268	888	42,109	(12,643)	(431)	260,191
Furniture and fixtures	1,079	-	-	(96)	-	983
Computers	4,321	2,030	1,542	(809)	-	7,084
Other property, plant and equipr	15	158	-	(7)	-	166
Constructions in progress	21,957	27,485	(43,726)	-	(1,243)	4,473
	431,122	31,066	-	(17,048)	(1,870)	443,270

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

	Consolidated					
	31 de dezembro de 2017	Additions	Transfers	preciation	Vrite-offs	June 30, 2018
Land	13,062	462	-	-	-	13,524
Buildings and improvements	169,413	43	783	(5,158)	(196)	164,885
Machinery and equipment	230,269	2,096	42,217	(12,649)	(431)	261,502
Furniture and fixtures	1,092	35	-	(98)	-	1,029
Computers	4,325	2,128	1,545	(813)	-	7,185
Other property, plant and equipı	14	218	-	(8)	-	224
Constructions in progress	22,420	29,472	(44,545)	-	(1,243)	6,104
	440,595	34,454	-	(18,726)	(1,870)	454,453

In the first semester the additions in the property, plant and equipment were R$ 34 million, out of which 82% were allocated to Portobello and 18% were allocated to Pointer. At Portobello, the amount of 83% is intended for preparing and upgrading the plant located in Tijucas to manufacture products with higher value added and larger formats, while 8% are targeted at own stores and the Officina. At Pointer, investments were mostly allocated to the plant transformation seeking the portfolio profitability and qualification.

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

	Parent		Consolidated	
	Accrued			
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Cost of slaes	15,313	13,987	15,323	13,988
Selling expenses	1,163	1,052	2,831	2,318
Administrative expenses	572	496	572	502
	17,048	15,535	18,726	16,808

19 Intangible assets

a) Breakdown

		Parent				Consolidated	
		June 30, 2018			December 31, 2017	June 30, 2018	December 31, 2017
	Taxa média anual de amortização	Custo	Amortização acumulada	Valor líquido	Valor líquido	Valor líquido	Valor líquido
Trademarks and patents	-	150	-	150	150	150	150
Software	20%	22,463	(16,312)	6,151	6,025	6,151	6,025
Mining rights	20%	1,000	(1,000)	-	-	1,427	289
Goodwill	7%	-	-	-	-	9,733	9,681
Software under development	-	2,005	-	2,005	1,398	2,301	1,504
Management system (a)	21%	18,886	(18,655)	231	1,917	231	1,917
		44,504	(35,967)	8,537	9,490	19,993	19,566

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

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

b) Variations in intangible assets

	Parent				
	December 31, 2017	Adições	Amortizações	Transferências	June 30, 2018
Trademarks and patents	150	-	-	-	150
Software	6,025	-	(958)	1,084	6,151
Mining rights	-	-	-	-	-
Software under development	1,398	1,691	-	(1,084)	2,005
Management system	1,917	-	(1,686)	-	231
	9,490	1,691	(2,644)	-	8,537

	Consolidated				
	December 31, 2017	Additions	Amortization	Transfers	June 30, 2018
Trademarks and patents	150	-	-	-	150
Software	6,025	-	(958)	1,084	6,151
Mining rights	289	1,307	(169)	-	1,427
Goodwill	9,681	381	(329)	-	9,733
Software under development	1,504	1,881	-	(1,084)	2,301
Management system	1,917	-	(1,686)	-	231
	19,566	3,569	(3,142)	-	19,993

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

	Parent		Consolidated	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Cost of sales	405	397	574	615
Selling expenses	1,408	1,390	1,737	1,390
Administrative expenses	831	863	831	863
	2,644	2,650	3,142	2,868

c) Projected amortization of consolidated intangible assets:

	2018	2019	2020	2021	2022	2023 a 2038	Total
Software	1,010	2,021	1,811	916	330	63	6,151
Mining rights	196	392	392	95	68	284	1,427
Goodwill	336	671	671	671	671	6,713	9,733
Management system	231	-	-	-	-	-	231
	1,773	3,084	2,874	1,682	1,069	7,060	17,542

Trademarks and patents and software under development in the total amount of R$2,451 were not subject to amortization due to their indeterminate useful life. However, they are subject to impairment, as described in the significant accounting policies disclosed in these financial statements as at the end of the year.

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

20 Trade payables and credit assignment

a) Trade payables

	Parent		Consolidated	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Domestic market	103,427	99,741	106,433	101,897
Foreign market	10,247	12,672	10,247	12,672
Current	113,674	112,413	116,680	114,569
Domestic market (i)	84,076	78,496	84,076	78,496
Noncurrent	84,076	78,496	84,076	78,496
	197,750	190,909	200,756	193,065

(i) Provision for payment to gas supplier arising from the matter mentioned in note 11

b) Credit assignment of trade payables

The Company conducted trade payables credit assignment transactions with prime financial institutions in the amount of R$37,045 as at June 30, 2018 (R$35,127 as at December 31, 2017), to offer to its partner suppliers more attractive credit facilities aiming at maintaining the business relationship.

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

c) Payables for investments

The Company recognizes a balance of R$21,112 in the Parent and R$21,536 in the consolidated in current liabilities (R$19.049 and R$ 19.609 on December 31, 2017),, which refers to constructions in progress for modernization of plants, investment in own stores and systems.

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

21 Borrowings, financing and debentures

	Currency	Maturities	Charges		Parent		Consolidated	
					June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Current								
Banco do Nordeste S.A (a)	R$	mai-18	0.00%	a.a.	9,793	9,798	9,793	9,798
NCE (b)	R$	jun-25	3.00%	a.a.	111,379	37,954	111,379	37,954
NCE (b)	US$	jun-21	7.79%	a.a.[1]	2,677	-	2,677	-
PRODEC (c)	R$	nov-21	8.25%	a.a.[1]	19,827	20,489	19,827	20,489
FINEP (d)	US$	mai-18	0.00%	a.a.+VC	14,524	17,133	14,524	17,133
DEG (e)	R$	mai-22	4.00%	a.a.[1]	12,183	10,460	12,183	10,460
FINAME (f)	R$	mai-21	7.66%	a.a.[1]	421	422	421	422
Debêntures 1ª série (g)	US$	out-21	7.30%	a.a.+VC	9	18,708	9	18,708
Debêntures 2ª série (g)	R$	ago-23	3.00%	a.a.[1]	12	29,016	12	29,016
Pré-pagamento	R$	jun-21	8.59%	a.a.	-	2,071	-	2,071
Arrendamento financeiro	R$	jun-23	9.14%	a.a.	-	351	-	351
Total Current			7.78%	a.a.[1]	170,825	146,402	170,825	146,402
Total moeda nacional					155,965	133,520	155,965	133,520
Total moeda estrangeira					14,860	10,460	14,860	10,460
Noncurrent								
Capital de Giro	R$				-	-	1,183	1,177
Banco do Nordeste S.A (a)	R$	mai-18	11.48%	a.a.	-	-	-	-
NCE (b)	R$	jun-25	3.00%	a.a.	58,683	63,573	58,683	63,573
NCE (b)	US$	jun-21	7.79%	a.a.[1]	20,909	-	20,909	-
PRODEC (c)	US$	mai-18	6.09%	a.a.+VC	-	-	-	-
PRODEC (c)	R$	nov-21	8.25%	a.a.[1]	91,611	85,278	91,611	85,278
DEG (e)	R$	mai-22	4.00%	a.a.[1]	20,652	25,848	20,652	25,848
FINAME (f)	R$	mai-21	7.66%	a.a.[1]	25,158	31,721	25,158	31,721
Debêntures 1ª série (g)	US$	out-21	7.30%	a.a.+VC	28,919	29,772	28,919	29,772
Debêntures 2ª série (g)	R$	ago-23	3.00%	a.a.[1]	1,602	1,811	1,602	1,811
Pré-pagamento	R$	jun-21	8.59%	a.a.	147,598	71,782	147,598	71,782
Arrendamento financeiro	R$	jun-23	9.14%	a.a.	147,598	56,197	147,598	56,197
Total Noncurrent			7.54%	a.a.[1]	542,730	365,982	543,913	367,159
Total moeda nacional					492,902	336,210	494,085	337,387
Total moeda estrangeira					49,828	29,772	49,828	29,772
Grand total			7.69%	a.a.[1]	713,555	512,384	714,738	513,561
Total local currency					648,867	469,730	650,050	470,907
Total foreign currency					64,688	40,232	64,688	40,232

[1] Weighted average rate
VC - Exchange difference

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

a) Information on contracts

Note	Contract	Date: Disbursement	Date: Maturity	Borrowing	Term (months)	Repayment	Grace period (months)	Collaterals
(a)	**Finance lease**	May-15	May-18	R$ 2,192	36	Monthly	-	Machinery and equipment
(b)	**Banco do Nordeste**	Aug-14	Jun-25	R$ 96,819	133	Monthly	24	Real estate mortgages and machinery and equipment
		Contract entered into in Jun/13, in the amount of R$147,700. The 1st installment of the financing was disbursed by the Bank in Aug/14 in the amount of R$29,221 , the 2nd installment disbursed in Jan/15 in the amount of R$45,765, the 3rd installment disbursed in Sep/15 in the amount of R$14,700, 4th installment disbursed in Mar/16 in the amount of R$4,713, the 5th installment disbursed in Dec/16 in the amount of R$2,418.						
(c)	**Export Credit (NCE)**	Nov-17	May-18	R$ 50,000	24	Semiannual	12	Receivables from Portobello SA in the amount of 30% of the debt balance of the contract (*)
		Nov-17	May-19	R$ 10,000	36	Quarterly	12	
		May-16	May-19	R$ 20,000	36	Quarterly	12	Receivables from Portobello SA in the amount of 15% of the debt balance of the contract
		Jun-16	Nov-20	R$ 30,000	36	Quarterly	20	80% of trade notes + 20% short-term investments. (*)
		Jun-16	Nov-21	R$ 50,000	48	Monthly	12	
		(*) The contracts indicated have minimum covenants that were met .						
(d)	**Prepayment**	Jul-13	May-18	US$ 5,000	60	Quarterly	15	Pledge
(e)	**PRODEC**	-	-	-	48	Bullet	Bullet	-
	(Santa Catarina State Development Program) - Special Regime of the State of Santa Catarina obtained in July 2009. The balance is subject to adjustment to present value and the rate used for calculation purposes is the average working capital (9.26% per year). The deferred amount corresponds to 60% of the tax balance generated in the month that exceeds R$2,251 (average tax paid in 2007 and 2008), with 48-month grace period, 120-month period and inflation adjustment of 4% per year and UFIR variance.							
(f)	**Finep**	Jul-10	Sep-18	R$ 30,103	99	Monthly	24	Bank guarantee
		All 5 financing installments were disbursed by the Bank as follows: 1st in the amount of R$5,000 in Jul/10, 2nd of R$ 5,100 in Aug/10, 3rd of R$3,146 in Sep/10, 4th of R$5,572 in Dec/12 and 5th of R$11,282 in Aug/13.						
		Jul-14	May-21	R$ 57,318	84	Monthly	24	Bank guarantee
		The 1st financing installment, in the amount of R$12,627, was disbursed by the Bank in Jul/14. The 2nd installment was disbursed in Jan/16 in the amount of R$12,479. The 3rd installment was disbursed in Jun/17 in the amount of R$32,064.						
(g)	**DEG (Deut**	May-14	Oct-21	US$ 18,000	90	Semiannual	23	Machinery and equipment and promissory notes
		This contract has minimum covenants that were renegotiated in Dec/17 and were met.						
(h)	**Finame**	May-13	May-23	R$ 39	120	Monthly	25	Machinery and equipment
		May-13	Apr-23	R$ 601	120	Monthly	24	
		Jul-13	Jul-23	R$ 107	120	Monthly	25	
		Jul-13	Aug-23	R$ 1,890	120	Monthly	26	
		jan-14	jun-23	R$ 577	114	Monthly	18	
(i)	**Debentures**	Dec-15	Nov-22	R$ 100,000	83	Semiannual	24	Collateral and additional fiduciary guarantee
		Dec-15	Nov-20	R$ 100,000	59	Semiannual	24	Collateral and additional fiduciary guarantee
		For more information, see Item (c) Debentures below						

Restricted investments, real estate mortgages, equipment, Parent's (note 8) and subsidiary's receivables (note 38) and Parent's and subsidiary's surety were pledged as collateral for other borrowings.

Long-term borrowings mature as follows:

	Parent		Consolidated	
Maturities on July 1	June 30, 2018	30 de junho de 2017	June 30, 2018	June 30, 2017
2018	-	57,802	-	58,936
2019	53,368	98,318	53,368	98,318
2020	199,078	86,579	200,261	86,579
2021 a 2025	290,284	97,128	290,284	97,128
	542,730	339,827	543,913	340,961

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

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

	Parent		Consolidated	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Brazilian reais	648,867	470,081	650,050	471,258
US Dollars	64,688	42,303	64,688	42,303
	713,555	512,384	714,738	513,561

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

b) Debentures

On June 15, 2018, the Board of Directors of Portobello S.A. has approved the 3rd issuance of simple, non-convertible debentures, with real guarantee and additional fiduciary guarantee, in two series, for public distribution with restricted distribution efforts.

Issuance Characteristics	
Issuance	3ª
Trustee	PLANNER TRUSTEE DTVM LTDA.
Custodian	Banco Bradesco S/A
Lead Underwriter	Banco Itaú BBA S/A
Depositary Bank	Não
Trade	CETIP
Series Number	2
Issuance Volume - R$	300.000.000,00
Total Number of Debentures	300.000
Unit Par Value - R$	1.000,00

Transaction details per series		
Series	1st	2nd
CVM Registration No	476/09	
Asset Code	PTBL13	PTBL23
Issuance Date	06/27/2018	
Maturity Date	06/27/2021	06/27/2023
Volume - R$	150.000.000,00	150.000.000,00
Number of Debentures	150.000	150.000
Unit Par Value - R$	1.000,00	1.000,00
Form	Registered and book-entry	
Type	Collateral and additional fiduciary guarantee	
Convertibility	Non-convertible into shares issued by the Issuer	
Adjustment	No inflation adjustment to the Par Value	
Interest	DI rate + 2.20% per year (252-day year)	DI rate + 2.75% per year (252-day year)
Interest Payment	Semiannual, with first interest date on 12/27/2018	
Repayment	Initial Nominal Value	Initial Nominal Value
Corporate Acts:	Meeting of the Board of Directors held on 06/15/2018	
Covenants	Division of Net Debt and EBITDA <= 3.00 times	

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

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

The 3rd issuance of Debentures is subject to covenants that were met on June 30, 2018.

22 Tax installment payment

	Installment payment request		Parent		Consolidated	
Taxes	Date	Falling-due installments	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
LAW 11.941/09 (a)	nov-09	76	68,534	72,602	69,001	73,097
LAW 13.496/17 (b)	ago-17		-	3,657	-	3,677
Total			68,534	76,259	69,001	76,774

Tax installments will be paid as follows:

	Parent		Consolidated	
Maturity July 1	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
2018	10,661	14,033	10,735	14,126
2019 a 2023 (*)	54,105	53,335	54,475	53,695
2024	3,768	8,891	3,791	8,953
	68,534	76,259	69,001	76,774
Current	10,661	14,033	10,735	14,126
Noncurrent	57,873	62,226	58,266	62,648

(*) Sum of annual installments of R$10,821 as at Jun 30, 2018 and R$10,667 as at December 31, 2017 for the Parent and R$10,895 and R$10,739 for the consolidated, respectively.

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

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

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

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

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

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

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

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

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

PGFN has partially rejected the request in June 2010 by alleging the need of withdrawal of the lawsuits challenging the credit and concluded that the requirement of “inappropriate utilization” was not met. The Company has issued an opinion in the sense of claiming the withdrawal/relinquishment of the lawsuits that challenged the notifications received from the SRF. However, the Regional General Attorneys’ Office of the National Treasury of Santa Catarina understood that the withdrawal/relinquishment should also comprise the declaratory actions intended to recognize the IPI Credit Premium, mentioned in note 15. The Company’s Legal Department is adopting the necessary measures against PGFN’s decision so as to rule out the requirement of withdrawal/relinquishment of such declaratory actions and also the confirmation of the “inappropriate utilization”, evidently recognized by the Brazilian Federal Revenue Service upon notification. This procedure decided by Management is followed by an opinion from law firm Demarest Almeida, which defends that, for the debts included in the installment payment program under Law 12.249/10, the withdrawal of the abovementioned declaratory actions is not required, differently from the provisions set forth in Law 11.941/09. Accordingly, it asserts that the reversal of this situation is virtually certain by resorting to various judicial levels to rule out the grounds for the rejection in the merit of the case. For clarification purposes, the writ of security filed to seek the judicial homologation of the installment payment was denied by the lower court. In the appeal, the TRF of the 4th Region has partially accepted the appeal. The Company maintains the opinion on the reversal of the remaining legal matter at the Superior Court of Justice.

In case PGFN’s decision is upheld by the superior court, which the Company believes to be remote based on the opinion of its legal advisors, the impact on the Company’s profit or loss would correspond to a loss of R$29,433 million as at June 30, 2018, considering the non-acknowledgement of the debt, the non-existence of benefits and the maintenance of the debts for the contingent liabilities, which potential tax liability will be satisfied against credits arising from lawsuit No. 1998.34.00.029022-4, as shown in note 15 d.

24 Taxes, fees and contributions

As at June 30, 2018, taxes, fees and contributions recorded in current liabilities were classified as follows:

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

	Parent		Consolidated	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
IRRF	1,826	2,420	1,991	2,721
ICMS	8,366	6,304	8,404	6,325
PIS/COFINS	541	5,404	1,157	5,801
Outros	151	302	281	426
	10,884	14,430	11,833	15,273

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

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

The balance of provisions is broken down as follows:

Amount accrued	Parent		Consolidated	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Civil	10,447	8,733	10,447	8,733
Labor	16,217	14,959	16,217	14,959
Social security	6,836	-	6,836	-
Tax	87,485	4,491	87,516	4,522
	120,985	28,183	121,016	28,214

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

Statement of variations in provisions:

	Parent				Total
	Civil	Labor	Social Sec	Tax	
As at December 31, 2017	8,733	14,959	-	4,491	28,183
Debited from (credited to) to the income statement:	1,808	2,036	6,836	82,994	93,674
Additional provisions	2,207	870	2,489	82,994	88,560
Reversals due to lack of use	(489)	(143)	-	-	(632)
Inflation adjustment	90	1,309	4,347	-	5,746
Reversals due to realization	(94)	(778)	-	-	(872)
As at June 30, 2018	10,447	16,217	6,836	87,485	120,985

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

	Consolidated				Total
	Cíveis	Trabalhistas	Previdenc	Tributárias	
As at December 31, 2017	8,733	14,959	-	4,522	28,214
Debited from (credited to) to the income statement:	1,808	2,036	6,836	82,994	93,674
Additional provisions	2,207	870	2,489	82,994	88,560
Reversals due to lack of use	(489)	(143)	-	-	(632)
Inflation adjustment	90	1,309	4,347	-	5,746
Reversals due to realization	(94)	(778)	-	-	(872)
As at June 30, 2018	10,447	16,217	6,836	87,516	121,016

Comments on civil, labor and tax lawsuits:

Civil

The Company and its subsidiaries are defendants in 438 civil lawsuits (388 lawsuits as at December 31, 2017), before the Common Courts and Special Civil Courts. The majority of lawsuits is filed by customers and claim indemnity for alleged pain and suffering and property damages. When applicable, escrow deposits were made (note 12).

Labor

The Company and its subsidiary Portobello Shop S.A. are defendants in 328 labor claims (324 claims as at December 31, 2017), filed by former employees and third parties. The other lawsuits refer to payment of severance amounts, additional amounts, overtime, equal pay and indemnity for pain and suffering and property damages arising from work accident/occupational diseases. Provisions are revised by Management according to its legal advisors. Some lawsuits are supported by escrow deposits (note12).

Social Security

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

Change in the labor debt adjustment criterion

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

Tax

a) Exclusion of the ICMS from the PIS and COFINS tax base

The Company has filed a writ of security to change the PIS and COFINS tax base upon exclusion of ICMS. The Federal Court of Santa Catarina has issued a favorable decision on the exclusion of the

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

ICMS from the abovementioned tax base. The aforesaid decision was upheld by the Federal Regional Court of the 4th Region. The Federal government, through the prosecution office of the National Treasury, has filed an appeal against the decision with the superior courts (STF and STJ).

Based on the favorable decision handed down by the STF on March 15, 2017, with general effect, in the case records of lawsuit No. 5032720-26.2014.404.7200, the Company has reversed the amount accrued which amounted to R$25,544 on that date; accordingly, the Company understands that the likelihood of loss is remote.

On July 02, 2018, according to the certificate drafted by the Office of the Federal Regional Court of the 4th Region, a final and unappealable decision was handed down on such lawsuit.

b) Tax on legal asset Polo Ativo

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

26 Significant lawsuits assessed as possible and remote losses

a) Lawsuits assessed as possible losses

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

	Parent		Consolidated	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Civil	3,759	3,764	3,759	3,773
Labor	7,247	7,278	7,335	7,366
	11,006	11,042	11,094	11,139

b) Lawsuit assessed as remote loss relating to Administrative Proceeding No. 10983-721.445/2014-78

On December 08, 2014, the Company was notified about the issuance of Tax Assessment Notices, which established IRPJ and CSLL tax credits (as well as monetary penalties and interest), for calendar years from 2009 to 2013. According to the Tax Authorities, the Company would have allegedly committed the following infractions: (a) in 2009, it would have allegedly: (a.1) unduly excluded taxable income deriving from tax benefits; (a.2) deducted unnecessary expenses related to the principal of tax debts (IPI, PIS and COFINS) which were recorded in prior-years' profit or loss; (a.3) excluded non-deductible amounts related to the principal of IRPJ and CSLL; (a.4) unduly excluded amounts related to the principal included in temporary additions and that were recorded in prior-years' profit or loss; and (a.5) deducted non-deductible expenses related to the assessment fine; (b) in 2010, 2011 and 2012, it would have allegedly: (b.1) offset income tax and social contribution losses in amounts above those calculated; and (b.2) failed to pay IRPJ and CSLL amounts calculated based on monthly estimate, which resulted in a fine applied individually; and (c) in 2013, it would have allegedly offset CSLL losses in amounts above those calculated. On January 06, 2015, the Company has filed an Objection against the abovementioned assessments, challenging all infractions attributable to it, so that, as from that date (January 06, 2015), it is awaiting the judgment of said Objection which, according to the legal advisors of

PBG S.A, considers a favorable decision as virtually certain, resulting in the cancellation of the Tax Assessment Notice; accordingly, the Company understands that the likelihood of loss is remote and elected not to record the amount of R$73,000 as potential liabilities.
On March 07, 2016, the Company was notified about the issuance of the Tax Assessment Notices according to the tax administrative proceedings No. 11516-720.299/2016-02 and No. 11516-720.300/2016-91 which established tax credits relating to undue offsets of IRPJ and CSLL. However, the Company has defended that such discussion is already in progress in Lawsuit No. 10983-721.445/2014-78. The cancellation of the objected tax assessment in the amount of R$19,000 was requested due to the double collection by the tax authorities. At the lower court decision, the objections filed were considered with grounds in the sense of recognizing the double collection of the assessment and, consequently, determining the extinguishment of the tax credit. Currently, the tax administrative proceedings No. 11516-720.299/2016-02 and No. 11516-720.300/2016-91 were sent to the Administrative Council of Tax Appeals (Carf), for judgment of the appeal.

27 Long-term Incentive

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

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

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

The first group of participants has joined the program in 2012. Currently, there are two active plans. The present value of the obligation as at June, 2018 is R$2,295 in the Parent and consolidated (R$1,935 in the Parent and consolidated as at December 31, 2017).

28 Equity

28.1 Capital

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

As at June 30, 2018, there was 73,808,991 outstanding shares, corresponding to 46.57% of the total shares issued (72,982,224 as at December 31, 2017, corresponding to 46.05% of the total). The balance of outstanding shares comprises all securities available for trading in the market, other than those held by controlling shareholders, members of the Board of Directors and Executive Board.

28.2 Earnings reserve

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

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

The legal reserve is set up annually by allocating 5% of the profit for the year, which cannot exceed 20% of the capital. The purpose of the legal reserve is to ensure the integrity of capital and can only be used to offset accumulated losses or increase capital. As at June 30, 2018, the balance of the legal reserve totals R$18,426 (R$18,426 as at December 31, 2017), as prescribed by Article 193 of the Brazilian Corporate Law.

After the resolutions at the Annual Shareholders' Meeting, held on April 30, 2018, the Company increased its profit retention in of R$19,522. As at June 30, the company states the profit reserve in the total amount of R$114,922 (R$95,400 as at 31 December, 2017). The reserve of profit retention is based in the business enhanced plan, established in the investment plan according capital budget, in accordance with article 196 of the Brazilian Corporate Law.

The allocated earnings reserve is intended to demonstrate the portion of earnings whose allocation will be decided by the Annual General Meeting, fulfilled on April 30, 2018. On May 25, 2018, the balance of this reserve amounts was realized.

28.3 Valuation adjustment to equity

	Ajustes de avaliação patrimonial			
Parent and Consolidated	Deemed cost	Cumulative translation adjustments	Other comprehensive income	Total
As at December 31, 2017	35,876	(29,523)	(10,525)	(4,172)
Realization of the revaluation reserve	(594)	-	-	(594)
Exchange difference of foreign subsidiary	-	(10,639)	-	(10,639)
As at June 30, 2018	35,282	(40,162)	(10,525)	(15,405)

a) Deemed cost

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

b) Cumulative translation adjustments

The changes in assets and liabilities in foreign currency (US dollar) arising from the currency fluctuation, as well as the variations between the daily rates and the closing rate of the variations in profit or loss of the foreign subsidiary are recognized in this line item of cumulative translation adjustments. In June 2018 the amount was R$10,639 (note 17.a).

29 Revenue

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

The reconciliation of gross revenue and net revenue, shown in the income statement for the quarter ended June 30, 2018, is as follows:

a) Gross revenue incurred in the second quarter:

	Parent		Consolidated	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Gross sales revenue	300,273	296,204	327,669	321,485
Deductions from gross revenue	(58,244)	(60,333)	(61,515)	(62,957)
Taxes on sales	(51,726)	(53,856)	(54,419)	(56,085)
Returns	(6,518)	(6,477)	(7,096)	(6,872)
Net sales revenue	242,029	235,871	266,154	258,528
Domestic market	179,899	190,548	204,024	209,310
Foreign market	62,130	45,323	62,130	49,218

b) Gross revenue incurred in the semester:

	Parent		Consolidated	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Gross sales revenue	577,931	567,396	630,877	617,688
Deductions from gross revenue	(112,592)	(118,312)	(118,822)	(123,526)
Taxes on sales	(100,631)	(106,280)	(105,968)	(110,836)
Returns	(11,961)	(12,032)	(12,854)	(12,690)
Net sales revenue	465,339	449,084	512,055	494,162
Domestic market	351,729	366,832	398,445	404,106
Foreign market	113,610	82,252	113,610	90,056

30 Expenses by nature

Cost of sales, selling and administrative expenses for the quarter ended June 30, 2018 are broken down as follows:

a) Expenses incurred in the second quarter:

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

	Parent		Consolidated	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Cost and expenses				
Cost of sales and/or services	(155,297)	(149,025)	(156,009)	(149,831)
Selling	(60,676)	(52,086)	(73,066)	(62,407)
General and administrative	(9,824)	(8,729)	(10,043)	(8,844)
	(225,797)	(209,840)	(239,118)	(221,082)
Breakdown of expenses by nature				
Direct production costs (raw materials and inputs)	91,523	82,001	88,974	79,768
Payroll, related taxes and employee benefits	57,836	52,051	63,960	57,154
Labor and third-party services	21,743	15,892	22,176	16,342
Overhead (including maintenance)	13,059	11,725	13,059	11,725
Cost of goods resold	8,751	12,056	11,697	14,799
Amortization and depreciation	9,894	9,094	11,023	9,833
Other selling expenses	7,621	7,086	10,082	9,060
Sales commissions	6,952	6,506	7,675	6,956
Expenses on marketing and advertising	6,984	6,997	7,821	8,058
Expenses on transportation of goods sold	4,492	4,225	4,492	4,225
Expenses on rentals and operating leases	3,047	2,799	4,076	3,690
Other administrative expenses	2,333	2,081	2,423	2,136
Changes in inventories of finished products and work in process (a)	(8,438)	(2,673)	(8,340)	(2,664)
Total	225,797	209,840	239,118	221,082

(a) The variation in inventories of finished products and w ork in process corresponds to the difference betw een the cost of products manufactured and cost of products sold, remaining w ith a negative balance due to w rite-offs of cost of products sold relating to products that w ere manufactured in prior periods that contemplated the inventory account.

b) Expenses incurred in the first semester:

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

	Parent		Consolidated	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Cost and expenses				
Cost of sales and/or services	(302,648)	(287,971)	(303,639)	(289,588)
Selling	(113,115)	(99,161)	(136,891)	(119,093)
General and administrative	(18,590)	(16,839)	(19,303)	(17,119)
	(434,353)	(403,971)	(459,833)	(425,800)
Abertura das despesas por natureza				
Direct production costs (raw materials and inputs)	178,545	157,084	173,282	152,563
Payroll, related taxes and employee benefits	110,648	101,551	122,521	111,680
Labor and third-party services	36,167	30,232	36,906	30,990
Overhead (including maintenance)	23,675	22,172	23,675	22,172
Cost of goods resold	18,018	24,541	23,735	30,049
Amortization and depreciation	19,692	18,184	21,868	19,676
Other selling expenses	15,801	14,806	20,801	18,663
Sales commissions	13,045	12,785	14,487	13,709
Expenses on marketing and advertising	13,879	10,431	15,368	12,193
Expenses on transportation of goods sold	8,452	7,477	8,452	7,477
Expenses on rentals and operating leases	6,002	5,574	8,031	7,303
Other administrative expenses	4,215	3,640	4,397	3,769
Changes in inventories of finished products and work in process (a)	(13,786)	(4,506)	(13,690)	(4,444)
Parent reimbursement	-	-	-	-
Total	434,353	403,971	459,833	425,800

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

31 Other operating income and expenses, net

Other individual and consolidated operating income and expenses for the quarter ended June 30, 2018 are as follows:

a) Other income incurred in the second quarter:

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

	Controladora		Consolidado	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Other Operating Revenue				
Service Revenue	139	38	139	38
Goods sold	125	-	125	-
Reversal of Provision for Contingency (a)	-	8,735	-	8,735
IPI Premium Credit - Plaintiff (d)	149,985	-	149,985	-
Other Revenues	249	117	256	587
Total	150,498	8,890	150,505	9,360
Other Operating Expenses				
Provision for Contingencies	(21,893)	660	(21,893)	910
Tax and Other revenue	(197)	-	(197)	-
Provision for Long-Term Incentive	(360)	364	(360)	364
Provision for Profit Sharing (b)	(758)	(4,052)	(1,021)	(4,052)
Idle Cost (c)	(2,141)	(3,338)	(2,141)	(3,338)
Lost on sales of investments	(480)	-	-	-
Pre-Operating Expenses	(400)	-	-	-
Other Expenses	(270)	(242)	(1,446)	(429)
Total	(26,499)	(6,608)	(27,058)	(6,545)
Net Total	123,999	2,282	123,447	2,815

(a) Reversal of restatements of provision for contingencies related to civil and taxes proceeding

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

(c) Expenses with adequacy of production equipment in order to adjust prodution to demand in the Northeast market

(d) IPI Premium Credit - Plaintiff

b) Other income incurred in the first semester:

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

	Parent		Consolidated	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Other operating income				
Revenue from services	259	198	281	198
Goods sold	125	-	125	-
Tax credits	-	8,735	-	8,735
Reversal of Provision for Contingency (b)	-	20,247	-	20,247
IPI Premium Credit - Plaintiff (d)	149,985	-	149,985	-
Other Revenue (d)	249	229	256	727
Total	150,618	29,409	150,647	29,907
Other Operating Expenses				
Provision for Contingencies	(25,229)	(31)	(25,230)	118
Tax and Other revenue	(197)	-	(197)	-
Provision for Long-Term Incentive (note 28)	(360)	-	(360)	-
Provision for Profit Sharing (c)	(2,146)	(5,836)	(2,409)	(5,836)
Law 13.496 (PERT)	3,193	-	3,193	-
Lost on sales of investments	(480)	-	(480)	-
Idleness Cost (d)	(2,141)	(8,579)	(2,431)	(8,579)
Other Expenses	(919)	(547)	(1,343)	(834)
Total	(28,279)	(14,993)	(29,257)	(15,131)
Net Total	122,339	14,416	121,390	14,776

(a) Reversal of restatements of provision for contingencies related to civil and taxes proceeding
(b) Recognition of provision for profit sharing, to be paid to the employees after the end of the year.
(c) Expenses with adequacy of production equipment in order to adjust prodution to demand in the Northeast
(d) IPI Premium Credit - Plaintiff

32 Finance income (costs)

Individual and consolidated finance income (costs) for the quarter ended June 30, 2018 are as follows:

a) Finance income incurred in the second quarter:

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

	Parent		Consolidated	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Finance income				
Interest	754	1.942	847	2.191
Adjustment to assets	1.039	2.588	1.039	2.588
Reversal of adjustment to contingencies	-	2.939	-	2.939
Income on swap transactions	-	355	-	355
Other	-	29	-	32
Total	1.793	7.853	1.886	8.105
Finance expense				
Interest	(6.067)	(7.863)	(6.054)	(7.799)
Finance charges on taxes	(610)	(1.236)	(620)	(1.249)
Adjustment to provision for risks	(967)	(884)	(967)	(884)
Comissions and service fees	(1.034)	(1.603)	(1.226)	(1.810)
Banking expenses	(140)	(174)	(140)	(174)
Loss on swap transactions	(523)	-	(523)	-
Interest on debentures	(7.186)	(7.124)	(7.186)	(7.124)
Other	(325)	(721)	(338)	(724)
Total	(16.852)	(19.605)	(17.054)	(19.764)
Exchange differences, net				
Trade receivables and payables	14.860	3.994	14.860	3.999
Borrowings and financing	(5.089)	(2.435)	(5.089)	(2.435)
Total	9.771	1.559	9.771	1.564
Net Total	(5.288)	(10.193)	(5.397)	(10.095)

b) Finance income incurred in the first semester:

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

	Controladora		Consolidado	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Finance income				
Interest	1.495	4.861	1.808	5.244
Adjustment to assets	2.482	5.073	2.482	5.073
Reversal of adjustment to contingencies	-	6.320	-	6.320
Income on swap transactions	-	546	-	546
Other	-	74	-	84
Total	3.977	16.874	4.290	17.267
Finance expense				
Interest	(11.519)	(16.871)	(11.559)	(16.850)
Finance charges on taxes	(1.286)	(2.687)	(1.304)	(2.710)
Adjustment to provision for risks	(6.088)	(2.498)	(6.088)	(2.508)
Comissions and service fees	(2.162)	(2.872)	(2.543)	(3.298)
Banking expenses	(253)	(295)	(253)	(296)
Reversal of fine and interest on installment payment (PERT)	672	-	672	-
Loss on swap transactions	(523)	(1.677)	(523)	(1.677)
Interest on debentures	(11.694)	(15.188)	(11.694)	(15.188)
Other	(867)	(1.289)	(1.006)	(1.328)
Total	(33.720)	(43.377)	(34.298)	(43.855)
Exchange differences, net				
Trade receivables and payables	14.666	1.031	14.666	1.042
Borrowings and financing	(5.258)	6	(5.258)	6
Total	9.408	1.037	9.408	1.048
Net Total	(20.335)	(25.466)	(20.600)	(25.540)

33 Earnings (loss) per share

a) Basic

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

	Parent and Consolidated	
	June 30, 2018	June 30, 2017
Profit (loss) attributable to the Company's shareholders	103,397	41,732
Weighted average number of common shares	158,489	158,489
Basic earnings (loss) per share	0.65239	0.26331

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

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

b) Diluted

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

34 Dividends and interest on shareholders' equity

Minimum dividends for 2017, which account for 25% of the Company's profit, total R$15,232. Of these, R$9,614 (net of taxes) was paid in advance as interest on capital on August 18, 2017. The remaining amount payable as profit distribution is R$5,618. Additionally, the Annual General Meeting held on April 30, 2018 approved additional dividends in the amount of R$15,232.
Total amount payable will be R$20,850 thousand, approximately R$0.132. The payment date was May 25, 2018.

	March 31, 2018
Dividends 2017	
Minimum dividends (25% of the Company's profit)	15,232
Paid in advance (net of taxes)	(9,614)
Amount payable March 31, 2018 (a)	5,618
Additional dividends (25% of the Company's profit)	15,232
Amount payable May 25, 2018 (b)	20,850

(a) Liabilities (Dividends payable)
(b) Shareholders' equity (Additional dividend proposed)

35 Segment reporting

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

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

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

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

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

a) Segment reporting in the second quarter:

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

	As at June 30, 2018			As at June 30, 2017		
Continuing operations	Brasil	Outros Países	Total	Brasil	Outros Países	Total
Revenue	204,024	62,130	266,154	209,310	49,218	258,528
Cost of sales	(120,297)	(35,712)	(156,009)	(119,971)	(29,860)	(149,831)
Gross operating income	83,727	26,418	110,145	89,339	19,358	108,697
Operating income (expenses), net	51,268	(11,410)	39,858	(59,343)	(9,093)	(68,436)
Selling, general and administrative	(71,699)	(11,410)	(83,109)	(62,158)	(9,093)	(71,251)
Other operating income (expenses), net	122,967	-	122,967	2,815	-	2,815
Operating income before finance income (costs)	134,995	15,008	150,003	29,996	10,265	40,261
% on NOI	66%	24%	56%	14%	21%	16%

The Company has no customers that individually account for more than 10% of the net sales revenue. It exports to 78 countries, particularly Argentina and Paraguay.

36 Commitments

a) Commitments for acquisition of assets

Expenses incurred on the balance sheet date but not yet incurred relating to property, plant and equipment as at June 30, 2018 total R$7,584, corresponding to the modernization of manufacturing equipment, according to the Company's investment plan.

b) Commitments on operating leases

Operating leases refer to the acquisition of vehicles. Minimum future non-cancelable payments as at June 30, 2018 and December 31, 2017 amount to R$976 and R$965, respectively, for less than one year. Amounts total R$1,138 and R$1,058 for more than one year and less than five years, respectively.

37 Insurance coverage

Current insurance coverage is considered sufficient by Management to cover probable losses. As at June 30, 2018, coverage against fire, lightning and explosion of any nature is R$250,000, against windstorm, smoke with car crash is R$18,000, against loss of profits is R$35,000 and against electric damages, riot and civil liability is R$3,600. The insurance policy is effective from May 31, 2018 to May 31, 2019.

The Company also has civil liability insurance for Directors & Officers (D&O), taken from XL Seguradora S.A, to cover losses and damages caused to third parties related to the exercise of the duties and tasks of officers and directors, up to the amount of R$10,000, effective from August 27, 2017 to August 27, 2018.

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

38 Related entities and parties

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

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

Nature	Company	June 30, 2018	December 31, 2017
Dividends receivable	Portobello Shop S.A.	16,079	32,529
Amounts receivable	Portobello Shop S.A.	-	127
Trade receivables	Portobello América, Inc.	78,944	67,728
Trade receivables	PBTech Com. Serv. Cer. Ltda.	(3,795)	(2,771)
Advance from customers	Cia Brasileira de Cerâmica	235	-
Advance to suppliers	Mineração Portobello Ltda.	(346)	449
Net assets of payables to subsidiaries		91,117	98,062
Due from other related parties	Refinadora Catarinense S.A.	96,286	94,651
Due from other related parties	Refinadora Catarinense S.A.	(62,008)	-
Receivables net of advance	Solução Cerâmica Com. Ltda.	238	(238)
Receivables net of advance	Flooring Revest. Cer. Ltda.	(111)	(456)
Payables	Gomes Part. Societárias Ltda.	-	-
Payables	Multilog S/A	621	1,054
Payables	Flooring Revest. Cer. Ltda.	1,613	-
Payables	Neo way	-	
Net assets of payables to other related parties		36,639	95,011

		2 Quarter 2018		Accumulated	
Nature	Company	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Revenues					
Sales of products	Solução Cerâmica Com. Ltda.	5,769	5,503	10,651	11,359
Sales of products	Flooring Revest. Cer. Ltda.	3,103	2,572	5,336	4,236
Sales of products	PBTech Com. Serv. Cer. Ltda.	9,142	5,728	15,373	11,689
Sales of products	Cia Brasileira de Cerâmica	32	-	32	-
Expenses					
Purchase of products	Mineração Portobello Ltda.	(2,549)	(2,233)	(5,263)	(4,521)
Rental	Gomes Part Societárias Ltda.	(97)	(134)	(223)	(245)
Freight services	Elog Logistica Sul Ltda	(1,467)	(600)	(2,857)	(1,147)
Cutting services	Flooring Revest. Cer. Ltda.	(3,403)	-	(3,403)	-
Software services	Neoway Tecnologia	(33)	-	(33)	-
		10,497	10,836	19,613	21,371

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

Related-party transactions

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

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

Transactions with subsidiaries and related parties	Nature	2 Quarter 2018 June 30, 2018	2 Quarter 2018 December 31, 2017	Nature	2º Trimestre June 30, 2018	2º Trimestre June 30, 2017	Accumulated June 30, 2018	Accumulated June 30, 2017
	Asset			Income				
Solução Cerâmica Com. Ltda.	Trade receivables	700	380	Royalties	1,530	1,219	2,740	2,707
Flooring Revest. Cer. Ltda.	Trade receivables	505	286	Royalties	768	679	1,337	1,137
		1,205	666		2,298	1,898	4,077	3,844

<u>Key management personnel compensation</u>

Expenses on compensation paid to key management personnel, which comprise the members of the Executive Board, Board of Directors, Supervisory Board and Management, recorded in the quarter ended June 30, 2018 are as follows:

a) Expenses incurred in the second quarter:

	Parent		Consolidated	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Fixed compensation				
Salaries	3,250	2,959	3,716	3,383
Fees	1,393	1,312	1,393	1,312
Variable compensation	331	360	399	418
Short-term direct and fringe benefits				
Pension plan	196	174	202	174
Others	457	400	500	437
Other fired benefic	-	-	-	-
	5,626	5,205	6,209	5,724

b) Expenses incurred in the first semester:

	Parent		Consolidated	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Fixed compensation				
Salaries	6,530	5,860	7,408	6,657
Fees	2,711	2,637	2,711	2,637
Variable compensation	750	759	818	884
Short-term direct and fringe benefits	-		-	
Pension plan	391	352	397	352
Others	1,050	803	1,158	883
Other fired benefic	-	-	-	-
	11,431	10,411	12,491	11,413

39 Information supplemental to cash flow

During the second quarter of 2018, the following non-cash transactions were carried out:

	Parent	Consolidated
equipment in the investing activity	2,063	2,063

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

PBG S.A.

Individual and Consolidated
Interim Financial Information for the Quarter Ended June 30, 2018 and Report on Review of Interim Financial Information

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

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Shareholders and Management of
PBG S.A.
Tijucas - SC

Introduction

We have reviewed the accompanying individual and consolidated interim financial information of PBG S.A. ("Company"), included in the Interim Financial Information Form (ITR) for the quarter ended June 30, 2018, which comprises the balance sheet as at June 30, 2018 and the statements of income and of comprehensive income for the three and six-month periods then ended and the statements of changes in shareholders' equity and of cash flows for the six-month period then ended, including the explanatory notes.

Management is responsible for the preparation of the individual and consolidated interim financial information in accordance with technical pronouncement CPC 21 (R1) - Interim Financial Reporting and international standard IAS 34 - Interim Financial Reporting, issued by the International Accounting Standards Board - IASB, as well as for the presentation of such information in accordance with the standards issued by the Brazilian Securities and Exchange Commission (CVM), applicable to the preparation of Interim Financial Information (ITR). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with Brazilian and international standards on review of interim financial information (NBC TR 2410 and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with 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 interim financial information

Based on our review, nothing has come to our attention that causes us to believe that the individual and consolidated interim financial information included in the Interim Financial Information (ITR) referred to above is not prepared, in all material respects, in accordance with technical pronouncement CPC 21 (R1) and international standard IAS 34, applicable to the preparation of Interim Financial Information (ITR), and presented in accordance with the standards issued by CVM.

Other matters

Statements of added value

We have also reviewed the individual and consolidated interim statements of added value ("DVA") for the six-month period ended June 30, 2018, prepared under the responsibility of the Company's Management, the presentation of which is required by the standards issued by CVM applicable to the preparation of Interim Financial Information (ITR) and considered supplemental information by the International Financial Reporting Standards – IFRS, issued by the IASB, which do not require the presentation of DVA. These statements were subject to the same review procedures described above and, based on our review, nothing has come to our attention that causes us to believe that they are not prepared, in all material respects, in relation to the interim financial information taken as a whole.

Review of the corresponding interim financial information for the quarter ended June 30, 2017 and audit of the corresponding figures of the financial statements for the year ended December 31, 2017

The interim financial information mentioned in the first paragraph includes the corresponding financial information to the statements of income, of comprehensive income, of changes in shareholders' equity, of cash flows and of added value for the quarter ended June 30, 2017, obtained from the Interim Financial Information (ITR) for the quarter then ended, as well as to the balance sheets as at December 31, 2017, obtained from the financial statements for the year ended December 31, 2017, presented for comparison purposes. The review of the interim financial information for the quarter ended June 30, 2017 and the audit of the financial statements for the year ended December 31, 2017 were conducted under the responsibility of other independent auditors, who issued an unmodified report on review of interim financial information and an unmodified independent auditor's report, dated August 3, 2017 and February 22, 2018, respectively.

The accompanying individual and consolidated interim financial information has been translated into English for the convenience of readers outside Brazil.

Joinville, August 8, 2018

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

Jonas Dal Ponte
Engagement Partner

Opinions and Statements / Statement of Directors on the Financial Statements

Representation of the Officers about the Financial Statements and Review Report
Special Independent Auditor's Report

Pursuant to CVM Directive 480/09 (Article 28, I) and items V and VI of Article 25 of this Directive, the management of PBG S.A. represents that they have:

(i) reviewed, discussed and agree with the Company's quarterly information for the quarter ended 06.30.2018; and
(ii) reviewed, discussed and accept the opinions expressed in the DELOITTE TOUCHE TOHMATSU Independent Auditors' special review report relating to the Company's Quarterly Information for the quarter ended 06.30.2018.

Members of the Executive Board

Cesar Gomes Júnior - CEO

Cláudio Ávila da Silva – Deputy Chief Institutional Relations Officer

John Shojiro Suzuki - Deputy Chief Operations Officer

Mauro do Valle Pereira – Deputy Chief Business Officer

Tijucas, August 09, 2018.

Opinions and Statements / Directors' Statement Independent Auditor's Report

Representation of the Officers about the Financial Statements and Review Report
Special Independent Auditor's Report

Pursuant to CVM Directive 480/09 (Article 28, I) and items V and VI of Article 25 of this Directive, the management of PBG S.A. represents that they have:

(i) reviewed, discussed and agree with the Company's quarterly information for the quarter ended 06.30.2018; and
(ii) reviewed, discussed and accept the opinions expressed in the DELOITTE TOUCHE TOHMATSU Independent Auditors' special review report relating to the Company's Quarterly Information for the quarter ended 06.30.2018.

Members of the Executive Board

Cesar Gomes Júnior - CEO

Cláudio Ávila da Silva – Deputy Chief Institutional Relations Officer

John Shojiro Suzuki - Deputy Chief Operations Officer

Mauro do Valle Pereira – Deputy Chief Business Officer

Tijucas, August 09, 2018.