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Company information / Capital composition

Quantity of shares (Units)	Last fiscal year 12/31/2016
Paid-in capital	
Common (ON)	44,642,459
Preferred (PN)	13,636,110
Total	58,278,569
Treasury	
Common (ON)	0
Preferred (PN)	0
Total	0

Individual financial statements / Balance sheet – Assets

(In thousand of reais)

Code of account	Account description	Last year 12/31/2016	Penultimate year 12/31/2015	Antepenultimate year 12/31/2014
1	Assets Total	809,940	888,338	787,849
1.01	Current assets	212,008	244,727	222,402
1.01.01	Cash and cash equivalents	1,313	15,822	25,161
1.01.01.01	Cash and banks	611	15,822	14,906
1.01.01.02	Interbank funds applied	702	0	10,255
1.01.02	Interest earning bank deposits	2,552	3,495	12,347
1.01.03	Accounts receivable	45,701	71,152	50,876
1.01.03.01	Trade accounts receivable	45,701	71,152	50,876
1.01.04	Inventories	125,925	106,345	67,054
1.01.06	Recoverable taxes	7,269	16,031	9,719
1.01.06.01	Current taxes recoverable	7,269	16,031	9,719
1.01.07	Prepaid expenses	1,951	13,191	3,582
1.01.08	Other current assets	27,297	18,691	53,663
1.01.08.03	Other	27,297	18,691	53,663
1.01.08.03.01	Financial instruments	0	6,920	36,098
1.01.08.03.03	Related parties - Financial loan	8,150	81	9,814
1.01.08.03.04	Other accounts receivable	19,147	11,690	7,751
1.02	Non-current assets	597,932	643,611	565,447
1.02.01	Long term assets	31,860	86,204	117,772
1.02.01.01	Interest earning bank deposits measured at fair value	430	12,586	21,592
1.02.01.01.01	Trading securities	430	12,586	21,592
1.02.01.06	Deferred taxes	8,404	9,149	4,746
1.02.01.06.01	Deferred income and social contribution taxes	8,404	9,149	4,746
1.02.01.08	Related party credits	16,941	62,602	88,647
1.02.01.08.04	Other related party credits	16,941	62,602	88,647
1.02.01.09	Other non-current assets	6,085	1,867	2,787
1.02.01.09.01	Non-current assets held for sale	0	293	0
1.02.01.09.03	Recoverable taxes	195	0	450
1.02.01.09.04	Other	5,890	1,574	2,337

Individual financial statements / Balance sheet – Assets

(In thousand of reais)

Code of account	Account description	Last year 12/31/2016	Penultimate year 12/31/2015	Antepenultimate year 12/31/2014
1.02.02	Investments	521,752	518,257	396,214
1.02.02.01	Ownership interest	521,752	518,257	396,214
1.02.02.01.02	Interest in subsidiaries	521,562	518,067	396,024
1.02.02.01.04	Other ownership interest	190	190	190
1.02.03	Property, plant and equipment	38,398	34,338	47,731
1.02.03.01	Fixed assets in operation	29,670	26,753	44,431
1.02.03.03	Construction in progress	8,728	7,585	3,300
1.02.04	Intangible assets	5,922	4,812	3,730
1.02.04.01	Intangible assets	5,922	4,812	3,730

Individual financial statements/ Balance sheet – Liabilities

(In thousand of reais)

Code of account	Account description	Last year 12/31/2016	Penultimate year 12/31/2015	Antepenultimate year 12/31/2014
2	Total liabilities	809,940	888,338	787,849
2.01	Current liabilities	354,038	720,243	412,656
2.01.01	Social and labor obligations	14,849	19,532	14,878
2.01.01.01	Social charges	4,451	3,844	2,900
2.01.01.02	Labor obligations	10,398	15,688	11,978
2.01.02	Suppliers	125,076	119,075	40,988
2.01.02.01	Domestic suppliers	117,529	112,017	39,703
2.01.02.02	Foreign suppliers	7,547	7,058	1,285
2.01.03	Tax liabilities	16,241	1,673	3,684
2.01.03.01	Federal tax liabilities	13,669	919	2,452
2.01.03.01.01	Income and social contribution tax payable	1,943	728	1,040
2.01.03.01.02	Other taxes	11,726	191	1,412
2.01.03.02	State tax liabilities	2,531	745	1,223
2.01.03.03	Municipal tax liabilities	41	9	9
2.01.04	Loans and financing	20,799	288,058	208,920
2.01.04.01	Loans and financing	20,366	193,168	192,987
2.01.04.01.01	In domestic currency	3,638	13,537	74,147
2.01.04.01.02	In foreign currency	16,728	179,631	118,840
2.01.04.02	Debentures	433	94,890	15,933
2.01.05	Other liabilities	155,035	271,528	136,217
2.01.05.02	Other	155,035	271,528	136,217
2.01.05.02.01	Dividends and interest on own capital	3	4	6
2.01.05.02.04	Financial loan	28,835	25,120	32,609
2.01.05.02.05	Foreign exchange withdrawals	28,065	191,948	57,856
2.01.05.02.06	Derivative financial instruments	0	0	23,163
2.01.05.02.07	Advance from receivables	6,136	969	0
2.01.05.02.08	Advance from clients	65,769	39,610	8,996
2.01.05.02.09	Other liabilities	26,227	13,877	13,587
2.01.06	Provisions	22,038	20,377	7,969

Individual financial statements/ Balance sheet – Liabilities

(In thousand of reais)

Code of account	Account description	Last year 12/31/2016	Penultimate year 12/31/2015	Antepenultimate year 12/31/2014
2.01.06.01	Tax, social security, labor and civil provisions	16,916	13,314	3,902
2.01.06.01.02	Social security and labor provisions	15,776	12,589	3,685
2.01.06.01.03	Provisions to employee benefits	1,140	0	0
2.01.06.01.04	Civil provisions	0	725	217
2.01.06.02	Other provisions	5,122	7,063	4,067
2.01.06.02.01	Provision for guarantees	5,122	7,063	4,067
2.02	Non-current liabilities	627,803	228,211	323,078
2.02.01	Loans and financing	546,076	125,508	265,448
2.02.01.01	Loans and financing	478,065	92,535	155,550
2.02.01.01.01	In domestic currency	6,428	21,300	45,011
2.02.01.01.02	In foreign currency	471,637	71,235	110,539
2.02.01.02	Debentures	68,011	32,973	109,898
2.02.02	Other liabilities	79,887	99,910	56,650
2.02.02.01	Liabilities from Related parties	39,158	47,487	0
2.02.02.01.02	Debits with subsidiaries	5,250	6,290	0
2.02.02.01.04	Debts with other related parties	33,908	41,197	0
2.02.02.02	Other	40,729	52,423	56,650
2.02.02.02.03	Taxes payable	944	1,610	1,098
2.02.02.02.04	Provision for unsecured liability	36,709	46,704	51,853
2.02.02.02.05	Other liabilities	3,076	4,109	3,699
2.02.04	Provisions	1,840	2,793	980
2.02.04.01	Tax, social security, labor and civil provisions	1,840	2,793	980
2.02.04.01.02	Social security and labor provisions	1,840	2,793	980
2.03	Shareholders' equity	-171,901	-60,116	52,115
2.03.01	Realized capital	393,977	364,735	324,876
2.03.02	Capital reserves	-40,832	-29,295	-40,996
2.03.02.06	Advance for future capital increase	164	11,701	0
2.03.02.09	Capital transactions	-40,996	-40,996	-40,996
2.03.05	Retained Earnings/Losses	-668,102	-566,155	-317,290

Individual financial statements/ Balance sheet – Liabilities

(In thousand of reais)

Code of account	Account description	Last year 12/31/2016	Penultimate year 12/31/2015	Antepenultimate year 12/31/2014
2.03.06	Equity valuation adjustments	49,736	31,739	36,685
2.03.07	Accumulated translation adjustments	93,320	138,860	48,840

Individual financial statements / Statement of income

(In thousand of reais)

Code of account	Account description	Last year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015	Antepenultimate year 01/01/2014–12/31/2014
3.01	Income from sales of goods and/or services	492,256	451,801	286,626
3.02	Cost of goods and/or services sold	-447,231	-331,956	-215,782
3.03	Gross income	45,025	119,845	70,844
3.04	Operating expenses/income	-146,653	-177,620	-183,175
3.04.01	Sales expenses	-47,300	-38,820	-50,401
3.04.02	General and administrative expenses	-66,110	-49,218	-35,367
3.04.04	Other operating income	10,434	14,521	7,212
3.04.05	Other operating expenses	-11,402	-19,331	-16,193
3.04.06	Equity income (loss)	-32,275	-84,772	-88,426
3.05	Income (loss) before financial income and taxes	-101,628	-57,775	-112,331
3.06	Financial income (loss)	-654	-200,437	-81,293
3.06.01	Financial income	93,795	122,788	116,550
3.06.02	Financial expenses	-94,449	-323,225	-197,843
3.07	Income (loss) before income tax	-102,282	-258,212	-193,624
3.08	Income and social contribution taxes	-745	4,402	8,202
3.08.02	Deferred assets	-745	4,402	8,202
3.09	Net income from continued operations	-103,027	-253,810	-185,422
3.11	Income/loss for the period	-103,027	-253,810	-185,422
3.99	Earnings per share - (Reais / Shares)			
3.99.01	Basic earnings per share			
3.99.01.01	Common shares	1.76784	6.27493	-13.89200
3.99.01.02	Preferred shares	1.76784	6.27493	-13.89200
3.99.02	Diluted earnings per share			
3.99.02.01	Common shares	1.76585	6.15650	-13.89200
3.99.02.02	Preferred shares	1.76585	6.15650	-13.89200

Individual financial statements / Statement of comprehensive income

(In thousand of reais)

Code of account	Account description	Last year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015	Antepenultimate year 01/01/2014–12/31/2014
4.01	Net income for the period	-103,027	-253,805	-185,422
4.02	Other comprehensive income	-45,540	90,021	24,577
4.02.01	Translation adjustments in the period	-45,540	90,021	24,577
4.03	Comprehensive income for the period	-148,567	-163,784	-160,845

Individual financial statements / Statement of cash flows - Indirect method

(In thousand of reais)

Code of account	Account description	Last year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015	Antepenultimate year 01/01/2014–12/31/2014
6.01	Net cash from operating activities	10,416	99,606	128,542
6.01.01	Cash generated in operations	-43,053	38,546	-16,779
6.01.01.01	Net income before income and social contribution taxes	-102,282	-258,212	-193,624
6.01.01.02	Depreciation and amortization	6,891	9,655	11,152
6.01.01.03	Cost of permanent assets written-off	2,361	11,733	2,794
6.01.01.04	Allowance for Doubtful Accounts	1,441	4,484	3,333
6.01.01.05	Equity income (loss)	32,275	84,772	88,426
6.01.01.07	Provision for Derivative financial instruments	177	-16,945	16,998
6.01.01.08	Provision for interest on loans	63,292	57,087	53,237
6.01.01.09	Change in % Interest of Subsidiaries	0	66	137
6.01.01.10	Provision for inventory loss	2,288	0	0
6.01.01.11	Provision for contingencies	6,804	11,225	1,359
6.01.01.12	Provision for guarantees	-1,941	2,996	-667
6.01.01.13	Foreign exchange variation on loans and financing and other	-56,574	131,685	0
6.01.01.14	Write-off of goodwill on investment	2,215	0	0
6.01.01.15	Foreign Exchange Variation - Intangible Assets	0	0	76
6.01.02	Changes in assets and liabilities	53,469	61,060	145,321
6.01.02.01	(Increase) decrease in trade accounts receivable	25,993	-24,760	117,439
6.01.02.02	(Increase) decrease in inventories	-21,868	-39,291	13,648
6.01.02.03	(Increase) decrease in other accounts receivable	440	13,753	20,941
6.01.02.04	Increase (decrease) in suppliers	4,992	78,087	-22,499
6.01.02.05	Increase (Decrease) in accounts payable and provisions	43,912	33,271	15,792
6.02	Net cash used in investment activities	-29,854	-87,187	-113,888
6.02.01	Receivables with related companies	-28,530	-55,183	-67,532
6.02.03	In investments	0	-40,784	-9,017
6.02.04	In property, plant and equipment	-12,773	-7,126	-3,400
6.02.05	In intangible assets	-1,650	-1,952	0
6.02.06	Interest earning bank deposits	13,099	17,858	-33,939
6.03	Net cash from financing activities	4,929	-21,758	-17,367

Individual financial statements / Statement of cash flows - Indirect method

(In thousand of reais)

Code of account	Account description	Last year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015	Antepenultimate year 01/01/2014–12/31/2014
6.03.01	Payment of Interest on Own Capital and Dividends	0	-2	0
6.03.02	Loans obtained	658,452	227,934	274,818
6.03.03	Payment of loans	-602,852	-306,315	-313,021
6.03.05	Capital increase	17,541	39,859	67,079
6.03.06	Advance for future capital increase	164	11,701	0
6.03.07	Payment of interest on loans	-61,088	-36,132	-46,243
6.03.10	Debts with related companies	-7,288	41,197	0
6.05	Increase (decrease) in cash and cash equivalents	-14,509	-9,339	-2,713
6.05.01	Opening balance of cash and cash equivalents	15,822	25,161	27,874
6.05.02	Closing balance of cash and cash equivalents	1,313	15,822	25,161

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

(In thousand of reais)

Code of account	Account description	Paid-up capital	Capital reserves, Options granted and Treasury shares	Profit reserves	Retained earnings (loss)	Other comprehensive income	Shareholders' equity
5.01	Opening balances	376,436	-40,996	0	-566,155	170,599	-60,116
5.03	Adjusted opening balances	376,436	-40,996	0	-566,155	170,599	-60,116
5.04	Capital transactions with partners	17,541	164	0	0	0	17,705
5.04.01	Capital increases	17,541	0	0	0	0	17,541
5.04.08	Advance for future capital increase	0	164	0	0	0	164
5.05	Total comprehensive income	0	0	0	-101,947	-27,543	-129,490
5.05.01	Net income for the period	0	0	0	-103,027	0	-103,027
5.05.02	Other comprehensive income	0	0	0	1,080	-27,543	-26,463
5.05.02.05	Taxes on translation adjustments in the period	0	0	0	0	-45,540	-45,540
5.05.02.06	Realization of equity valuation adjustments	0	0	0	1,080	17,997	19,077
5.07	Closing balances	393,977	-40,832	0	-668,102	143,056	-171,901

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

(In thousand of reais)

Code of account	Account description	Paid-up capital	Capital reserves, Options granted and Treasury shares	Profit reserves	Retained earnings (loss)	Other comprehensive income	Shareholders' equity
5.01	Opening balances	324,876	-40,996	0	-317,290	85,524	52,114
5.03	Adjusted opening balances	324,876	-40,996	0	-317,290	85,524	52,114
5.04	Capital transactions with partners	39,859	11,701	0	0	0	51,560
5.04.01	Capital increases	39,859	0	0	0	0	39,859
5.04.08	Advance for future capital increase	0	11,701	0	0	0	11,701
5.05	Total comprehensive income	0	0	0	-248,865	85,075	-163,790
5.05.01	Net income for the period	0	0	0	-253,810	0	-253,810
5.05.02	Other comprehensive income	0	0	0	4,945	85,075	90,020
5.05.02.05	Taxes on translation adjustments in the period	0	0	0	0	90,020	90,020
5.05.02.06	Realization of equity valuation adjustments	0	0	0	4,945	-4,945	0
5.07	Closing balances	364,735	-29,295	0	-566,155	170,599	-60,116

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

(In thousand of reais)

Code of account	Account description	Paid-up capital	Capital reserves, Options granted and Treasury shares	Profit reserves	Retained earnings (loss)	Other comprehensive income	Shareholders' equity
5.01	Opening balances	257,797	-73,891	0	-99,659	61,746	145,993
5.03	Adjusted opening balances	257,797	-73,891	0	-99,659	61,746	145,993
5.04	Capital transactions with partners	67,079	32,895	0	-32,895	0	67,079
5.04.01	Capital increases	67,079	0	0	0	0	67,079
5.05	Total comprehensive income	0	0	0	-184,736	23,891	-160,845
5.05.01	Net income for the period	0	0	0	-185,422	0	-185,422
5.05.02	Other comprehensive income	0	0	0	686	23,891	24,577
5.05.02.04	Translation adjustments in the period	0	0	0	0	24,577	24,577
5.05.02.06	Realization of equity valuation adjustment	0	0	0	686	-686	0
5.06	Internal changes in shareholders' equity	0	0	0	0	-112	-112
5.07	Closing balances	324,876	-40,996	0	-317,290	85,525	52,115

Individual financial statements or Statement of added value

(In thousand of reais)

Code of account	Account description	Last year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015	Antepenultimate year 01/01/2014–12/31/2014
7.01	Income	581,403	542,713	362,759
7.01.01	Sale of goods, products and services	572,410	543,998	352,214
7.01.02	Other income	10,434	3,199	7,212
7.01.04	Formation/reversal of allowance for doubtful accounts	-1,441	-4,484	3,333
7.02	Inputs acquired from third parties	-469,947	-370,077	-278,772
7.02.01	Cost of products, merchandise and services sold	-374,005	-217,545	-101,793
7.02.02	Materials, Energy, Third-party services and other	-95,942	-152,532	-176,979
7.03	Gross added value	111,456	172,636	83,987
7.04	Retentions	-6,891	-9,655	-11,152
7.04.01	Depreciation, amortization and depletion	-6,891	-9,655	-11,152
7.05	Net added value produced	104,565	162,981	72,835
7.06	Added value received as transfer	61,520	38,017	28,124
7.06.01	Equity income (loss)	-32,275	-84,772	-88,426
7.06.02	Financial income	93,795	122,789	116,550
7.07	Total added value payable	166,085	200,998	100,959
7.08	Distribution of added value	166,085	200,998	100,959
7.08.01	Personnel	67,638	83,952	72,732
7.08.01.01	Direct remuneration	57,311	73,661	58,316
7.08.01.02	Benefits	6,477	4,405	9,111
7.08.01.03	FGTS	3,850	5,886	5,305
7.08.02	Taxes, rates and contributions	104,780	46,967	9,403
7.08.02.01	Federal	71,545	45,220	4,752
7.08.02.02	State	33,027	1,369	4,648
7.08.02.03	Municipal	208	378	3
7.08.03	Third-party capital remuneration	96,694	323,889	204,246
7.08.03.01	Interest	94,449	323,225	197,843
7.08.03.02	Rents	2,245	664	6,403
7.08.04	Remuneration of own capital	-103,027	-253,810	-185,422
7.08.04.03	Retained earnings / Loss for the period	-103,027	-253,810	-185,422

Consolidated financial statements or Balance sheet – Assets

(In thousand of reais)

Code of account	Account description	Last year 12/31/2016	Penultimate year 12/31/2015	Antepenultimate year 12/31/2014
1	Assets Total	893,057	1,022,340	979,763
1.01	Current assets	472,452	591,905	574,283
1.01.01	Cash and cash equivalents	26,708	60,312	104,536
1.01.01.01	Cash and banks	25,890	60,312	59,337
1.01.01.02	Marketable securities	818	0	45,199
1.01.02	Interest earning bank deposits	2,552	22,040	33,632
1.01.03	Accounts receivable	150,197	192,076	139,720
1.01.03.01	Trade accounts receivable	150,197	192,076	139,720
1.01.04	Inventories	244,197	221,861	200,524
1.01.06	Recoverable taxes	20,497	36,546	23,419
1.01.06.01	Current taxes recoverable	20,497	36,546	23,419
1.01.07	Prepaid expenses	5,957	19,239	11,533
1.01.08	Other current assets	22,344	39,831	60,919
1.01.08.01	Non-current assets held for sale	0	4,286	4,417
1.01.08.03	Other	22,344	35,545	56,502
1.01.08.03.01	Derivative financial instruments	0	6,920	36,106
1.01.08.03.02	Other accounts receivable	22,344	28,625	20,396
1.02	Non-current assets	420,605	430,435	405,480
1.02.01	Long term assets	57,284	63,796	66,807
1.02.01.01	Interest earning bank deposits measured at fair value	634	12,586	21,592
1.02.01.01.01	Trading securities	634	12,586	21,592
1.02.01.06	Deferred taxes	44,536	45,830	39,627
1.02.01.06.01	Deferred income and social contribution taxes	44,536	45,830	39,627
1.02.01.09	Other non-current assets	12,114	5,380	5,588
1.02.01.09.03	Recoverable taxes	707	870	1,048
1.02.01.09.04	Other	11,407	4,510	4,540
1.02.02	Investments	50,457	12,004	13,401
1.02.02.01	Ownership interest	349	12,004	13,401
1.02.02.01.01	Interest in associated companies	0	11,655	13,052

Consolidated financial statements or Balance sheet – Assets

(In thousand of reais)

Code of account	Account description	Last year 12/31/2016	Penultimate year 12/31/2015	Antepenultimate year 12/31/2014
1.02.02.01.04	Other ownership interest	349	349	349
1.02.02.02	Investment property	50,108	0	0
1.02.03	Property, plant and equipment	238,650	273,189	257,222
1.02.03.01	Fixed assets in operation	220,428	251,655	247,180
1.02.03.03	Construction in progress	18,222	21,534	10,042
1.02.04	Intangible assets	74,214	81,446	68,050
1.02.04.01	Intangible assets	74,214	81,446	68,050

Consolidated financial statements or Balance sheet – Liabilities

(In thousand of reais)

Code of account	Account description	Last year 12/31/2016	Penultimate year 12/31/2015	Antepenultimate year 12/31/2014
2	Total liabilities	893,057	1,022,340	979,763
2.01	Current liabilities	385,897	802,939	560,708
2.01.01	Social and labor obligations	34,645	33,075	25,095
2.01.01.01	Social charges	10,806	10,266	6,485
2.01.01.02	Labor obligations	23,839	22,809	18,610
2.01.02	Suppliers	128,712	81,224	36,321
2.01.02.01	Domestic suppliers	111,341	65,571	27,013
2.01.02.02	Foreign suppliers	17,371	15,653	9,308
2.01.03	Tax liabilities	39,170	26,562	17,621
2.01.03.01	Federal tax liabilities	35,097	22,564	12,326
2.01.03.01.01	Income and social contribution tax payable	20,343	19,763	9,710
2.01.03.01.02	Other taxes	14,754	2,801	2,616
2.01.03.02	State tax liabilities	4,029	3,947	5,254
2.01.03.03	Municipal tax liabilities	44	51	41
2.01.04	Loans and financing	26,989	307,546	274,798
2.01.04.01	Loans and financing	26,556	212,656	258,865
2.01.04.01.01	In domestic currency	8,746	27,118	118,740
2.01.04.01.02	In foreign currency	17,810	185,538	140,125
2.01.04.02	Debentures	433	94,890	15,933
2.01.05	Other liabilities	105,199	311,103	158,111
2.01.05.02	Other	105,199	311,103	158,111
2.01.05.02.01	Dividends and interest on own capital	3	4	6
2.01.05.02.04	Derivative financial instruments	543	956	23,898
2.01.05.02.05	Foreign exchange withdrawals	28,065	191,948	57,856
2.01.05.02.06	Advance of real estate credits	0	0	8,548
2.01.05.02.08	Advance from receivables	6,136	54,589	25,114
2.01.05.02.09	Advance from clients	26,282	16,442	10,258
2.01.05.02.10	Other liabilities	44,170	47,164	32,431
2.01.06	Provisions	51,182	43,429	48,762

Consolidated financial statements or Balance sheet – Liabilities

(In thousand of reais)

Code of account	Account description	Last year 12/31/2016	Penultimate year 12/31/2015	Antepenultimate year 12/31/2014
2.01.06.01	Tax, social security, labor and civil provisions	40,090	30,516	37,734
2.01.06.01.01	Tax provisions	318	318	0
2.01.06.01.02	Social security and labor provisions	33,235	29,262	10,253
2.01.06.01.04	Civil provisions	6,537	936	27,481
2.01.06.02	Other provisions	11,092	12,913	11,028
2.01.06.02.01	Provision for guarantees	11,092	12,913	11,028
2.02	Non-current liabilities	679,061	279,517	366,940
2.02.01	Loans and financing	641,123	232,159	341,719
2.02.01.01	Loans and financing	573,112	199,186	231,821
2.02.01.01.01	In domestic currency	15,045	39,065	83,585
2.02.01.01.02	In foreign currency	558,067	160,121	148,236
2.02.01.02	Debentures	68,011	32,973	109,898
2.02.02	Other liabilities	5,572	5,719	6,178
2.02.02.02	Other	5,572	5,719	6,178
2.02.02.02.04	Taxes payable	2,496	1,610	2,469
2.02.02.02.05	Other liabilities	3,076	4,109	3,709
2.02.03	Deferred taxes	15,190	717	9,803
2.02.03.01	Deferred income and social contribution taxes	15,190	717	9,803
2.02.04	Provisions	17,176	40,922	9,240
2.02.04.01	Tax, social security, labor and civil provisions	11,741	35,702	9,240
2.02.04.01.01	Tax provisions	6,732	6,133	5,567
2.02.04.01.02	Social security and labor provisions	2,114	3,245	1,273
2.02.04.01.04	Civil provisions	2,895	26,324	2,400
2.02.04.02	Other provisions	5,435	5,220	0
2.02.04.02.01	Provision for guarantees	5,435	5,220	0
2.03	Consolidated shareholders' equity	-171,901	-60,116	52,115
2.03.01	Realized capital	393,977	364,735	324,876
2.03.02	Capital reserves	-40,832	-29,295	-40,996
2.03.02.06	Advance for future capital increase	164	11,701	0

Consolidated financial statements or Balance sheet – Liabilities

(In thousand of reais)

Code of account	Account description	Last year 12/31/2016	Penultimate year 12/31/2015	Antepenultimate year 12/31/2014
2.03.02.09	Capital transactions	-40,996	-40,996	-40,996
2.03.05	Retained Earnings/Losses	-668,102	-566,155	-317,290
2.03.06	Equity valuation adjustments	49,736	31,739	36,685
2.03.07	Accumulated translation adjustments	93,320	138,860	48,840

Consolidated financial statements / Statement of income

(In thousand of reais)

Code of account	Account description	Last year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015	Antepenultimate year 01/01/2014–12/31/2014
3.01	Income from sales of goods and/or services	830,273	823,809	591,536
3.02	Cost of goods and/or services sold	-637,072	-581,736	-450,272
3.03	Gross income	193,201	242,073	141,264
3.04	Operating expenses/income	-291,441	-303,000	-234,124
3.04.01	Sales expenses	-130,732	-108,839	-113,750
3.04.02	General and administrative expenses	-131,981	-122,235	-78,916
3.04.04	Other operating income	14,317	17,413	11,969
3.04.05	Other operating expenses	-41,241	-87,941	-52,285
3.04.06	Equity income (loss)	-1,804	-1,398	-1,142
3.05	Income (loss) before financial income and taxes	-98,240	-60,927	-92,860
3.06	Financial income (loss)	-2,709	-218,575	-92,181
3.06.01	Financial income	101,909	140,750	129,789
3.06.02	Financial expenses	-104,618	-359,325	-221,970
3.07	Income (loss) before income tax	-100,949	-279,502	-185,041
3.08	Income and social contribution taxes	-2,078	25,692	-381
3.08.01	Current	3,980	5,889	-479
3.08.02	Deferred assets	-6,058	19,803	98
3.09	Net income (loss) of continued operations	-103,027	-253,810	-185,422
3.11	Consolidated income/loss for the period	-103,027	-253,810	-185,422
3.11.01	Attributed to the Parent company's partners	-103,027	-253,810	-185,422
3.99	Earnings per share - (Reais / Shares)			
3.99.01	Basic earnings per share			
3.99.01.01	Common shares	-1.76784	-6.27493	-13.89200
3.99.01.02	Preferred shares	-1.76784	-6.27493	-13.89200
3.99.02	Diluted earnings per share			
3.99.02.01	Common shares	-1.76585	-6.15650	-13.89200
3.99.02.02	Preferred shares	-1.76585	-6.15650	-13.89200

Consolidated financial statements or Statement of comprehensive income

(In thousand of reais)

Code of account	Account description	Last year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015	Antepenultimate year 01/01/2014–12/31/2014
4.01	Consolidated net income for the period	-103,027	-253,805	-185,422
4.02	Other comprehensive income	-45,540	90,021	24,577
4.02.01	Translation adjustments in the period	-45,540	90,021	24,577
4.03	Consolidated comprehensive income for the period	-148,567	-163,784	-160,845
4.03.01	Attributed to the Parent company's partners	-148,567	-163,784	-160,845

Consolidated financial statements / Statement of cash flows - Indirect method

(In thousand of reais)

Code of account	Account description	Last year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015	Antepenultimate year 01/01/2014–12/31/2014
6.01	Net cash from operating activities	36,276	79,189	51,513
6.01.01	Cash generated in operations	753	67,272	-8,773
6.01.01.01	Net income before income and social contribution taxes	-100,949	-279,502	-185,041
6.01.01.02	Depreciation and amortization	34,241	35,300	33,343
6.01.01.03	Cost of permanent assets written-off	18,417	17,999	3,378
6.01.01.04	Provision for impairment of assets held for sale	4,286	0	0
6.01.01.05	Equity income (loss)	1,804	1,398	1,142
6.01.01.06	Provision for Derivative financial instruments	7,941	-15,683	17,602
6.01.01.07	Allowance for doubtful accounts	4,060	3,585	5,713
6.01.01.10	Provision for interest on loans	67,669	159,831	77,201
6.01.01.12	Foreign exchange variation on loans and financing	-63,115	67,724	0
6.01.01.15	Write-off of assets held for sale	0	131	1,171
6.01.01.16	Provision for inventory loss	2,288	9,339	0
6.01.01.17	Sale of investments	2,636	0	0
6.01.01.18	Write-off of goodwill on investment	2,215	0	0
6.01.01.19	Provision for contingencies	20,867	60,045	32,688
6.01.01.20	Provision for guarantees	-1,607	7,105	4,030
6.01.02	Changes in assets and liabilities	36,484	14,527	65,693
6.01.02.01	(Increase) decrease in trade accounts receivable	39,968	-52,821	16,229
6.01.02.02	(Increase) decrease in inventories	-24,624	-30,676	17,395
6.01.02.03	Decrease (increase) in other accounts receivable	316	5,974	37,100
6.01.02.04	(Decrease) increase in suppliers	46,266	44,519	3,343
6.01.02.05	Increase (Decrease) in accounts payable and provisions	-25,442	47,531	-8,374
6.01.03	Other	-961	-2,610	-5,407
6.01.03.02	Payment of income and social contribution taxes	-961	-2,610	-5,407
6.02	Net cash used in investment activities	-12,253	-25,623	-71,185
6.02.03	In investments	5,000	0	0
6.02.04	In property, plant and equipment	-47,016	-39,717	-14,646
6.02.05	In intangible assets	-1,677	-6,504	-1,315

Consolidated financial statements / Statement of cash flows - Indirect method

(In thousand of reais)

Code of account	Account description	Last year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015	Antepenultimate year 01/01/2014–12/31/2014
6.02.06	Interest earning bank deposits	31,440	20,598	-55,224
6.03	Net cash from financing activities	-57,627	-97,790	-156,911
6.03.01	Payment of Interest on Own Capital and Dividends	0	-2	0
6.03.02	Loans obtained	721,553	379,362	283,465
6.03.03	Payments of loans	-731,815	-486,028	-450,063
6.03.05	Capital increase	17,541	39,859	67,079
6.03.06	Advance for future capital increase	164	11,701	0
6.03.10	Payment of Interest on loans	-65,070	-42,682	0
6.03.11	Real Estate Credits	0	0	-57,392
6.05	Increase (decrease) in cash and cash equivalents	-33,604	-44,224	-176,583
6.05.01	Opening balance of cash and cash equivalents	60,312	104,536	281,119
6.05.02	Closing balance of cash and cash equivalents	26,708	60,312	104,536

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

(In thousand of reais)

Code of account	Account description	Paid-up capital	Capital reserves, Options granted and Treasury shares	Profit reserves	Retained earnings (loss)	Other comprehensive income	Shareholders' equity	Interest of non-controlling shareholders	Consolidated shareholders' equity
5.01	Opening balances	376,436	-40,996	0	-566,155	170,599	-60,116	0	-60,116
5.03	Adjusted opening balances	376,436	-40,996	0	-566,155	170,599	-60,116	0	-60,116
5.04	Capital transactions with partners	17,541	164	0	0	0	17,705	0	17,705
5.04.01	Capital increases	17,541	0	0	0	0	17,541	0	17,541
5.04.08	Advance for future capital increase	0	164	0	0	0	164	0	164
5.05	Total comprehensive income	0	0	0	-101,947	-27,543	-129,490	0	-129,490
5.05.01	Net income for the period	0	0	0	-103,027	0	-103,027	0	-103,027
5.05.02	Other comprehensive income	0	0	0	1,080	-27,543	-26,463	0	-26,463
5.05.02.05	Taxes on translation adjustments in the period	0	0	0	0	-45,540	-45,540	0	-45,540
5.05.02.06	Realization of equity valuation adjustments	0	0	0	1,080	17,997	19,077	0	19,077
5.07	Closing balances	393,977	-40,832	0	-668,102	143,056	-171,901	0	-171,901

Consolidated financial statements / Statement of changes in shareholders’ equity / DMPL – From 01/01/2015 to 12/31/2015

(In thousand of reais)

Code of account	Account description	Paid-up capital	Capital reserves, Options granted and Treasury shares	Profit reserves	Retained earnings (loss)	Other comprehensive income	Shareholders' equity	Interest of non-controlling shareholders	Consolidated shareholders' equity
5.01	Opening balances	324,876	-40,996	0	-317,290	85,524	52,114	0	52,114
5.03	Adjusted opening balances	324,876	-40,996	0	-317,290	85,524	52,114	0	52,114
5.04	Capital transactions with partners	39,859	11,701	0	0	0	51,560	0	51,560
5.04.01	Capital increases	39,859	0	0	0	0	39,859	0	39,859
5.04.08	Advance for future capital increase	0	11,701	0	0	0	11,701	0	11,701
5.05	Total comprehensive income	0	0	0	-248,865	85,075	-163,790	0	-163,790
5.05.01	Net income for the period	0	0	0	-253,810	0	-253,810	0	-253,810
5.05.02	Other comprehensive income	0	0	0	4,945	85,075	90,020	0	90,020
5.05.02.04	Translation adjustments in the period	0	0	0	0	90,020	90,020	0	90,020
5.05.02.06	Realization of equity valuation adjustments	0	0	0	4,945	-4,945	0	0	0
5.07	Closing balances	364,735	-29,295	0	-566,155	170,599	-60,116	0	-60,116

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

(In thousand of reais)

Code of account	Account description	Paid-up capital	Capital reserves, Options granted and Treasury shares	Profit reserves	Retained earnings (loss)	Other comprehensive income	Shareholders' equity	Interest of non-controlling shareholders	Consolidated shareholders' equity
5.01	Opening balances	257,797	-73,891	0	-99,659	61,746	145,993	0	145,993
5.03	Adjusted opening balances	257,797	-73,891	0	-99,659	61,746	145,993	0	145,993
5.04	Capital transactions with partners	67,079	32,895	0	-32,895	0	67,079	0	67,079
5.04.01	Capital increases	67,079	0	0	0	0	67,079	0	67,079
5.05	Total comprehensive income	0	0	0	-184,736	23,891	-160,845	0	-160,845
5.05.01	Net income for the period	0	0	0	-185,422	0	-185,422	0	-185,422
5.05.02	Other comprehensive income	0	0	0	686	23,891	24,577	0	24,577
5.05.02.04	Translation adjustments in the period	0	0	0	0	24,577	24,577	0	24,577
5.05.02.06	Realization of equity valuation adjustment	0	0	0	686	-686	0	0	0
5.06	Internal changes in shareholders' equity	0	0	0	0	-112	-112	0	-112
5.07	Closing balances	324,876	-40,996	0	-317,290	85,525	52,115	0	52,115

Consolidated financial statements or Statement of added value

(In thousand of reais)

Code of account	Account description	Last year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015	Antepenultimate year 01/01/2014–12/31/2014
7.01	Income	993,110	979,683	734,663
7.01.01	Sale of goods, products and services	982,853	978,185	717,042
7.01.02	Other income	14,317	5,083	11,908
7.01.04	Formation/reversal of allowance for doubtful accounts	-4,060	-3,585	5,713
7.02	Inputs acquired from third parties	-653,847	-657,703	-588,871
7.02.01	Cost of products, merchandise and services sold	-398,236	-410,954	-327,064
7.02.02	Materials, Energy, Third-party services and other	-255,611	-246,749	-261,807
7.03	Gross added value	339,263	321,980	145,792
7.04	Retentions	-34,241	-35,300	-33,343
7.04.01	Depreciation, amortization and depletion	-34,241	-35,300	-33,343
7.05	Net added value produced	305,022	286,680	112,449
7.06	Added value received as transfer	100,105	139,352	128,647
7.06.01	Equity income (loss)	-1,804	-1,398	-1,142
7.06.02	Financial income	101,909	140,750	129,789
7.07	Total added value payable	405,127	426,032	241,096
7.08	Distribution of added value	405,127	426,032	241,096
7.08.01	Personnel	174,220	204,984	152,969
7.08.01.01	Direct remuneration	142,452	181,206	125,895
7.08.01.02	Benefits	22,189	13,969	18,356
7.08.01.03	FGTS	9,579	9,809	8,718
7.08.02	Taxes, rates and contributions	220,800	114,474	43,076
7.08.02.01	Federal	175,714	105,384	22,525
7.08.02.02	State	44,734	8,257	20,456
7.08.02.03	Municipal	352	833	95
7.08.03	Third-party capital remuneration	113,134	360,384	230,473
7.08.03.01	Interest	104,618	359,325	221,970
7.08.03.02	Rents	8,516	1,059	8,140
7.08.03.03	Other	0	0	363
7.08.04	Remuneration of own capital	-103,027	-253,810	-185,422

Consolidated financial statements or Statement of added value

(In thousand of reais)

Code of account	Account description	Last year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015	Antepenultimate year 01/01/2014–12/31/2014
7.08.04.03	Retained earnings / Loss for the period	-103,027	-253,810	-185,422

Management report

MANAGEMENT REPORT 2016

MESSAGE FROM THE BOARD

Dear shareholders,

The year 2016 was characterized by the change, overcoming of challenges and emergence of a new Company. In 2016, the foundations that will sustain new TAURUS, a Company with solid and efficient processes, were established. We transferred the operations from Porto Alegre to São Leopoldo, unifying the whole production of firearms into a single industrial plant. We restructured the whole production process, allowing an increase of the production level, gains of synergy and improvement of the quality of products.

The new integrated plant in São Leopoldo allowed an increase of around 20% in the average daily production in 2016, compared to the Porto Alegre plant in 2015, which represented a record performance of the Company's exports in the year. To obtain this result, the implementation of the ERP SAP operating system was fundamental, integrating production processes, controls of inventories and financial, tax and accounting management. The process of implementation of this system, as usual in the implementation of any ERP system of this magnitude, was very difficult and required a lot of dedication and attention of the entire team. Presently, we are certain that we have structured a company with the highest technological levels in terms of integration, processes and controls that will provide important gains and synergies in the coming years.

The attitude of respect to environment is also a highlight of the new plant in São Leopoldo. Taurus had invested around R$ 10 million in projects of reduction of environmental impacts in 2016. It is important to highlight the new Station of Treatment of Water and Industrial Effluents, with capacity to treat 388 m^3 effluents per day and reuse of 20% of the water consumed, and the new Center of Waste and Supplies of Chemicals, with built area of 2,300 m^2, the project was prepared to comply with the standards of management of waste and products controlled by the Army and Federal Police. With these projects, Taurus became a reference in respect to the environment in the region.

In regard to the market, the demand for the Company's products continues high, particularly in the USA, principal destination of exports. Despite the increase of the production capacity in 2016, the volume produced in that year was not sufficient to cover all the demand from that country. Another highlight in 2016 is the sale of Taurus Submachine guns, gauge 9 mm, to the government of Bosnia and Herzegovina. This sale marks, for the first time in the history of the Company, the acquisition of a significant lot of Taurus products by an European government, a highly-competitive region where the major global players of firearms are located, which attests the quality and reliability of the Company's products worldwide. For 2017, the portfolio of requests in the USA

Management report

continues booming, in addition, the market outlook is also positive for exports to other countries and to the local market.

Investments in innovation and development of new products were also significant in 2016, culminating with the launching of 4 new products at Shot Show 2017, in Las Vegas (USA), the largest fair of firearms of the world. Taurus presented, to the Brazilian market, its new platform of pistols, which has 12 models in the versions TAURUS STRIKER (TS) and TAURUS HAMMER (TH), besides the new line of rifles T4-Series. For the American market, it was presented TAURUS SPECTRUM, the first Taurus pistol developed and produced entirely in the USA. For this new model, Taurus reviewed the concept of how the gun interacts with the user, with strong ergonomic concern, and brought sophisticated design and colors to the product, combining style and functionality and, also, opening a new market in the firearms industry in the USA among the new practitioners and seasonal shooters. These new firearms, which follow the strictest protocols of test of resistance and safety, will make Taurus' portfolio even more complete and prepared to cover the most different needs of our clients.

The Company's consolidated net revenue, in 2016, was R$ 830.3 million, a slight growth of 0.8% compared to 2015, result shadowed by the strategy, mainly in the first months of the year, of working with a mix of products with more competitive prices and higher inventory turnover, besides the priority of covering the American market, so as to support the cash management for the period, which was a constant challenge in 2016. In addition, the Helmets segment was also very challenging in 2016. Due to the weak performance of the economy, aligned with high unemployment rates and retraction of sales of motorcycles, this segment presented a 10% retraction of its sales.

In financial aspects, the Company concluded, in December 2016, the process of rescheduling of debts, with respective disbursements. Accordingly, US$ 150.7 million debts with short-term maturity were transferred to long-term maturity, extension already reflected in the financial statements for the year ended December 31, 2016. The total term for rescheduling is 5 years, with 2 years of grace period for initial payment of principal, which provides an important support to the Company's cash management. The conclusion of this Operation represents an important step in the process of restructuring of Taurus, creating new conditions for the Company to overcome its cash management challenge of focusing on the development and operating strengthening. With respect to cash, it is worth emphasizing that the strengthening of capital, between 2016 and the beginning of 2017, contributed by the Company's investors in the amount of R$ 28.0 million through the exercise of subscription bonus issued in the context of the capital increase homologated at Special Shareholders' Meeting held on September 29, 2015. This cash contribution enhances reliance and credibility in the direction defined to the Company.

Management report

Year 2016 also required efforts concerning the Company's image, which was disproportionately exposed in the media by groups that seek to undermine the industrial base of the Brazilian defense, producing negative impact on the entire national defense strategy. These groups disseminated, on irresponsible manner, unlikely information, creating insecurity to hundreds of thousands of users of Taurus products. The Company is internationally known by the quality and safety of its products, and received several awards of this nature along its history. Recently, the Company was object of strict evaluation by the Brazilian Army, which confirmed the compliance with all the technical requirements of quality, allowing the Company to export to more than 80 countries.

Thus, 2016 was the year of restructuring and 2017 will be the year of stabilization of all changes and developments that have occurred. Taurus begins the year 2017 totally renewed and updated in operating, financial, management and product terms. Crowning this new Company that emerges, at the beginning of 2017, the new visual identity of Taurus, which reflects the Company's evolution while it emphasizes its history to attain its current position, among the largest manufacturers of firearms worldwide. The Bull, symbol that represents the Company, continues present, its image, now looking ahead, symbolizes strength, safety and virility and has direct connection with work, soundness and prosperity.

The change was great in 2016 and we are confident that all the effort is being driven to the right path and that 2017 will be a year of important results to the Company. We are building a new business and management model, highly efficient, with differentials of quality, respect, solidity and trust. Finally, we thank the support of our clients, suppliers, financial institutions, employees, shareholders and the market in general that were decisive in the past year. We will continue to progress!

The Management

Management report

Taurus profile

Forjas Taurus S.A. ("Company") is one of the largest manufacturers of small firearms in the world. Headquartered in São Leopoldo/RS, a Brazilian publicly-held company for more than 30 years, and since 2011, ranked Level 2 in Corporate Governance of BM&FBOVESPA (trading codes are symbols are **FJTA3, FJTA4).**

Founded in 1939, the Company started-up its operations as forging company, having started to produce revolvers in the 1940s. In the 1980s, its presence was consolidated in the US, with the creation of *Taurus International Manufacturing Inc*. (TIMI), in Miami, Florida. Meanwhile, Taurus started to produce and sell helmets for motorcycle riders, rapidly assuming the leadership in this market, which it holds up to these days.

Nowadays, the Company operates in the segments of Firearms and Accessories, Helmets and Accessories, Containers and Plastics, and M.I.M. (Metal Injection Molding), having four industrial plants, three of them in Brazil and one in Miami, in USA. The Brazilian units are located in Rio Grande do Sul, Paraná and Bahia.

In Brazil, Taurus is accredited as EED – Strategic Defense Company – and, accordingly, is able to provide products to the Armed Forces of Brazil. Abroad, besides distributing products of the TAURUS and ROSSI trademarks produced in Brazil, the unit manufactures models of TAURUS pistols and HERITAGE revolvers.

With exports to over 70 countries and more than 3,000 employees, Taurus has already received dozens of awards recognizing its high quality and innovation standard, like *"Handgun of the Year"*, considered one of the most important in the US Arm Industry.

In 2014, Companhia Brasileira de Cartuchos (CBC) started to hold interests in the capital of Taurus becoming its new controlling shareholder. So the Company started to have a strategic partner increasing efforts in its operational, administrative and financial restructuring, relying in its potential for growth and value creation.

Management report

Management Discussion and Analysis (MD&A)

1. Considerations on financial statements

- **Standards and criteria adopted in the preparation of information**

The consolidated financial statements of the Company were prepared according to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), implemented in Brazil by means of the Accounting Pronouncements Committee (CPC) and its technical interpretations (ICPC) and guidance (OCPC), approved by the Brazilian Securities and Exchange Commission (CVM). The amounts included in this report are presented in millions of reais (R$), unless otherwise indicated, and, therefore, may be rounded.

The following companies were considered direct and indirect subsidiaries totaling an ownership interest of 100% for consolidation purposes: Taurus Blindagens Ltda. (BR); Taurus Blindagens Nordeste Ltda. (BR); *Taurus Holdings, Inc.* (USA); *T. Investments Co, Inc.* (PA); Taurus Máquinas-Ferramenta Ltda. (BR); Taurus Investimentos Imobiliários Ltda. (BR); Polimetal Metalurgia e Plásticos Ltda. (BR) and Taurus Plásticos Ltda. (BR).

Management report

2. Subsequent events

2.1 – Capital increase

The Company's Board of Directors, at meeting held on January 31, 2017, approved the capital increase in the amount of R$ 10,511,814.52 (ten million, five hundred and eleven thousand, eight hundred fourteen reais and fifty-two cents), upon issuance of 6,409,643 (six million, four hundred and nine thousand, six hundred and forty-three) new shares, of which 1,802,855 (one million, eight hundred and two thousand, eight hundred and fifty-five) common shares and 4,606,788 (four million, six hundred and six thousand, seven hundred and eighty-eight) preferred shares, all at issue price of R$1.64 (one real and sixty-four cents) per share, as result of the exercise of 1,802,855 (one million, eight hundred and two thousand, eight hundred and fifty-five) subscription bonus class 1 and 4,606,788 (four million, six hundred and six thousand, seven hundred and eighty-eight) subscription bonus class 2, all issued in the context of the capital increase of the Company approved on September 29, 2015.

In view of such capital increase, the Company's new capital amounted to R$ 404,488,840.61 (four hundred four million, four hundred eighty-eight thousand, eight hundred forty and sixty-one centavos), represented by 64,688,212 (sixty-four million, six hundred eight-eight thousand and two hundred twelve) shares, of which 46,445,314 (forty-six million, four hundred forty-five thousand and three hundred fourteen) are common shares and 18,242,898 (eighteen million, two hundred forty-two thousand and eight hundred ninety-eight) are preferred shares, all nominative, book-entry and with no par value.
The new common and preferred shares shall entitle to full dividends that may be declared and all other rights and benefits conferred to the other holders of common and preferred shares issued by the Company, on equal conditions.

The Company also informs that the Subscription bonus issued in the context of the capital increase homologated at Special Shareholders' Meeting held on September 29, 2015 had their maturity on 01.30.2017. Accordingly, the 8,618 subscription bonus class 1 and 55,628 subscription bonus class 2 issued and not exercised were canceled.

Management report

2.2 Operation with Related Party

On February 24, 2017, the Company's Board of Directors approved the signing of the private instrument of temporary transfer of license of operation and manufacturing processes ("agreement") for the manufacturing of certain models of long firearms with COMPANHIA BRASILEIRA DE CARTUCHOS ("CBC"), Related Party of the Company. The agreement will be effective for thirty-six (36) months and, besides the production of certain long firearms of the Company's portfolio, it also provides for the lease of machines and equipment for manufacturing of long weapons owned by the Company. The conditions were established based on certain market conditions, according to the standards and procedures set forth in the Policy of Related Party Transactions of the Company.

The main purposes of the agreement are: (I) to increase the efficiency of the operation of long firearms considering lower production costs of the CBC plant in Montenegro-RS, compared to costs incurred by the Company, observing that this segment had already been operating with negative operating margins in the last two years; (II) to allow the Company to focus its efforts on the production of guns, pistols and tactical firearms, representing most of its production and better operating margins; (III) to allow the Company to cover the global demand for long firearms, considering the increased manufacturing installed capacity of CBC; and, consequently, (iv) the optimization of distribution of these firearms to several markets.

According to the conditions established in the agreement, the sale of these long firearms will continue to be made by Taurus, being realized only the temporary transfer of license of operation and manufacturing processes.

Considering that the manufacturing, use, traffic and trade of firearms object of this agreement are controlled activities (art. 9 of Decree No. 3665/2000 - "R-105"), the signing of the agreement depends on authorization and regularization by the Brazilian Army. In case of failure to obtain the required authorizations, the agreement will be canceled, and the original condition of the operation will be returned to the parties, free of charge related to indemnity or reimbursement.

The manufacturer of the firearms will be fully responsible for the technical assistance and warranty of the products, as provided for in the agreement. Also, CBC may only produce and/or trade the long firearms object of the agreement during the effectiveness of it, being forbidden the maintenance of operation of such firearms after the termination of the agreement.

Management report

3. Economic and financial performance - consolidated

In the following table the consolidated financial and economic performance for 2016 is shown, compared to the performances for 2015 and 2014.

Consolidated Financial and Economic Summary

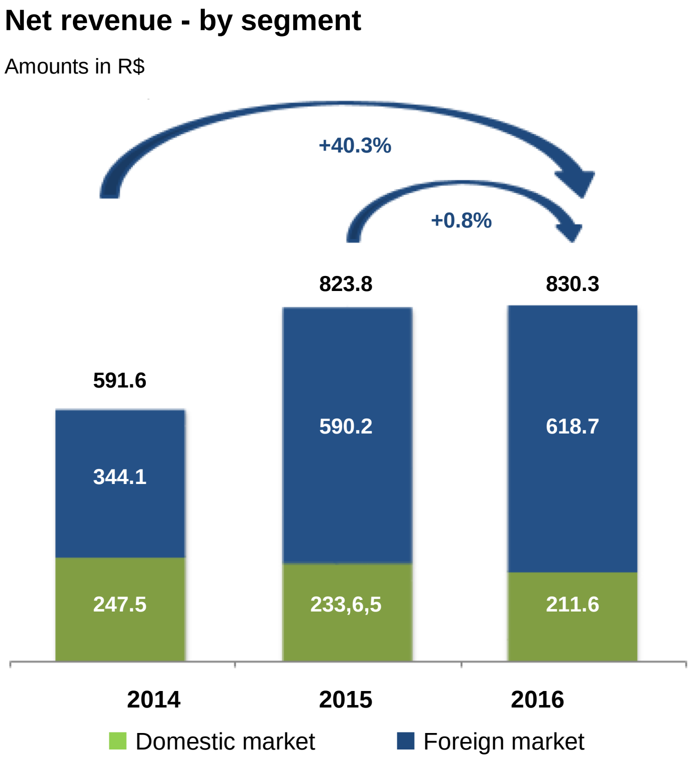
In millions of R$

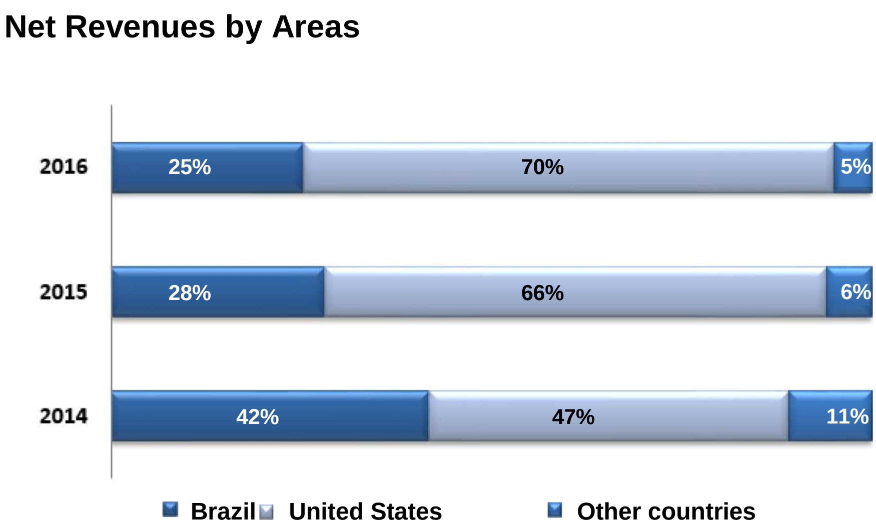
Indicators	2016	2015	2014	Changes	
				2016/2015	2016/2014
Net revenue	**830.3**	**823.8**	**591.6**	**0.8%**	**40.3%**
Domestic market	211.6	233.6	247.5	-9.4%	-14.5%
Foreign market	618.7	590.2	344.1	4.8%	79.8%
CPV	637.1	581.7	450.3	9.5%	41.5%
Gross income	193.2	242.1	141.3	-20.2%	36.8%
Gross margin - %	**23.3%**	**29.4%**	**23.9%**	**-6.1 p.p.**	**-0.6 p.p.**
Operating expenses - SG&A	-291.4	-303.0	-234.1	-3.8%	24.5%
Operating income (EBIT)	-98.2	-60.9	-92.9	61.2%	5.8%
EBIT Margin %	**-11.8%**	**-7.4%**	**-15.7%**	**-4.4 p.p.**	**3.9 p.p.**
Net financial income (loss)	-2.7	-218.6	-92.2	-98.8%	-97.1%
Depreciation and amortization	34.3	35.3	33.3	-2.8%	2.9%
Consolidated income / loss	-103.0	-253.8	-185.4	-59.4%	-44.4%
Consolidated Net Margin - %	**-12.4%**	**-30.8%**	**-31.3%**	**18.4 p.p.**	**18.9 p.p.**
EBITDA	-63.9	-25.7	-59.5	148.6%	7.4%
EBITDA Margin – %	**-7.7%**	**-3.1%**	**-10.1%**	**-4.6 p.p.**	**2.4 p.p.**
Total assets	893.7	1,022.3	979.8	-12.6%	-8.8%
(Shareholders' equity)	-171.9	-60.1	52.1	185.9%	-429.8%
Investments (Capex)	48.7	46.2	16.0	189.6%	63.6%

Net revenue

In 2016, the consolidated net revenue recorded R$830.3 million, increase of 0.8% compared to 2015. This growth is important considering, particularly, the challenges faced by the Company in 2016: (i) the lower production of firearms in the first semester of the year, derived from the process of stabilization of the new plant in São Leopoldo, which integrated the operations of Porto Alegre, (ii) the priority to cover the American market, mainly in the first months of the year, favoring the cash cycle, which was a constant challenge in 2016, and (iii) the unfavorable internal economic scenario, which adversely affected the Helmets segment during the year.

Management report





Exports grew 4.8% in 2016 in relation to 2015, reaching R$ 618.7 million. The USA, main market of exports, recorded sales up by 6.2% on the previous year, so that the US market share in consolidated net revenue grew from 66% in 2016 to 70% in 2016. Sales to other countries totaled R$ 37.1 million in the accumulated results of 2016, 12.5% down the accumulated results for 2015, generating a decrease in shares of sales to other countries from 6% in 2015 to 5% in 2016.

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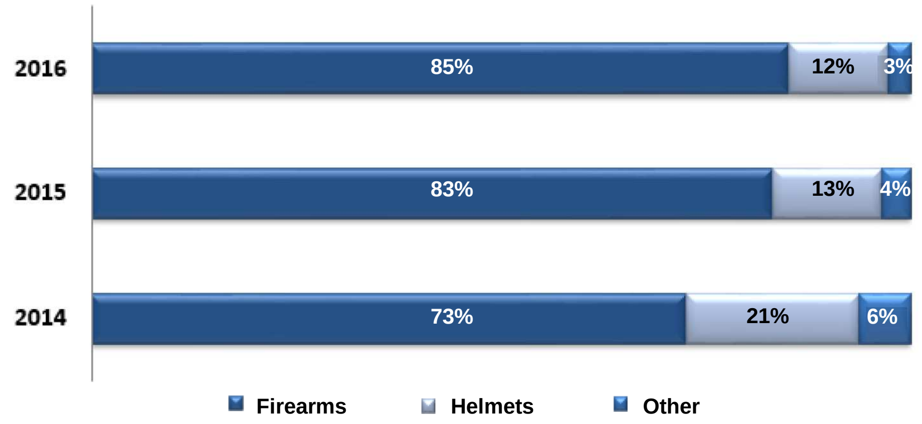
In the Brazilian market, net revenue recorded R$ 211.6 million in 2016, a retraction of 9.4% compared to 2015, mainly affected by the retraction of the Helmets segment due to the adverse internal economic scenario. Accordingly, the share of the Brazilian market in net revenue fell from 28% in 2015 to 25% in 2016.

NET REVENUE In millions of R$	2016	2015	2014	Variation 2016/2015	Variation 2016/2014
TOTAL	**330.3**	**823.8**	**591.6**	**0.8%**	**40.4%**
Brazil	**211.6**	**233.6**	**247.5**	**-9.4%**	**-14.5%**
Exports	**618.7**	**590.2**	**344.1**	**4.8%**	**79.8%**
United States	581.6	547.8	279.1	6.2%	108.4%
Other countries	37.1	42.4	55.0	-12.5%	-42.9%

Net revenue by segment



In the chart above the breakdown by business segment of the Company's consolidated net revenue is shown. The firearm segment continues to grow its share, from 83% in 2015 to 85% in 2016. The helmet activity decreased its share from 13% to 12% over the same period. The "others" segment also recorded a reduction in the market share, from 4% in 2015 to 3% in 2016.

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Information per business segment

In the following table the consolidated financial highlights are shown by segment:

RESULTS BY BUSINESS SEGMENT

In thousands of reais

Net revenue

	2016	2015	2014	2016 X 2015	2016 X 2014
Firearms	707.3	684.4	430.0	3.3%	64.5%
Helmets	100.5	110.5	124.5	-9.0%	-19.3%
Other	22.5	28.9	37.1	-22.1%	-39.3%
Total	**830.3**	**823.8**	**591.5**	0.8%	40.3%

Gross margin

	2016	2015	2014	2016 X 2015	2016 X 2014
Firearms	20.9%	29.4%	21.5%	-8.5 p.p.	-0.6 p.p.
Helmets	30.0%	30.1%	32.5%	-0.1 p.p.	-2.5 p.p.
Other	66.2%	27.3%	22.7%	38.9 p.p.	43.5 p.p.
Total	**23.3%**	**29.4%**	**23.9%**	**-6.1 p.p.**	**-0.6 p.p.**

I. Firearms

This segment includes handguns (revolvers and guns used for public security, private, restricted military and civil use), long guns (rifles, carbines and shotguns), and submachine guns. Forjas Taurus S.A. in Sao Leopoldo/RS and *Taurus Holdings, Inc.* in the US carry out operations in this segment.

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NET REVENUE In millions of R$	2016	2015	2014	Variation 2016/2015	Variation 2016/2014
Firearms	**707.3**	**684.4**	**430.0**	**3.3%**	**64.5%**
Brazil	**93.1**	**100.0**	**90.3**	**-6.9%**	**3.1%**
Exports	**614.2**	**584.4**	**339.7**	**5.1%**	**80.8%**
United States	577.1	542.5	275.0	6.4%	109.9%
Other countries	37.1	41.9	64.7	-11.5%	-42.7%

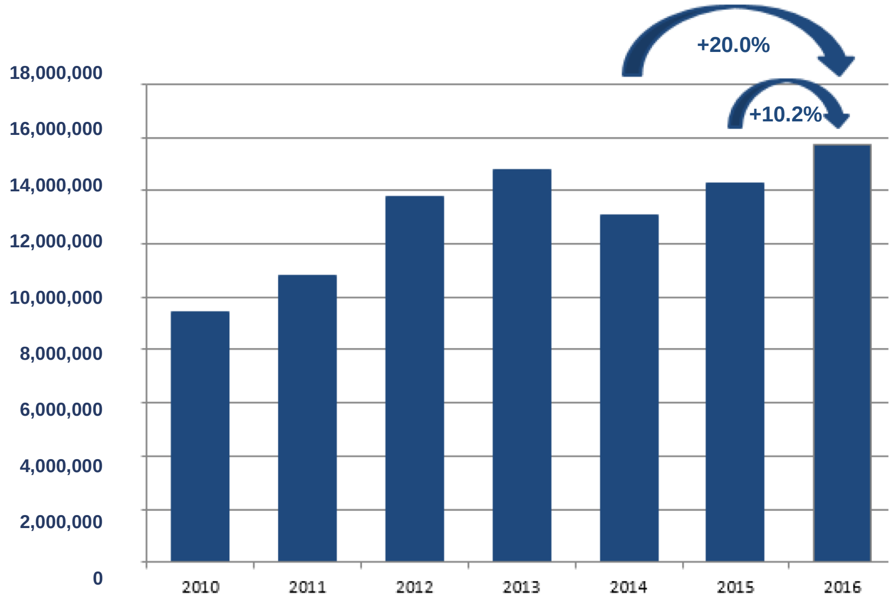
Sales in the domestic market, in 2016, amounted to R$ 93.1 million, a decrease of 6.9% compared to 2015. This decrease resulted from the Company’s strategy, mainly in the first months of the year, giving priority to the American market due to lower payment terms, giving preference to cash generation, which was a constant challenge in the whole year 2016. The same reason affected sales to other countries totaling R$ 37.1 million in 2016, a retraction of 11.5% against the accumulated for 2015.

Sales of firearms in the USA, in 2016, amounted to R$ 577.1 million, 6.4% higher than in 2015. Despite the priority to cover this market, the sales growth was limited because, in the strategy to endeavor efforts to support cash, it was also given priority to the production of firearms of higher turnover, which, consequently, have more competitive prices. It is worth mentioning that the Company’s demand for products continues high in this market, which may be observed in the analysis of the NICS index (National Instant Background Check System*),* which allows to determine intentions of purchases of firearms in the USA. There is a growth of 10.2% in this index in 2016 compared to 2015, above the Company’s sales growth in that country in the period.

Management report

NICS - ***National Instant Background Check System***

Number of inquiries



In the year, the gross margin in 2016 attained 20.9%, 8.5p.p. lower than in 2015, result derived from the priority to cover the American market, which is more competitive. That is, the Company's strategy, mainly in the first months of 2016, was to concentrate its efforts on cash support. This strategy was adopted because the challenges of transfer of operations from Porto Alegre to São Leopoldo, the process of stabilization of the new plant and the new production process and implementation of the new ERP SAP system which required great cash effort by the Company.

II. Helmets

The segment of helmets is the second largest in the company, with the production units Taurus Blindagens Ltda., in Mandirituba/PR, and Taurus Blindagens Nordeste Ltda., in Simoes Filho/BA, with most of the production of these units destined for the domestic market.

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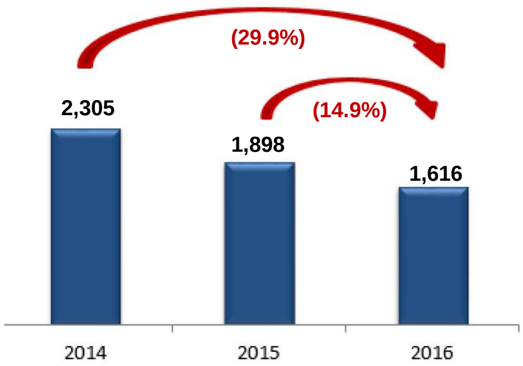
NET REVENUE In millions of R$	2016	2015	2014	Variation 2016/2015	Variation 2016/2014
Helmets	**100.5**	**110.5**	**124.5**	**-9.1%**	**-19.3%**
Brazil	100.5	110.0	124.2	-8.6%	-19.1%
Exports	-	0.5	0.3	-	-

Net revenue from helmets in 2016 was R$ 100.5 million, 9.1% lower than the result of the previous year of R$ 110.5 million. The Helmets market continued to face a challenging moment, due to the adverse period of the Brazilian economy in 2016.

The chart below shows the physical sales of motorcycles (an important metric for the market), which, in 2016, accumulated a decrease by 21.6%, against 2015, while, Company's physical sales of helmets dropped 14.9% in the same period.

Physical Sales of Taurus Helmets

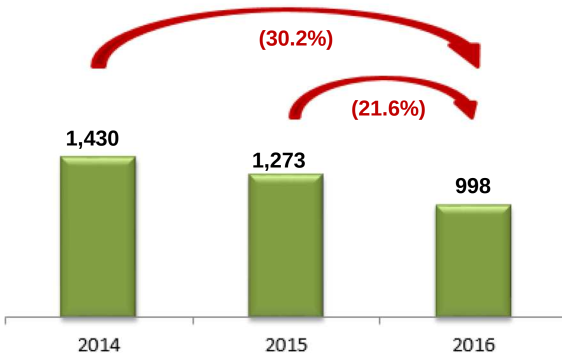
(Amount in thousands)



Source: Company's information

Physical Sales of Motorcycles in Brazil

(Amount in thousands)



Source: Fenabrave

Despite the challenging market scenario, in 2016, the gross margin of helmets was 30.0%, virtually stable compared to 2015.

Management report

III. Other products

In addition to firearms and helmets, Taurus also operates in other industrial segments, such as the manufacture of plastic containers, motorcycle trunks, and metal-injection molded (MIM) parts At the unit, Polimetal Metallurgy and Plastics Ltda., in São Leopoldo/RS, MIM parts are made and other products are produced at the Parana unit - Taurus Blindagens.

NET REVENUE In millions of R$	2016	2015	2014	Variation 2016/2015	Variation 2016/2014
Other	**22.5**	**29.0**	**37.1**	**-22.4%**	**-39.4%**
Brazil	18.0	23.6	33.0	-23.7%	-45.5%
Exports	4.5	5.3	4.1	-15.1%	9.8%

In 2016, revenue from this segment reached R$ 22.5 million, 22.4% lower than the R$ 29.0 million recorded in 2015. This change is also related to the challenging economic internal scenario and also related to the government's budget deficit, which decreased the number of bids in
2016.

Operating expenses

In 2016, operating expenses totaled R$ 291.4 million, 3.8% lower compared to the same period of 2015. The ratio operating expenses /net revenue in 2016 was 35.1%, 1.7 p.p. lower than in 2015.

OPERATING EXPENSES (SG&A)

In millions of R$

	2016	2015	2014	2016x2015	2016x2014
Operating expenses	291.4	303.0	234.1	-3.8%	24.5%
Net revenue	830.3	823.8	591.6	0.8%	40.3%
% Operating expenses	35.1%	36.8%	39.6%	-1.7 p.p.	-4.5 p.p.

Management report

EBITDA

EBITDA recorded negative balance of R$ 63.9 million in 2016, result derived from the Company’s restructuring process, including challenges of transfer of operations from Porto Alegre to São Leopoldo, the stabilization of the new plant and new production process and the implementation of the new ERP SAP system.

The breakdown of Company’s EBITDA is as follows:

CONSOLIDATED EBITDA

In millions of R$

	2016	2015	2014	2016x2015	2016x2014
= Loss for the year	(103.0)	(253.9)	(185.4)	-59.4%	-44.4%
(+) IR/CSLL	2.1	(25.7)	0.4	-	425.0%
(+) Net financial income.	*2.7*	218.6	92.2	-98.8%	-97.1%
(+) Depreciation/amortization	34.3	35.3	33.3	-2.8%	3.0%
= EBITDA CVM Inst. 527/12	**(63.9)**	**(25.7)**	**(59.5)**	**148.6%**	**7.4%**

Financial income (loss)

The 16.5% devaluation of the US dollar closing rate produced a positive recording of R$ 92.7 million in the line of Foreign exchange variations in 2016, and a negative net financial result of R$ 2.7 million, against a negative result of R$ 219.7 million in 2015. Presented below are the company's detailed financial statements

FINANCIAL INCOME (LOSS)

In millions of R$

	2016	2015	2014	2016x2015	2016x2014
Interest	(75.9)	(66.5)	(49.9)	14.1%	52.1%
Exchange variation	92.7	(162.8)	(39.6)	-	-
Swap on financial operations	(8.6)	14.0	(3.4)	-	152.9%
Other income / expenses	(10.9)	(4.4)	(2.6)	147.7%	319.2%
Net financial income (loss)	**(2.7)**	**(219.7)**	**(95.5)**	**-98.8%**	**-97.2%**

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Income (loss) Consolidated

The Company recorded a loss of R$ 103.0 million in 2016, against a loss of R$ 253.8 million in 2015. The 2016 result reflects the challenge and effort in the Company's restructuring process concerning the integration of the firearms' production plant in São Leopoldo, the stabilization of the new production method and the implementation of the new ERP SAP system.

4. Financial position

In 2016, the Company's debt rescheduling process with its principal creditors was concluded. The terms of the Operation include the extension of the maturity term of debts of US$ 150.7 million. The transaction's term is of five years with a two-year grace period to begin principal payments.

Below is the new breakdown of Taurus' indebtedness, on 12.31.2016, which was already duly recorded in the financial statements of 2016.

INDEBTEDNESS

In millions of R$

INDEBTEDNESS		Dec 2016 (A)	Dec 2015 (B)	Dec 2014 (C)	A x B	A x C
Short term	Loans and financing	26.6	212.7	258.9	-87,5%	-89.7%
	Debentures	0.4	94.9	15.9	-99.6%	-97.5%
	Advance from receivables	6.1	54.6	33.7	-88.8%	-81.9%
	Foreign exchange withdrawals	28.1	191.9	57.9	-85.4%	-51.5%
	Financial instruments	0.5	-6.0	-12.2	-108.3%	-104.1%
	TOTAL SHORT-TERM	**61.7**	**548.1**	**354.2**	**-88.7%**	**-82.6%**
Long term	Loans and financing	573.1	199.2	231.8	187.7%	147.2%
	Debentures	68.0	33.0	109.9	106.1%	-38.1%
	TOTAL LONG-TERM	**641.1**	**232.2**	**341.7**	**176.1%**	**87.6%**
TOTAL DEBT		**702.8**	**780.3**	**695.9**	**-9.9%**	**1.0%**
Cash and cash equivalents and financial investments		29.9	94.9	159.8	-68.5%	-81.3%
Net indebtedness		**672.9**	**685.4**	**536.1**	**-1.8%**	**25.5%**

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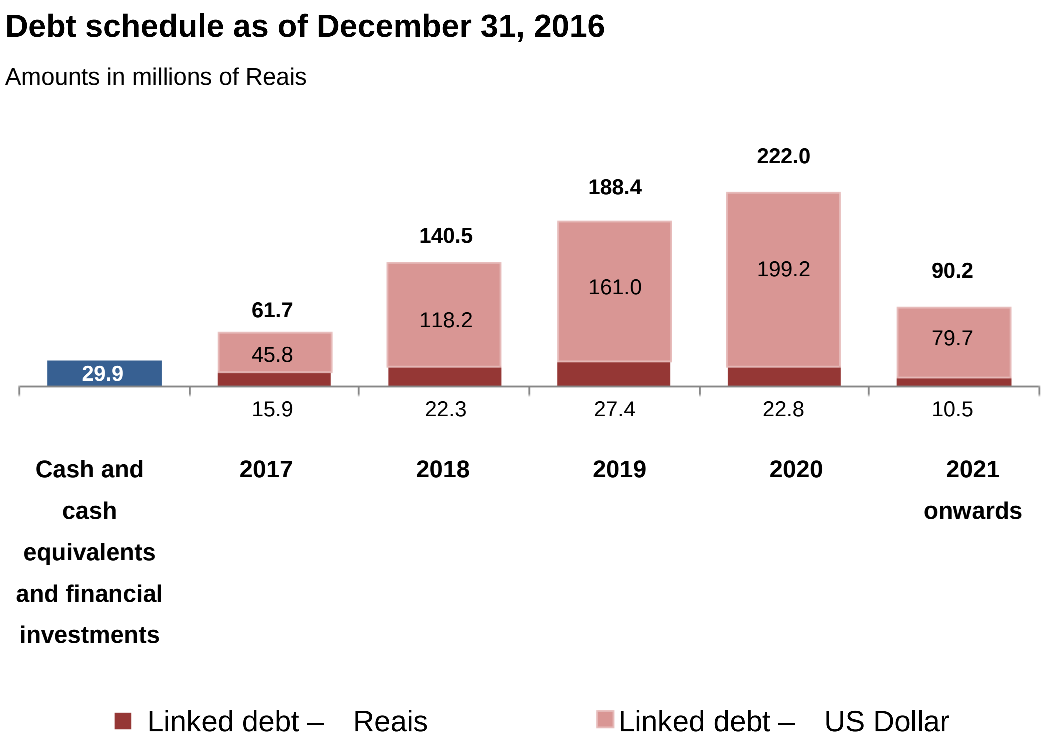
On Dec/16, the Company's gross indebtedness was R$ 702.8 million, 9.9% below the R$ 780.3 million recorded in Dec/2015. Cash and cash equivalents and financial investments amounted to R$ 29.9 million in Dec/16, 68.5% lower than R$ 94.9 million of Dec/15. Accordingly, the Company's net indebtedness fell 1.8% in Dec/16 compared to Dec/15, recording R$ 672.9 million.

With respect to debt rescheduling:

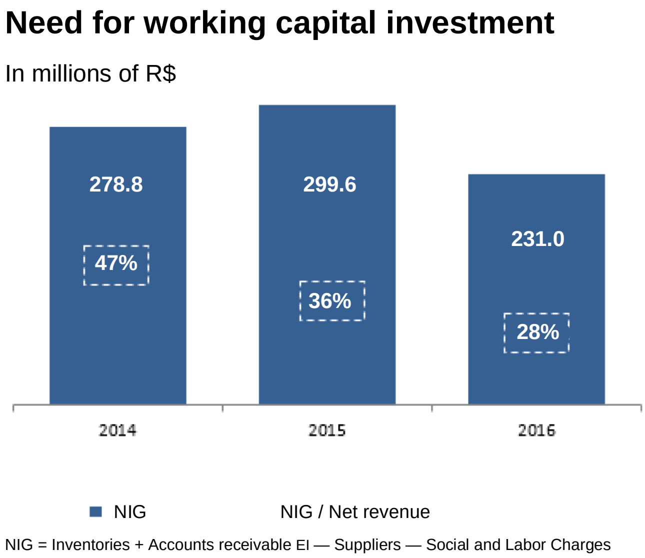
- Around R$ 520 million of short-term debts migrated to long-term.
- Part of the debt denominated in Reais is now linked to US dollars, accordingly, the debt denominated in foreign currency increased from around 70% to, approximately, 86%;
- The third issue of debentures was included in the debt rescheduling, where 50% now comprises the line of long-term Loans and Financings, and the remaining 50% continue as debentures.

Below is the debt maturity schedule at the end of December 2016:



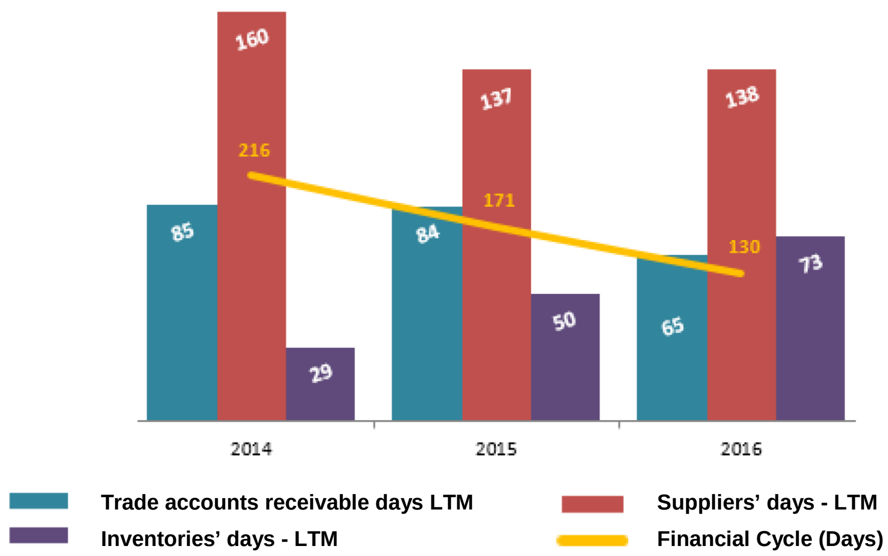
5. Working Capital

In 2016, the Need for working capital investment was R$ 231.0 million, a 22.9% decrease over the prior year. When related to net revenue, NIG was 28% in 2016, an 8-percentage point decrease against the 36% recorded in 2014.



The Company's financial cycle was reduced by 41 days in 2016 compared to 2015. This result was due to the reduction of the average term of clients, in view of the priority to cover the American market, and, also, the increase of the term of suppliers. It is worth to recall that the Company’s cash position caused delays in trade payables in 2016, resulting in an extension of average terms, without however leading to increased operating terms. Normalizing payments will have the effect of reducing this working capital benefit in future years.

Trade accounts receivable, Inventories and Suppliers' days



6. Cash flow

In 2016, the Company had an operating cash flow of R$ 36.3 million, a decrease of 54.1% compared to operating cash flow in 2015. Disbursement from investment activities were R$ 13.1 million in 2016, mainly impacted by costs of work and investments made in the migration of headquarters to São Leopoldo and in the deployment of new ERP SAP system. Finally, financing activities were also responsible for the use of cash in 2016, amounting to R$ 57.6 million, less than the R$ 97.6 million used in 2015.

Therefore, Company's the cash and cash equivalents decreased by R$ 34.4 million in 2016 compared to a reduction of R$ 44.1 million in 2015, with the closing balance at R$ 26.0 million in 2016, 57.0% lower than the balance of 2015.

The following table shows details of the company's cash flow.

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CASH FLOW – CONSOLIDATED In millions of R$	**2016**	**2015**	**2014**	**2016 X 2015**	**2016 X 2014**
Cash at the beginning of the period	**60.4**	**104.5**	**281.1**	**-42.2%**	**-78.5%**
Cash generated by operating activities	**36.3**	**79.1**	**51.5**	**-54.1%**	**-29.5%**
Loss before income and social contribution taxes on net income	(100.9)	(279.5)	(185.0)	-63.9%	-45,5%
Depreciation and amortization	34.2	35.3	33.3	-3.1%	2.7%
Cost of permanent assets written-off	18.4	18.0	3.4	2.2%	441.2%
Equity income (loss)	1.8	1.4	1.1	28.6%	63.6%
Provisions for financial charges	75.6	73.1	94.8	3.4%	-20.3%
Provisions for contingencies	(21.3)	60.0	32.7	-	-
Allowance for doubtful accounts	4.1	3.6	5.7	13.9%	-28.1%
Allowance for inventory losses	2.3	9.3	-	-75.3%	-
Provision for guarantees	(1.6)	7.1	4.0	-	-
Foreign exchange variation over financial charges	(76.3)	138.8	-	-	-
Changes in assets and liabilities	92.7	14.5	65.7	539.3%	41.1%
Payment of IRPJ (Corporate Income Tax) and CSLL (Social contribution tax)	2.4	(2.6)	(5.4)		
Other	4.9	0.1	1.2	4800.0%	308.3%
Investment activities	**(13.1)**	**(25.6)**	**(71.1)**	**-48.8%**	**-81.6%**
In property, plant and equipment	(47.0)	(39.7)	(14.6)	18.4%	221.9%
In intangible assets	(1.7)	(6.5)	(1.3)	-73.8%	30.8%
Sale of investment (Famastil)	5.0	-	-	-	-
Interest earning bank deposits	30.6	20.6	(55.2)	48.5%	
Financing activities	**(57.6)**	**(97.6)**	**(157.0)**	**-41.0%**	**-63.3%**
Loans obtained	721.6	379.4	283.5	90.2%	154.5%
Payments of loans	(731.8)	(485.0)	(450.1)	50.6%	62.6%
Payment of Interest on loans	(65.1)	(42.6)	(57.5)	52.8%	13.2%
Capital increase	17.5	39.9	67.1	-56.1%	-73.9%
Other	0.2	11.7	-	-98.3%	-
Cash generation	**(34.4)**	**(44.1)**	**(176.6)**	**-22.0%**	**-80.5%**
Cash at the End of the Period	**26.0**	**60.4**	**104.5**	**-57.0%**	**-75.1%**

7. Capital market and corporate governance

Forjas Taurus S.A. is a publicly-held Brazilian company, and has listed on the BM&FBOVESPA for more than 30 years, and since July/2011 has been ranked Level 2 in Corporate Governance. In 2016, there were 3 capital increases that totaled R$ 29,241,726.44, which were approved in the

Management report

Board of Directors' Meeting dated 01/06/2016, 06/02/2016 and 06/27/2016. As of December 31, 2016, the Company's capital was 393,977,026.09 (three hundred ninety-three million, nine hundred seventy-seven thousand seven and twenty-six and nine centavos), represented by 58,278,569 (fifty-seven million two hundred seventy-eight thousand five hundred sixty-nine) shares and 44,642,459 (forty-four million, six hundred forty-two thousand and four hundred fifty-nine common shares and 13,636,110 (thirteen million, six hundred thirty-six thousand and one hundred ten) preferred shares, all nominative, book-entry and with no par value.

Below shows the evolution of share value and the market value of Taurus. In 2016, Company's preferred shares appreciated by 59.3% as compared to 2015. As for common shares, they depreciated by 4.7% over the same period. The market value of the Company, accordingly, recorded increase of 57.9% in 2016 compared to 2015.

PERFORMANCE OF SHARES AND MARKET VALUE

							Variation	
Share quotation **Closure**		**2016**		**2015**		**2014**	**2016x2015**	**2016x2014**
ON - FJTA3	R$	1.61	R$	1.69	R$	0.76	-4.7%	111.8%
Preferred shares - FJTA4	R$	1.80	R$	1.13	R$	0.47	59.3%	283.0%
IBO VESPA	R$	60,227	R$	43,350	R$	50,007	38.9%	20.4%

Market value **In millions of R$**		**2016**		**2015**		**2014**	**2016x2015**	**2016x2014**
ON - FJTAJ	R$	71.9	R$	46.4	R$	70.6	55.0%	1.8%
Preferred shares - FJTA4	R$	24.5	R$	14.7	R$	39.8	67.1%	-38.4%
TOTAL	R$	96.4	R$	61.1	R$	110.4	57.9%	-12.7%

8. Estimates (Guidance)

In 2014 and 2015, the Company chose not to provide estimates of income and EBITDA, considering that it was a moment of transition. In line with previous decisions, the Management once again decided not to provide earnings estimates for 2017 until it has stabilized production levels, processes and consolidated management tools that allow greater precision in the disclosure of guidance.

Management report

9. Outlook

In 2017, for the firearms' segment, it is expected the maintenance of the demand from the American market, principal market of the Company. As the new plant in São Leopoldo and the new production process gain major stability and soundness, it will be possible to operate with a higher production level so as to increase the coverage of the portfolio of requests from the USA. Also, a higher production will allow to structure a better market mix, increasing the coverage of other countries as well as the own domestic market.

In the domestic market, although economic projections for 2017 indicate controlled inflation and lower interest rates, the outlook of growth of economy is still very hesitant and the governments still tend to work with cash limitations, which should maintain governmental purchases of firearms limited. This economic scenario also forecast a very challenging year for the Helmets segment. Accordingly, 2017 will be a period of search for major internal efficiency for this segment in order to strengthen it and resume growth in the future.

In financial aspects, the conclusion of the debt rescheduling and the outlook of production increase, aligned with lower demand for investments, means that we have already overcome the most intense phase of the corporate restructuring and we shall have a better performance of cash generation this year. This is a very important scenario, which will provide the compliance with commitments with our creditors, suppliers and shareholders, which were essential partners in 2016.

Finally, management stresses its reliance on the path taken and on the direction traced for the Company in 2017. This new year begins under a new model of operation and management, extremely modern and efficient, which will support the Company's growth in the coming years on highly competitive manner.

Porto Alegre, March 24, 2017.

Management report

BOARD OF DIRECTORS

Jorio Dauster Magalhães e Silva

President of the Board of Directors

Fábio Mazzaro

Vice-President of the Board of Directors

Fernando José Soares Estima

Thiago Piovesan

Sérgio Laurimar Fioravanti

FISCAL COUNCIL

Haroldo Zago

Amoreti Franco Gibbon

Mauro César Medeiros de Mello

Juliano Puchalski Teixeira

Rafael de Souza Morsch

STATUTORY BOARD

Marco Aurélio Salvany - CEO

Salésio Nuhs - Executive Vice-President of Sales and Marketing

Thiago Piovesan - CFO & IRO

Notes to the financial statements

1. Operations

Forjas Taurus S.A. ("Company") is one of the largest manufacturers of small firearms in the world. Headquartered in São Leopoldo/RS, a Brazilian publicly-held company for more than 30 years, and since 2011, ranked Level 2 in Corporate Governance of BM&FBOVESPA (trading symbols are FJTA3, FJTA4).

The Company operates in segments of Firearms and Accessories, Helmets and Accessories, Containers and Plastics, and Metal Injection Molding (MIM) (Metal Injection Molding), having four industrial plants, three of them in Brazil, located in Rio Grande do Sul, in Paraná and Bahia, one in Miami, in USA.

In Brazil, sales are directed to state, federal, civil and military police, in addition to the civilian market. Taurus is an accredited Strategic Defense Company and is permitted to supply products to the Brazilian armed forces.

Abroad, besides distributing products of the TAURUS and ROSSI trademarks produced in Brazil, the Miami unit manufactures models of TAURUS pistols and HERITAGE revolvers. Exports to the US mainly serve the civil market and government agencies in other regions.

Going concern

In 2016, the operation was transferred from Porto Alegre to São Leopoldo, unifying the whole production of firearms into a single industrial plant. The production process was totally remodeled, from a handmade production model to a production line model with higher synergy, increase of production level and improvement of the quality of products. For this result, it was also essential the implementation of the ERP SAP operating system, integrating production processes, controls of inventories and financial, tax and accounting management.

With respect to market, the demand for the Company's products continues high, particularly in the USA, principal destination of exports.
The Company's consolidated net revenue, in 2016, was R$ 830.3 million, a slight growth of 0.8% compared to 2015, result shadowed by the strategy, mainly in the first months of the year, of working with a mix of products with more competitive prices and higher inventory turnover, besides the priority of covering the American market, so as to support the cash management for the period, which was a constant challenge in 2016. In addition, the Helmets segment was also very challenging in 2016. Due to the weak performance of the economy, aligned with high unemployment rates and retraction of sales of motorcycles, this segment presented a 10% retraction of its sales.

In financial aspects, the Company concluded, in December 2016, the process of rescheduling of debts, with respective disbursements. Accordingly, US$ 150.7 million debts with short-term maturity were settled and the new credit facilities begin to be amortized in the long term, as reflected in these financial statements. The total term of the new loan agreements is 5 years, with 2 years of grace period for initial payment of principal, which is important for the Company's cash management in the coming years.

Notes to the financial statements

Notes to the financial statements

2. Presentation of financial statements

2.1. Preparation basis

The individual and consolidated financial statements were prepared based on the historical cost, except for non-derivative financial instruments measured at fair value through profit or loss.

a) Statement of conformity

The individual and consolidated financial statements of the company were drawn up and presented in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and also in accordance with accounting practices adopted in Brazil (BR GAAP), considering Pronouncements, guidelines and interpretations issued by the Accounting Pronouncement Committee (CPC), approved by the Securities Commission (CVM) and the provisions of Corporation Law.

b) Statement of the Board of Directors

The Company management states it has utilized all of the relevant information for its financial statements and correspond to those of its management.
The issue of individual and consolidated financial statements was authorized by the Board of Directors on March 23, 2017.

2.2. Basis of consolidation

		Ownership interest	
	Country	**12/31/2016**	**12/31/2015**
Taurus Blindagens Ltda.*	Brazil	**100.00%**	**100.00%**
Taurus Blindagens Nordeste Ltda.*	Brazil	**100.00%**	**100.00%**
Taurus Holdings, Inc.	United States	**100.00%**	**100.00%**
Taurus Security Ltda.	Brazil	**-**	**100.00%**
Taurus Máquinas-Ferramenta Ltda.	Brazil	**100.00%**	**100.00%**
Taurus Investimentos Imobiliários Ltda.	Brazil	**100.00%**	**100.00%**
Famastil Taurus Ferramentas S.A.	Brazil	**-**	**35.00%**
Polimetal Metalurgia e Plásticos Ltda. *	Brazil	**100.00%**	**100.00%**
T. Investments Co. Inc.***	Panama	**100.00%**	**100.00%**
Taurus Plásticos Ltda.****	Brazil	**100.00%**	**-**

(*) Presented interest represents the percentage directly and indirectly held by the Company in the capital of subsidiaries.
(**) Non-consolidated. On June 02, 2016, the ownership interest in Famastil Taurus Ferramentas S.A. was sold.
(***) On 04/24/2015, T.Investments Co. Inc., was established in Panama, with the aim of managing the international investments of Forjas Taurus S.A.. Forjas Taurus S.A. holds 100% of the capital of T. Investments Co. Inc.
(***) On January 5, 2016 a partial spin-off by Taurus Blindagens Ltda. resulted in Taurus Plásticos Ltda.

Notes to the financial statements

The process of consolidating the balance sheets and the result follows, by their nature, complemented by the elimination of the following:

- Shares of the parent company in capital, reserves and retained earnings of the consolidated companies;
- Balances of asset and liability accounts maintained between the consolidated companies;
- Balances of income and expenses from consolidated intercompany transactions; and
- Unrealized gains originating from transactions with investees recorded under the equity method in the proportion of the Company's interest in the investee. Unrealized losses in the same way as unrealized gains, but only up to the point where there is no evidence of loss due to impairment.

2.3. Functional and presentation currency

The individual and consolidated financial statements are being presented in Brazilian Real, functional and presentation currency of the Company and its subsidiaries headquartered in Brazil. The functional currency of the subsidiary Taurus Holdings, Inc., headquartered in the US, and controlled T. Investments Co. Inc., headquartered in Panama is the US dollar and its assets and liabilities are converted into Reais, marked at the exchange rate on date of the balance sheet, their results are converted to the monthly average exchange rate. Exchange differences arising from the translation process of foreign subsidiaries are reported in other comprehensive income, and presented as shareholders' equity.

Transactions in foreign currency are translated into the functional currency of the Company at the current exchange rates on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the exchange rate at that date. All differences are reported in the income statement.

3. Significant accounting judgments and sources of uncertainties about estimates

When applying the accounting practices, Management must make judgments and prepare estimates on book values of assets, liabilities, expenses and revenues that are not easily obtained from other sources. Estimates and respective assumptions are based on historic experience and on other factors that are considered relevant. The actual results of these book values may differ from these estimates.

Information regarding critical judgments referring to the accounting policies adopted which impact the amounts recognized in the individual and consolidated financial statements and information on uncertainties, assumptions and estimates are included in the following notes: 10 - Inventories (Provision for inventory loss), 13 - Income and social contribution taxes, 14 - Investment Property, 16 - Property, plant and equipment (Impairment), 17 - Intangible assets (Impairment), 23 - Provision for civil, labor and tax risks and 24 - Financial instruments.

(i) ***Measurement of fair value***

A series of Company's accounting policies and disclosures requires the measurement of fair value, for financial and non-financial assets and liabilities.

Notes to the financial statements

The Company established controls related to the measurement at fair value which includes the regular evaluation of significant non-observable data and evaluation adjustments

When measuring fair value of an asset or liability, the Company uses observable data as much as possible. Fair values are classified at different levels according to hierarchy based on information (inputs) used in valuation techniques, as follows:

Level 1: Prices quoted (not adjusted) in active markets for identical assets and liabilities.

Level 2: Inputs, except for quoted prices, included in Level 1 which are observable for assets or liabilities, directly (prices) or indirectly (derived from prices).

Level 3: Inputs, for assets or liabilities, which are not based on observable market data (non-observable inputs).

4. Significant accounting policies

The accounting practices adopted by the Company are described in the specific notes related to the presented items; those applicable, in general, for different aspects of the financial statements, are presented in this section.

Accounting practices for transactions considered immaterial were not included in the financial statements. The accounting policies have also been consistently applied by Company's investees.

a) Financial instruments

(i) *Non-derivative financial assets*

The Company has the following non-derivative financial assets: cash, cash equivalents, investments, trade accounts receivable and other accounts receivable.

These assets are classified as loans and receivables.

Loans and receivables are initially recognized at fair value plus any transaction costs directly assignable. After their initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method, adjusted at any impairment losses.

(ii) *Non-derivative financial liabilities*

The Company has the following non-derivative financial liabilities: loans, financing, nonconvertible debentures, bank overdraft protection, suppliers, and other accounts payable. Such liabilities are initially recognized at fair value plus any transaction costs directly assignable. After initial recognition, they are measured at amortized cost using the effective interest method.

Notes to the financial statements

(iii) *Derivative financial instruments*

The Company keeps financial hedge derivatives to hedge its exposures to foreign currency and interest rate changes.

Derivatives are initially recognized at their fair value, and the attributable transaction costs are recognized in profit or loss when incurred. After the initial recognition, derivatives are measured at fair value on each balance sheet date, and changes are recorded in fair value are recorded in income (loss).

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

(iv) *Impairment*

The Company and its subsidiaries assess at the balance sheet dates, whether there is any evidence that determines that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is considered impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (known as a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets and can be reliably estimated.

b) Statements of added value

The statement of added value is not required by IFRS and is presented in supplementary form in compliance with Brazilian corporate law. Its purpose is to disclose the wealth generated by the Company during the year, and well demonstrating how it was distributed among the various agents.

c) New standards, interpretations and non-standard revisions

Several new standards or amendments to standards and interpretations will become effective for the years started after January 1, 2017. The Group did not adopt these amendments when preparing these financial statements. The Group does not plan to adopt these standards in advance.

IFRS 15 Income from Contracts with Clients

IFRS 15 introduces a comprehensive framework for determining whether and when income is recognized, and how income is measured. IFRS 15 replaces current income recognition standards, including CPC 30 (IAS 18) Income, CPC 17 (IAS 11) Construction Contracts, and CPC 30 Interpretation A (IFRIC 13) Client Loyalty Programs.

IFRS 15 becomes effective for annual periods starting on or after January 1, 2018. Early adoption is permitted only for financial statements in accordance with IFRS.

(ii) ***Sale of products***

For product sales, income is currently recognized when the goods are delivered to the client's location, considered as the time when the client accepts the goods and the risks and benefits related to ownership are transferred. Income is recognized at this time, provided that the income and costs can be measured reliably, receipt of consideration is probable, and there is no continuous involvement of Management with the products.

According to IFRS 15, income must be recognized when the client obtains control of the products. If a reasonable estimate of potential return of goods cannot be made, when allowed, income recognition is deferred until the return period expires or until a reasonable estimate of the returns can be made.

According to IFRS 15, income from these agreements will be recognized to the extent it is probable that a significant reversal in the value of accumulated income will not occur. Consequently, for agreements in which the Company is unable to make a reasonable estimate of the returns, income is expected to be recognized prior to the expiry of the period of return or before it is possible to make a reasonable estimate. A reimbursement liability and a recovery asset will be recognized for these agreements and they will be presented separately in the balance sheet.

(iii) ***Transition***

The Company will adopt IFRS 15 in its financial statements for the year ended December 31, 2018 and intends to use the retrospective approach. As a result, the Company will apply all the requirements of IFRS 15 to each comparative period presented, adjusting its financial statements previously reported.

The Company plans to use practical expedients for completed contracts. This means that completed contracts that started and ended in the same comparative reporting period, as well as those that are completed contracts at the beginning of the oldest period reported, will not be re-reported.

The Company is currently conducting a detailed evaluation of the impact resulting from the adoption of IFRS 15 and expects to disclose additional quantitative information prior to the adoption of the standard.

IFRS 9 Financial Instruments

IFRS 9 replaces guidelines of IAS 39 (CPC 38) Financial Instruments: Recognition and measurement. IFRS 9 includes new models for the classification and measurement of financial instruments and measurement of expected credit losses for financial and contractual assets, and new requirements on hedge accounting. The new standard maintains the IAS 39 guidelines about acknowledging and disacknowledging financial instruments.

IFRS 9 will become effective for annual periods starting on or after January 1, 2018, with early adoption allowed only to financial statements, pursuant to IFRSs.

The effective impact of the adoption of IFRS 9 on the Company's financial statements in 2018 cannot be estimated with confidence, as it will depend on the financial instruments held by the Company and the economic conditions in 2018, as well as accounting decisions and judgment calls that the Company will make in the future. The new standard will require the Company to review its accounting procedures and internal controls related to the classification and measurement of financial instruments, and these changes are not yet finalized. The Company is currently conducting a detailed evaluation of the impact resulting from the adoption of IFRS 15 and expects to disclose additional quantitative information prior to the adoption of the standard.

Notes to the financial statements

(i) ***Classification - Financial assets***

IFRS 9 contains a new approach to financial asset classification and measurement that reflects the business model in which the assets are managed and their cash flow characteristics.

IFRS 9 contains three main classification categories for financial assets: measured at amortized cost, at fair value through other comprehensive income (FVTOCI) and at fair value through profit or loss (FVTPL). The standard eliminates the categories existing in IAS 39 of held-to-maturity, loans and receivables, and available for sale.

In accordance with IFRS 9, derivatives embedded in agreements where the host is a financial asset in the scope of the standard are never separated. In turn, the hybrid financial instrument as a whole is evaluated for classification.

(ii) ***Impairment - Financial and contractual assets***

IFRS 9 replaces the “incurred losses” model of CPC 38 (IAS 39) with a prospective “expected credit losses” model. This will require a relevant judgment as to how changes in economic factors affect the expected credit losses, which will be determined based on weighted probabilities.

The new model of expected losses will be applied to financial assets measured at amortized cost or VFTOCI, with the exception of investments in equity instruments and contractual assets.

According to IFRS 9, the provisions for expected losses will be measured on one of the following bases:

Expected credit losses for 12 months, i.e., credit losses that result from potential delinquency events within 12 months after the reporting date;
and
Lifetime expected credit losses, i.e., credit losses that result from all possible delinquency events over the expected life of a financial instrument.

The measurement of lifetime expected credit losses applies if the credit risk of a financial asset at the reporting date has increased significantly since its initial recognition, and the 12-month credit loss measurement applies if the risk has not increased significantly since its initial recognition. An entity may determine that the credit risk of a financial asset has not increased significantly if the asset has low credit risk on the reporting date. However, the measurement of lifetime expected credit losses always applies to trade accounts receivable and contractual assets without a significant financing component; an entity may opt to apply this policy also to trade accounts receivable and contractual assets with a significant financing component.

Notes to the financial statements

The Company believes that impairment losses should increase and become more volatile for assets under the model of IFRS 9. The Company has not yet finalized the methodology for impairment that it will apply under IFRS 9.

(iii) ***Classification - Financial assets***

IFRS 9 retains a large part of the requirements of IAS 39 for the classification of financial liabilities.

However, according to IAS 39, all changes in fair value of the liabilities designated as FVTPL are recognized in Income, whereas, according to IFRS 9, these changes in fair value are generally reported as follows:

The amount of the change in fair value that is attributable to changes in the credit risk of the financial liability is presented in OCI; and

The remaining amount of the change in fair value is presented in income (loss).

(iv) ***Hedge accounting***

In the initial application of IFRS 9, the Company may choose, as the accounting policy, to continue to apply the hedge accounting requirements of IAS 39 instead of the new requirements of IFRS 9. The Company is assessing the adoption of the requirements of IFRS 9.

IFRS 9 will require the Company to assure that hedge accounting relationships are aligned with the Company's risk management objectives and strategies, and that the Company applies a more qualitative and forward-looking approach to assessing the effectiveness of the hedge. IFRS 9 also introduces new requirements for rebalancing hedging relationships and prohibits the voluntary discontinuation of hedge accounting. According to the new model, it is likely that more risk management strategies, particularly those of a hedge of a risk component (other than foreign currency risk) of a non-financial item, may qualify for hedge accounting. Currently, the Company does not hedge such risk components.

The Company uses forward foreign exchange contracts to hedge the variability of cash flows arising from changes in foreign exchange rates relating to loans, receivables, sales and purchases of inventories in foreign currency.

The Company designates only changes in the fair value of the spot element of forward foreign exchange contracts as a hedge instrument, in cash flow hedge relationships. According to IAS 39, changes in the fair value of the future element of forward foreign exchange contracts are recognized immediately in income (loss).

Notes to the financial statements

With the adoption of IFRS 9, the Company may opt to account for changes in the fair value of the future element separately, as a hedge cost. In such a case, such changes would be recognized in OCI and accumulated in a hedge cost reserve as a separate component within shareholders' equity, and subsequently accounted for in the same way as the accumulated gains and losses in the cash flow hedge reserve.

According to IAS 39, for all cash flow hedges, the amounts accumulated in the cash flow hedge reserve are reclassified to Income (loss) in the same period in which the expected cash flows of the hedged object impact the income (loss). However, according to IFRS 9, for cash flow hedges for the foreign currency risk associated with the expected purchases of non-financial assets, the amounts accumulated in the cash flow hedge reserve and in the hedge cost reserve will be included directly in the initial cost of the non-financial asset when it is recognized.

(v) ***Disclosures***

IFRS 9 will require extensive new disclosures, specifically regarding hedge accounting and credit risk and expected credit losses. The Company is assessing the implementation of changes in its systems and controls in order to comply with the new requirements.

(vi) ***Transition***

Changes in the accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except for the changes described below:

The Company intends to take advantage of the exemption that allows it not to re-report comparative information from prior periods resulting from changes in the classification and measurement of financial instruments (including credit losses). The differences in the book balances of financial assets and liabilities resulting from the adoption of IFRS 9 will generally be recognized in retained earnings and reserves on January 1, 2018.

The new requirements of hedge accounting should be adopted on prospective basis. However, the Company may opt to adopt the change expected in the accounting of changes in the fair value of the forward element of the exchange agreements on retroactive basis. The Company did not make any decision in regard to this option.

The following assessments should be made based on the facts and circumstances that existed on the date of the initial adoption:

Determination of the business model within which a financial asset is held. The designation and revoke of previous designations of certain financial assets and liabilities measured at fair value through profit or loss.
The designation of certain investments in equity instruments not held for sale such as VJORA.

Notes to the financial statements

IFRS 16 Leases

IFRS 16 introduces a single model of accounting of leases in the balance sheet for lessees. A lessee recognizes an asset of right of use which represents its right to use the leased asset and a lease liability which represents its liability to make lease payments. Optional exemptions are available for short-term leases and low value items. The lessor's accounting remains similar to the current standard, that is, lessors continue to classify leases as financial or operating leases.

IFRS 16 replaces the current lease standards, including CPC 06 (IAS 17) Commercial Lease Transactions and ICPC 03 (IFRIC 4, SIC 15 and SIC 27) Supplementary aspects of lease transactions.

The standard in force for annual periods starting on or after January 1, 2019. Early adoption is permitted only for financial statements in accordance with IFRSs and entities that apply IFRS 15 Income from Contracts with Clients on or before the date of first adoption of IFRS 16.

The Company began an initial evaluation of the potential impact on its financial statements. The Company is assessing the use of operating exemptions.

(i) ***Determine whether an agreement contains a lease***

The Company has real estate lease agreements, where it operates. In the transition to IFRS 16, the Company may opt to:

Adopt the definition of lease agreement under IFRS 16 to all its agreements; or

Adopt a practical procedure and not reassess whether an agreement is, or contains, a lease.

The Company is assessing if it will adopt the practical procedure and the potential impact on its financial statements, and if it will affect the number of agreements identified as lease in the transition.

(ii) ***Transition***

As lessee, the Company may adopt the standard using a: Retrospective approach; or

Modified retrospective approach with optional practical procedures.

The lessee will adopt this choice on a consistent basis to all its leases. The Group shall early adopt IFRS 16 as of January 1, 2019. The Company has not yet determined which transition approach it will adopt.

The Company has not yet quantified the impact of the adoption of IFRS 16 on its assets and liabilities. The quantitative effect of the adoption IFRS 16 will depend specifically on the transition method chosen, the use of practical procedures and recognition exemptions, and any additional leases that the Company will sign. The Company expects to disclose its transition approach and quantitative information prior to the adoption.

Notes to the financial statements

Other changes

The following new standards or amended standards are not expected to have a significant impact on the Company's financial statements.

Amendments to CPC 10 (IFRS 2) Share-based payment concerning the classification and measurement of certain transactions with share-based payment.
Amendments to CPC 36 Consolidated Statements (IFRS 10) and CPC 18 Investment in Associated Company (IAS 28) concerning sales or contributions of assets between an investor and its associated company or its joint venture.

The Accounting Pronouncement Committee has not yet issued any accounting pronouncement or amendments in current pronouncements corresponding to all new IFRSs. Therefore, the early adoption of these IFRS is not permitted for entities that disclose their financial statements according to accounting practices adopted in Brazil.

The CPC has not yet issued the respective pronouncements and amendments related to new and revised IFRS previously presented. Due to the commitment of the CPC and the Brazilian Securities Commission (CVM) to keep the set of standards issued updated based on the updates made by the IASB, it is expected that these pronouncements and amendments be edited by CPC and approved by CVM up to the date they become effective.

The Company also understands that there are no other standards and interpretations issued and not yet adopted that might, in management's opinion, have a significant impact on the income (loss) or shareholders' equity disclosed by the Company. The Management intends to adopt such measures when they become applicable to the Company.

5. Financial risk management

The Company's risk management policies are established to identify and analyzed the risks that it faces, to define appropriate limits and controls of risks, and to monitor risks and adherence to the limits. The risk management policies and systems are reviewed frequently to reflect changes in the market conditions and in the Company's activities.

The Company is exposed to the following risks from the use of financial instruments:

5.1 Credit risk

Credit risk is the possibility of a financial loss if a client or a counterpart of a financial instrument fails to fulfill its contractual obligations arising mainly from trade accounts receivable and investments of the Company. As regards financial institutions, the Company and its subsidiaries only conduct operations with low risk financial institutions, considered by the Management, as low risk institutions.

Notes to the financial statements

Trade accounts receivable and other credits

The Company and its subsidiaries adopt as a practice the analysis of the financial situation of their counterparties, as well as the definition of credit limits and permanent monitoring of open positions. For the Company's income, sales are not concentrated to a single client, therefore there is no credit risk of concentration.
Credit approvals are analyzed individually before the terms and the standard terms of payment and delivery of the Company are offered. This analysis includes external evaluations and, in some cases, bank references. Purchase limits are established for each customer and represent the maximum outstanding amount for which credit approval is not required; these limits are quarterly reviewed. Clients who fail to meet the credit limit established by the Company may only operate when there is a settlement of securities. For public bodies, the Company's management individually assesses the ability to pay and the bidding requirements for completion of the sale. The consolidated statement excludes transactions between related parties and, since these transactions are excluded, the Company has no customers that individually represent more than 5% of sales.

When monitoring credit risk of clients, they are grouped according to their characteristics for credit facility, including if they are an individual or entity, retail, government agencies, geographic location, type of industry and previous financial difficulties.
Credit risk exposure

The maximum credit risk exposure on balance sheet date was:

	Consolidated		Parent company	
	Book value		Book value	
	2016	**2015**	**2016**	**2015**
Financial assets held to maturity				
Trade accounts receivable	**150,197**	192,076	**45,701**	71,152
Cash and cash equivalents	**26,708**	60,312	**1,313**	15,822
Interest earning bank deposits	**3,186**	34,626	**2,982**	16,081
Forward exchange agreements and interest rate swap used in hedge (assets)		6,920		6,920
Total	**180,091**	293,934	**49,996**	109,975

The maximum credit risk exposure for trade accounts receivable on the report date per geographic region was:

	Consolidated		Parent company	
	Book value		Book value	
	2016	**2015**	**2016**	**2015**
Domestic - trade accounts receivable	**56,631**	74,218	**36,093**	68,341
United States clients - trade accounts receivable	**101,178**	129,969		-
Other	**24,258**	17,311	**22,577**	14,897
Total	**182,067**	221,498	**58,670**	83,238

Notes to the financial statements

The Company's maximum exposure to loans and receivables on the date of report by type of counterparty was as follows:

	Consolidated		Parent company	
	Book value		Book value	
	2016	**2015**	**2016**	**2015**
Clients - public agencies	**19,511**	20,019	**17,228**	17,667
Clients - distributors	**149,996**	184,199	**32,032**	50,872
End clients	**12,560**	17,280	**9,410**	14,699
Total	**182,067**	221,498	**58,670**	83,238

Impairment losses

The Company and its subsidiaries establish a provision for impairment that represents its estimate of losses incurred in relation to trade accounts receivable, other receivables and investments. The maturity of loans and receivables granted on the date of the financial statements was:

	Consolidated			
	Gross	**Gross**	***Impairment***	***Impairment***
	2016	**2015**	**2016**	**2015**
Not overdue	**103,739**	132,061		-
Overdue for 0-30 days	**32,981**	55,021		(485)
Overdue 31–360 days(1)	**25,322**	18,213	**(8,846)**	(10,372)
Overdue more than one year	**23,025**	16,203	**(23,024)**	(18,565)
Total	**182,067**	221,498	**(31,870)**	(29,422)

(1) *A substantial portion of backward values refer to sales to public agencies with average delays of payments up to 90 days, this is considered usual by Management for public sector clients.*

	Parent company			
	Gross	**Gross**	***Impairment***	***Impairment***
	2016	**2015**	**2015**	**2015**
Not overdue	**19,195**	55,215		-
Overdue for 0-30 days	**8,680**	10,693		(353)
Overdue 31–360 days(1)	**24,324**	12,070	**(6,498)**	(6,473)
Overdue more than one year	**6,471**	5,260	**(6,471)**	(5,260)
Total	**58,670**	83,238	**(12,969)**	(12,086)

(1) A substantial portion of backward values refers to sales to public agencies with average delays of payments up to 90 days, this is considered usual by Management for public sector clients.

5.2 Liquidity risks

Liquidity risk is the risk of the Company encountering difficulties in performing the obligations associated with its financial liabilities that will be settled with cash payments or with another financial asset.

The Company and its subsidiaries monitor the requirements for operating cash flow and this excludes the potential impact of extreme situations that cannot be reasonably foreseen, such as natural disasters.

Notes to the financial statements

We present below the contractual maturities of financial liabilities including payment of estimated interest and excluding, the impact of the negotiation agreements of currencies by the net position.

	Consolidated					
	2016					
	Book value	Contractual cash flow	Up to 1 year	1–2 years	2–5 years	>5 years
Non-derivative financial liabilities						
Suppliers	128,712	128,712	128,712			
Loans and financing	599,668	791,409	29,742	151,355	592,477	17,835
Debentures	68,444	144,442	537	24,099	119,807	-
Foreign exchange advances	28,065	31,507	-	31,507	-	-
Advance from receivables	6,136	6,136	6,136	-	-	-
Derivative financial instruments						
Derivative instruments (liabilities)	543	543	543			
	831,568	1,102,749	165,670	206,961	712,284	17,835

	Consolidated					
	2015					
	Amount Value	Contractual cash flow	Up to 1 year	1–2 years	2–5 years	>5 years
Non-derivative financial liabilities						
Suppliers	81,224	81,224	81,224	-	-	-
Loans and financing	411,842	463,387	232,419	168,051	39,518	23,399
Debentures	127,863	156,777	111,339	45,438		
Foreign exchange advances	191,948	206,686	206,686	-	-	-
Advance from receivables	54,589	54,589	54,589	-	-	-
Derivative financial instruments						
Derivative instruments (assets)	(6,920)	(6,920)	(6,920)	-	-	-
Derivative instruments (liabilities)	956	956	956	-	-	-
	861,502	956,699	680,293	213,489	39,518	23,399

	Parent company					
	2016					
	Amount Value	Contractual cash flow	Up to 1 year	1–2 years	2–5 years	>5 years
Non-derivative financial liabilities						
Suppliers	125,076	125,076	125,076	-		
- Loans and financing	498,431	679,369	23,210	146,797	509,362	-
Debentures	68,444	144,442	537	24,099	119,807	-
Foreign exchange advances	28,065	31,507	-	31,507	-	-
Advance from receivables	6,136	6,136	6,136	-	-	-
	726,152	986,530	154,959	202,403	629,169	-

Notes to the financial statements

	Parent company					
	2015					
	Amount Value	Contractual cash flow	Up to 1 year	1–2 years	2–5 years	>5 years
Non-derivative financial liabilities						
Suppliers	**119,075**	**119,075**	**119,075**	**-**	**-**	**-**
Loans and financing	**285,703**	**323,892**	**211,891**	**88,395**	**23,596**	**10**
Debentures	**127,863**	**156,777**	**111,339**	**45,438**	**-**	**-**
Foreign exchange advances	**191,948**	**206,686**	**206,686**	**-**	**-**	**-**
Advance from receivables	**969**	**969**	**969**	**-**	**-**	**-**
Derivative financial instruments						
Derivative instruments (assets)	**(6,920)**	**(6,920)**	**(6,920)**	**-**	**-**	**-**
	718,638	**800,479**	**643,040**	**133,833**	**23,596**	**10**

5.3 Market risk

Market risk is the risk that alterations in market prices, such as exchange rates and interest rates, have in the Company's earnings, or in the value of its holdings of financial instruments. The objective of market risk management is to manage and control exposures to risks, within acceptable parameters, and at the same time to optimize the return.

The Company and its subsidiaries use derivative financial instruments and meets financial obligations to manage market risks. All of these transactions take place under guidance specified by Management.

(i) Currency risk (foreign exchange)

The Company and its subsidiaries are subject to currency risk in the sales, purchases and loans denominated in a currency other than the respective functional currencies of Company’s entities.

Generally, the Company seeks to protect its expected foreign currency exposure with respect to forecast sales.

Sensitivity analysis

The probable base scenario for 2017 was defined through assumptions available in the market (source: Brazilian Central Bank Focus), and sensitivity calculation considered the variation between rates of the scenario foreseen for 2017 and those prevailing in
2016.

The sensitivity analysis also considered variations of 25% and 50% on foreign exchange variations considered in the probable scenario.

Currencies and ratios		**Rate 2017**	**Probable scenario**	**Possible scenario △ 25%**	**Remote scenario △50%**
US dollar	Write-off	**3.26**	3.48	2.61	1.74
US dollar	High	**3.26**	3.48	4.35	5.22

Notes to the financial statements

Awareness of the variation of foreign currency:

		Consolidated			
		Balance at 2016	**Probable scenario**	**Possible (25%)**	**Remote scenario (50%)**
Assets - Depreciation of Dollar					
Accounts receivable	Dollar - USD	**34,078**	2,310	(7,294)	(17,568)
Liabilities - Increase in Dollar					
Loans and financing	Dollar - USD	**(185,268)**	(12,557)	(62,014)	(111,470)
Suppliers	Dollar - USD	**(5,330)**	(361)	(1,784)	(3,207)
Foreign exchange advances	Dollar - USD	**(8,570)**	(581)	(2,869)	(5,156)
Advance from clients	Dollar - USD	**(6,358)**	(12)	(60)	(108)
Other	Dollar - USD	**(27,797)**	(139)	(687)	(1,234)

		Parent company			
		Balance in 2016	**Probable scenario**	**Possible (25%)**	**Remote scenario (50%)**
Assets - Depreciation of Dollar					
Accounts receivable	Dollar - USD	**6,936**	470	(1,381)	(3,233)
Liabilities - Increase in Dollar					
Loans and financing	Dollar - USD	**(158,416)**	(5,021)	(53,026)	(95,314)
Suppliers	Dollar - USD	**(2,316)**	(141)	(775)	(1,393)
Foreign exchange advances	Dollar - USD	**(8,570)**	(3,842)	(2,869)	(5,156)
Advance from clients	Dollar - USD	**(48,444)**	(532)	(2,278)	(4,095)
Other	Dollar - USD	**(28,444)**	(159)	(679)	(1,220)

(ii) Interest rate risk

The balances of instruments exposed to changes in interest rates are summarized below.

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

On 12/31/2016, the management considered the likely scenario for 2017 is a CDI rate of 10.25% and TJLP of 7.50%. The probable rate was then adjusted at 25% and 50%, as parameter for possible and remote scenarios, respectively. The scenarios below were estimated for the period of 1 year:

Notes to the financial statements

Currency	2016	Probable scenario	Scenario 25%	Scenario 50%
CDI - write-off	13.63%	10.23%	7.67%	5.12%
Rise in the CDI rate	13.63%	10.23%	12.79%	15.35%
TJLP	7.50%	7.50%	9.38%	11.25%
Selic	13.65%	10.25%	12.81%	15.38%
Libor 30 days	0.77%	0.77%	0.96%	1.16%
LIBOR 3 months	1.00%	1.00%	1.25%	1.50%

	Consolidated				
			Gain (loss)		
	Index	Balance 2016	Probable scenario	Scenario 25%	Scenario 50%
Interest earning bank deposits	CDI - write-off	3,370	(115)	(201)	(287)
Loans	Rise in the CDI rate	(135,163)	4,596	1,139	(2,318)
Loans	TJLP	(7,934)	-	(149)	(298)
Libor 30 days	Libor 30 days	(68,092)	-	(131)	(262)
LIBOR 3 months	LIBOR 3 months	(422,898)	-	(1,055)	(2,111)
Taxes in installments	Selic	(443)	15	4	(8)

	Parent company				
			Gain (loss)		
	Index	Balance 2016	Probable scenario	Scenario 25%	Scenario 50%
Interest earning bank deposits	CDI - write-off	3,254	(111)	(194)	(277)
Financial loans	CDI - write-off	(17,003)	578	1,013	1,448
Loans	Rise in the CDI rate	(135,163)	4,596	1,139	(2,318)
LIBOR 3 months	LIBOR 3 months	(422,898)	-	(1,055)	(2,111)
Taxes in installments	Selic	(415)	14	3	(7)

5.4 Capital management

The management's policy is to maintain a solid base of capital for the future development of the business, adding value for shareholders, creditors and the market in general, by monitoring the returns on capital. However, the results of recent years have meant some deterioration in this policy, as shown below.

	Consolidated	
	2016	2015
Total liabilities	**1,064,958**	1,082,456
Less: Cash and cash equivalents and interest earning bank deposits	**(29,894)**	(94,938)
Net debt (A)	**1,035,064**	987,518
Total shareholders' equity (B)	**(171,901)**	(60,116)
Net debt to equity ratio as of December 31, 2016 and December 31, 2015 (A/B)	**(6.02)**	**(16.43)**

Notes to the financial statements

6. Operating segments

The Company has four reportable segments represented by strategic business units, managed separately since they differ by products and services, technologies and marketing strategies. The Company's reportable segment operations can be detailed as follows:

Firearms – the firearm production process, since is treated, primarily, as metalworking, and uses the following basic phases: machining (from machined and forged moulds by means of machining centers, milling, drill pressing and broaching, lathing, broaching since all the forging process and some machining operations are outsourced), Metal Injection Molding (MIM) (metal injection molded parts), finishing (polishing), heat treatment, surface treatment, final assembly, functional test, engraving and packaging; these operations are carried out by Forjas Taurus S.A., and Taurus Holdings, Inc. and its subsidiaries.

Helmets – the helmet production process uses the following steps injection (from the Acrylonitrile Butadiene Styrene (ABS)), painting and finishing (from parts already injected through the manual and automated painting process), sewing (from fabrics, foam plates and polycarbonates, using cutting machines and sewing) and final assembly; these operations are performed by Taurus Blindagens Ltda. and Taurus Blindagens Nordeste Ltda

Other - result of the MIM (Metal Injection Molding) segment - metal injection molded parts, (Polimetal Metalurgia e Plásticos Ltda.); hard trunks (Taurus Blindagens Ltda.), plastic products (Taurus Plásticos Ltda.). It also includes expenditures with technical assistance and financial expenses with discontinued machinery operation in June 2012 and other operations as the manufacturing and sale of glasses and rendering of services. As these segments have been aggregated, they do not meet the quantitative thresholds for separate disclosure as a reportable segment.

Performance of each segment is quarterly evaluated based on the segment's earnings (losses) before income and social contribution taxes, as included in internal reports, as Management believes that this information is more relevant for the evaluation of results from some segments related to other entities that operate in these industries.

Notes to the financial statements

The reconciliation of revenues, profits and losses, assets, liabilities and other material items in reportable segments are disclosed below:

	Firearms		Helmets		Other		Total	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
External income	**707,276**	684,352	**100,489**	110,526	22,508	28,931	**830,273**	823,809
Inter-segment income	**532,769**	112,974	**4,949**	5	5,972	17,691	**543,690**	130,670
Cost of sales	**(559,159)**	(483,631)	**(70,293)**	(77,199)	(7,620)	(20,906)	**(637,072)**	(581,736)
Gross income (loss)	**680,886**	313,695	**35,145**	33,332	20,860	25,716	**736,891**	372,743
Sales expenses	**(110,764)**	(87,976)	**(18,602)**	(18,137)	(1,366)	(2,784)	**(130,732)**	(108,897)
General and administrative expenses	**(105,395)**	(102,552)	**(10,714)**	(3,672)	(7,103)	(7,710)	**(123,212)**	(113,934)
Depreciation and amortization	**(8,458)**	(9,137)	**(307)**	(176)	(4)	(1,515)	**(8,769)**	(10,828)
Other operating income (expenses), net	**(26,432)**	(60,664)	**389**	(4,158)	(881)	(3,122)	**(26,924)**	(67,944)
Equity income (loss)	**-**	-	**1,039**	-	(2,843)	(1,398)	**(1,804)**	(1,398)
	(251,049)	(260,329)	**(28,195)**	(26,143)	(12,197)	(16,529)	**(291,441)**	(303,001)
Operating income (loss)	**429,836**	53,366	**6,950**	7,189	8,664	9,186	**445,450**	69,742
Financial income	**93,934**	124,739	**7,904**	6,823	71	9,189	**101,909**	140,750
Financial expenses	**(97,809)**	(334,765)	**(3,973)**	(3,077)	(2,836)	(21,483)	**(104,618)**	(359,325)
Net financial income (loss)	**(3,875)**	(210,026)	**3,931**	3,746	(2,765)	(12,294)	**(2,709)**	(218,575)
Income (loss) per segment subject to be disclosed before income and social contribution taxes	**425,961**	(156,660)	**10,881**	10,936	5,899	(3,109)	**442,741**	(148,833)
Elimination of inter-segment income	**(532,769)**	(112,974)	**(4,949)**	(5)	(5,972)	(17,691)	**(543,690)**	(130,670)
Income before income and social contribution taxes	**(106,808)**	(269,634)	**5,932**	10,931	(73)	(20,799)	**(100,949)**	(279,502)
Income and social contribution taxes	**486**	27,584	**(1,969)**	(503)	(595)	(1,389)	**(2,078)**	25,692
Net income for the year	**(106,322)**	(242,050)	**3,963**	10,428	(668)	(22,188)	**(103,027)**	(253,810)
Assets of reportable segments	**542,532**	657,094	**161,265**	140,352	189,260	224,894	**893,057**	1,022,340
Liabilities of reportable segments	**954,886**	951,850	**35,983**	33,097	74,089	97,509	**1,064,958**	1,082,456

Notes to the financial statements

Geographical information

The net revenue information below is based on the geographical location of the client.

	Firearms		Helmets	
	2016	**2015**	**2016**	**2015**
Domestic market				
Southeastern region	**43,210**	**44,075**	**28,218**	**31,136**
South region	**22,393**	**22,391**	**6,631**	**5,011**
Northeastern region	**9,657**	**16,948**	**31,834**	**36,342**
Mid-west region	**16,841**	**13,471**	**16,007**	**17,212**
North region	**978**	**3,137**	**17,799**	**20,304**
	93,079	**100,022**	**100,489**	**110,005**
Foreign market				
United States	**577,064**	542,465	**-**	-
Bangladesh	**14,895**	6,086	**-**	-
Peru	**1,177**	3,307	**-**	1
Bosnia	**1,340**	62	**-**	
Jordan	**3,332**	3,215	**-**	-
Pakistan	**441**	3,194	**-**	-
Paraguay	**-**	3,137	**-**	479
Argentina	**4,913**	2,832	**-**	-
France	**2,534**	2,285	**-**	-
Chile	**279**	2,005	**-**	-
Ukraine	**-**	1,626	**-**	-
South Africa	**1,951**	1,609	**-**	-
Lebanon	**79**	1,575	**-**	-
Thailand	**100**	1,201	**-**	-
Russia	**-**	1,164	**-**	-
Nicaragua	**1,352**	1,041	**-**	-
Germany	**885**	1,038	**-**	-
United Kingdom	**-**	1,011	**-**	-
Philippines		729	**-**	-
Australia	**275**	212	**-**	-
El Salvador	**301**	200	**-**	-
Dominican Republic	**-**	14	**-**	-
Singapore	**-**	6	**-**	-
Other countries	**3,279**	4,316	**-**	41
	614,197	584,330	**-**	521
	707,276	684,352	**100,489**	110,526

The other segments of the Group have concentrated their sales in the domestic market and have widely distributed products throughout all regions of Brazil.

The Company's sales and its subsidiaries do not have any restrictions and do not suffer concentration risk, characterized by a dependence on government agencies or any other client.

Notes to the financial statements

7. Cash and cash equivalents

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and interbank funds applied, that is, redeemable within up to three months of contracting dates, without penalties for the Company and with low risk of change in their market value.

	Consolidated		Parent company	
	2016	**2015**	**2016**	**2015**
Cash balance	**13**	2,987	**7**	**2,213**
Demand deposits	**25,877**	57,325	**604**	**13,609**
Interest earning bank deposits	**818**	-	**702**	**-**
Cash and cash equivalents	**26,708**	60,312	**1,313**	**15,822**

The investments classified as cash and cash equivalents are remunerated at variable average rates from 82.52% to 101.00% of the CDI at 12/31/2016 (82.52% to 101.00% of CDI at 12/31/2015) with counterparty financial institutions considered by management as the first line.

8. Financial investments and linked accounts

	Consolidated		Parent company	
	2016	**2015**	**2016**	**2015**
Money market investments in CDB	**3,186**	24,162	**2,982**	16,081
Linked account	**-**	10,464	**-**	-
Total	**3,186**	34,626	**2,982**	16,081
Current	**2,552**	22,040	**2,552**	3,495
Non-current	**634**	12,586	**430**	12,586

Financial investments are paid by the average variable rate of 99.92% of CDI at 12/31/2016, being held as guarantees for short-term financing, and their redemption scheduled takes place in conjunction with amortization, presented in current and non-current assets based on their redemption provisions.

9. Trade accounts receivable

Trade accounts receivable are recorded at the amount billed, and include the respective direct taxes for which the Company is responsible.

The allowance for doubtful accounts was calculated at an amount considered adequate by the management to cover any losses arising on collection of accounts receivable.

Notes to the financial statements

	Consolidated		Parent company	
	2016	2015	**2016**	**2015**
Domestic clients	**71,035**	74,218	**36,093**	38,886
Clients – related parties in the country	**-**	-		29,455
Foreign clients	**111,032**	147,280	**22,577**	14,897
	182,067	221,498	**58,670**	83,238
Allowance for doubtful accounts - domestic	**(21,245)**	(20,592)	**(7,601)**	(8,591)
Allowance for doubtful accounts - abroad	**(10,625)**	(8,830)	**(5,368)**	(3,495)
	(31,870)	(29,422)	**(12,969)**	(12,086)
Total	**150,197**	192,076	**45,701**	71,152

The Company's exposure to credit and currency and impairment losses risk related to trade accounts receivables and other accounts, including the breakdown of accounts receivable by maturity are disclosed in note 5. Changes in the allowance for doubtful accounts are as follow:

	Consolidated	Parent company
Balance at December 31, 2015	(29,422)	(12,086)
Additions	**(4,122)**	**(1,441)**
Reversal of allowance for doubtful accounts	**62**	**-**
Realization of allowance for doubtful accounts	**115**	**-**
Foreign exchange variation	**1,496**	**558**
Balance at December 31, 2016	**(31,870)**	**(12,969)**

10. Inventories

Inventories are shown at the lower of cost and net realizable value. The cost of inventories is based on the weighted moving average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs (based on normal operating capacity), as well as other costs incurred in bringing them to their existing location and condition.

The provision for inventory losses is recorded for products with low turnover and items that are sold below the formation cost.

	Consolidated		Parent company	
	2016	**2015**	**2016**	**2015**
Finished products	**98,788**	86,953	**18,639**	25,926
Work in process	**-**	342	**-**	-
Raw material	**147,697**	134,566	**109,574**	80,415
Provision for loss	**(2,288)**	-	**(2,288)**	-
	244,197	221,861	**125,925**	106,345

Notes to the financial statements

11. Recoverable taxes

	Consolidated		Parent company	
	2016	**2015**	**2016**	**2015**
ICMS	**8,740**	9,617	**920**	1,175
IPI	**842**	2,804	**5**	2,044
PIS	**932**	652	**617**	581
COFINS	**4,084**	3,024	**2,655**	2,661
Income and social contribution taxes	**6,566**	21,237	**3,267**	9,863
INSS	**40**	82	**-**	-
Total	**21,204**	37,416	**7,464**	16,324
Current	**20,497**	36,546	**7,269**	16,031
Non-current	**707**	870	**195**	293
Total	**21,204**	37,416	**7,464**	16,324

12. Other accounts receivable

	Consolidated		Parent company	
	2016	**2015**	**2016**	**2015**
Advances to suppliers	17,478	12,256	15,508	10,980
Advances to employees	1,726	2,561	794	1,430
Advance for warranty to foreign client		3,698		3,698
Judicial deposits (Note 23)	11,407	4,499	5,890	1,567
Receivables from insurance	2,339	16,716	-	2,257
Related party loans	-	-	8,150	81
Other receivables	801	5,661	2,845	4,312
	33,751	45,391	33,187	24,325
Current assets	22,344	40,881	27,297	22,751
Non-current assets	11,407	4,510	5,890	1,574

13. Income and social contribution taxes

The income and social contribution taxes of the year, both current and deferred, are calculated based on the nominal rate of 15% plus a surcharge of 10% on taxable income in excess of R$ 240 for income tax and 9% on taxable income for social contribution on net income, and consider the offsetting of tax loss carryforward and negative basis of social contribution, limited to 30% of the taxable income. For companies that calculate income and social contribution taxes based on estimated profits, the same rates as above are used but on percentage of revenue of 32%. The rate of income tax is 35% for the US subsidiary.

Current and deferred taxes are recognized in income (loss) unless they are related to the business combination, or items directly recognized in shareholders' equity or in Other comprehensive income.

Deferred taxes are recognized in relation to the temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the related amounts used for taxation purposes. A deferred income tax and social contribution asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which the unused tax losses and credits can be utilized.

Notes to the financial statements

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

Deferred income and social contribution tax assets are reviewed at each reporting date and reduced when their realization is no longer probable.

a) Breakdown of assets and deferred tax liabilities

	Consolidated		Parent company	
	2016	**2015**	**2016**	**2015**
On temporary differences of assets, tax loss and negative basis				
Provision for sales commissions	**1,616**	1,045	**993**	993
Provision of labor proceedings	**3,946**	4,934	**1,826**	2,229
Provisions for losses not compensated for by insurance	**-**	782	**-**	782
Allowance for doubtful accounts	**5,494**	4,242	**2,474**	1,494
Provision for product warranty	**7,297**	7,246	**2,190**	2,401
Provision for legal risks	**2,961**	10,571	**-**	205
Provision for inventory loss	**2,131**	3,343	**-**	-
Derivative financial instruments	**189**	344	**-**	-
Tax loss and negative basis of social contribution on net income (i)	**34,912**	34,730	**7,000**	7,000
Inventories - unrealized profits	**2,858**	3,958	**-**	-
Other items	**1,432**	1,555	**-**	124
	62,836	72,750	**14,483**	15,228
On temporary liability differences				
Equity valuation adjustments	**(12,183)**	(1,011)	**(2,356)**	(551)
Difference for depreciation base	**(7,484)**	(10,864)	**-**	(1,805)
Goodwill allocation	**(9,899)**	(11,910)	**-**	-
Average interest rate	**(1,499)**	(1,499)	**(1,370)**	(1,370)
Derivative financial instruments	**(2,353)**	(2,353)	**(2,353)**	(2,353)
Other items	**(72)**		**-**	
	(33,490)	(27,637)	**(6,079)**	(6,079)
Total assets and liabilities, net	**29,346**	45,113	**8,404**	9,149
Classified as noncurrent assets	**44,536**	45,830	**8,404**	9,149
Classified in the non-current liabilities	**(15,190)**	(717)	**-**	-

Changes in deferred taxes:

	Consolidated	**Parent company**
Opening balance of deferred taxes, net	45,113	9,149
Allocated in income (loss)	**(6,058)**	**(745)**
Allocated to shareholders' equity	**(9,827)**	**-**
Effect of exchange variation	**119**	**-**
Closing balance of deferred taxes, net	**29,346**	**8,404**

(i) The Company's management has considered the existence of the accumulated balances of tax losses and the negative basis of social contribution on net income for the parent company and the subsidiaries Polimetal Metalurgia e Plásticos Ltda., Taurus Blindagens Ltda. and Taurus Holdings, Inc. with the evaluation of the existence of future taxable income, which supports the recording of deferred tax assets, based on the operating activities of the Company's segments.

Notes to the financial statements

Projections indicate that the balance of tax credits recorded under Forjas Taurus S.A. and its subsidiaries Polimetal Metalurgia e Plásticos Ltda., Taurus Blindagens Ltda. and Taurus Holdings, Inc. will be absorbed by the estimated taxable income for the next years, as follows:

	Consolidated		Parent company	
Year	**Total**	**Interest %**	**Total**	**Interest %**
2017	2,180	7.43%	-	0.00%
2018	2,527	8.61%	-	0.00%
2019	3,098	10.56%	94	1.12%
2020	4,859	16.56%	1,433	17.05%
2021	10,330	35.20%	5,856	69.68%
2022	6,352	21.64%	1,021	12.15%
Total	29,346	100.00%	8,404	100.00%

The amount of tax losses and negative basis of social contribution on which deferred taxes are not recorded totaled R$ 651,215 (R$ 468,962 in 2015) in the consolidated, and R$ 222,905 (R$ 99,066 in 2015) in the parent company.

The main balances of tax loss carryforwards and negative basis are recorded in the subsidiary Taurus Máquinas-Ferramenta Ltda. Tax credits arising from tax losses and negative social contribution basis not recognized by this subsidiary totaled R$ 85,024 (R$ 77,792 in 2015).

Reconciliation of effective rate for income and social contribution taxes

	Consolidated		Parent company	
	2016	**2015**	**2016**	**2015**
Loss before income and social contribution taxes	**(100,949)**	(279,502)	**(102,282)**	(258,212)
Combined statutory rate	**34%**	34%	**34%**	34%
Income and social contribution taxes:				
Calculated at combined statutory rate	**34,323**	95,031	**34,776**	87,792
Permanent additions:				
Non-deductible expenses	**(304)**	(223)	**(151)**	(221)
Transfer pricing	**(16,342)**	(434)	**(16,342)**	(434)
Permanent exclusions:				
Non-taxable income - Equity income (loss)	**(613)**	(475)	**(10,973)**	(28,822)
Others - Law No. 11.196/05		-	**-**	-
Unrecorded tax credit	**(61,966)**	(17,751)	**(42,105)**	(4,896)
Foreign exchange variation and other unrecorded temporary differences	**42,291**	(51,142)	**34,050**	(49,017)
Effects of differentiated rate of deemed profit subsidiaries	**533**	686	-	-
Income tax and social contribution in income for the year	**(2,078)**	25,692	**(745)**	4,402
Breakdown of income and social contribution in income for the year:				
Current	**3,980**	5,889	**-**	-
Deferred assets	**(6,058)**	19,803	**(745)**	4,402
	(2,078)	25,692	**(745)**	4,402
Effective rate	**2.06%**	(9.19%)	**0.73%**	(1.70%)

Notes to the financial statements

In 2016, the amount of R$ 3,980 related to current income and social contribution taxes is positive due to the use of the North American tax benefit in the company Taurus Holdings. The US Federal Law allows current losses to be offset by taxes paid within the previous two years.

14. Investment property

Investment property is initially measured at cost and, subsequently at fair value, and changes to fair value are recognized in the income (loss).

Gains and losses in the sale of an investment property (calculated by the difference between the net value received in the sale and the item book value) are recognized in the statement of income. When an investment property previously recognized as a fixed asset is sold, any amount recognized in equity valuation adjustment is transferred to retained earnings.

a. Reconciliation of book value

	Consolidated
In thousands of reais	**2016**
Balance on January 1	-
Acquisitions	-
Reclassification of property, plant and equipment	21,204
Fair value	28,904
Balance at December 31	**50,108**

In 2016, Forjas Taurus S.A. transferred the operation from the Industrial Plant located in the city of Porto Alegre/RS to the Industrial Plant located in the city of São Leopoldo/RS. In view of the foregoing and considering the terms of CPC 28 - Investment Property, the Company, at the level of the consolidated financial statements, reclassified the items formerly classified as Property, plant and equipment to Investment Property. The adjustment to fair value was initially recorded in shareholders' equity, net of deferred income and social contribution taxes.

b. Measurement of fair value

(iii) ***Fair value hierarchy***

The fair value of investment properties was determined by independent external real estate appraisers, with appropriate and recognized professional qualification, and recent experience in the property location and category that is being appraised.

The measurement of fair value of all the properties for investment was classified as Level 3 based on the inputs used (Note 3).

Notes to the financial statements

(iv) ***Characterization of evaluated assets***

Location: Avenida do Forte, n° 511 - Porto Alegre (RS)

Industrial complex, not occupied, with 18,600.00 m^2 of built area in urban land of 29.900.00 m^2 of area.

(v) ***Methodologies adopted***

It was used the evolution method of evaluation, since in the local real estate market there are no properties with characteristics similar to the property evaluated to carry out the direct comparative method. Accordingly, the evaluations of buildings, improvements and land were performed separately, reaching a total value for the conjunction.

Buildings and improvements

The evaluation of buildings and improvements adopted the Method of Quantification of Cost of Improvements. With the analysis of the characteristics of the civil works, budgets of new constructions have been prepared, applying physical depreciations, through the "K" factor and Factor of Adjustment to Obsolescence and State of Conservation.

The other constructions such as bases, pavements, fences and other non-standardized structures were calculated through composition of costs.

Urban land

For evaluation of land it was used the Direct Comparative Method of Market Data for the enrollment numbers held in the local real estate market, offers, purchases and sales of similar properties for proper comparison through statistic treatment of market data.

For the other enrollment numbers it was used the involution method, based on the attestation that the best use of the land evaluated would be obtained by dividing it into lots, through a hypothetical project. The evaluation under this process considers the probable income from the trading of these lots and also all the expenses inherent in the transformation of the gross land into lots; and it also defines the maximum value to be attributed to the land so that it is economically feasible.

According to the location and other characteristics of each land, the value was determined after extensive survey of values traded and offered in the surroundings of the evaluated real estate, and based on consultation of competent people, connected to the local real estate market, business and offers published in local newspapers, websites, advertisements and real estate agencies.

After obtaining the survey values, it was applied a statistical treatment to calculate the most probable value of the properties.

Notes to the financial statements

(vi) ***Values and data presented***

The appraisal report presented the depreciation rate, current market value or depreciated replacement cost, apparent age, remaining useful life, with the following definitions:

a) Depreciation rate is the ratio between apparent age and total useful life of the asset;
b) Current market value or depreciated replacement cost may be defined as the initial value that the Company would spend in the market to replace the asset, considering a normal deal between independent people without other interests, and the present conditions of use of the asset;
c) Apparent age is the age of the asset in years, since its construction;
d) Useful life represents the estimated remaining time of use of the evaluated asset, in years. This value is obtained through the difference between the apparent age and useful life of the project, pursuant to ABNT NBR 15575-1_2013.

(vii) ***Survey of values***

Buildings and improvements

Quantitative and qualitative budgets have been made related to the cost of reproduction of the buildings, and since they were built for an industry with singular characteristics, they may be used for other industrial and commercial purposes.

The replacement values were defined based on calculations of the current average acquisition cost of construction materials and the like. They result from a survey conducted in the supply market and were analyzed considering the components of each construction, plus labor costs, projects, fees, taxes and direct and indirect expenses.

Urban land

For the survey of values, consultations have been made with real estate agencies, newspapers, brokers, buyers and people connected to the real estate market.

(viii) ***Level of precision***

Market value

In the evaluation, the Level of Foundation GRADE I and Level of Precision GRADE I have been attained, in conformity with the following standards of ABNT – Brazilian Association of Technical Standards, applicable to this evaluation:

NBR-14653-1 (Appraisal of assets - General procedures); NBR-14653-2 (Appraisal of assets - Urban Real Estate).

Notes to the financial statements

The variables used in the model to determine the values of the evaluated area were:

a) Total Area: quantitative variable representing the total area of the land in m^2;
b) Urban Sector: qualitative variable that characterizes data according to the district where they are located;
c) Vocation: dichotomic variable that classifies the lots according to the best activity developed in the property, namely: lots with industrial or commercial vocation and lots with residential vocation;
d) Date of event: dichotomic variable that classifies: lots currently for sale and lots of properties that were available for sale in 2014.
e) Unit value of the Land: dependent variable expressed in reais by square meter.

Determination of asset values

	Consolidated
	2016
Buildings	11,775
Land	37,870
Improvements	463
Total	**50,108**

Notes to the financial statements

15. Investments

										Parent company	
	Taurus Blindagens Ltda.	**Taurus Blindagens No5rdeste Ltda.**	**Taurus Plásticos Ltda.**	**Taurus Holdings, Inc.**	**T. Investments Co. Inc.**	**Taurus Investimentos Imobiliários Ltda.**	**Pollmetal Metalurgia e Plásticos Ltda.**	**Taurus Máqulnas-Ferramenta Ltda.(1)**	**Famastil Taurus Ferramentas S.A. (2)**	**12/31/2016**	**12/31/2015**
Current assets	36,837	30,129	5,515	245,488	33,474	5,756	52,651	323	-		
Non-current assets	113,567	38,069	1,713	114,783	-	64,994	266,796	2,361	-		
Current liabilities	15,274	19,017	1,535	49,760	-	663	60,767	43,865	-		
Non-current liabilities	9,894	2,998	27	97,201	-	9,921	47,719	17,083	-		
Capital	73,855	9,400	6,355	993	35,850	53,292	304,780	293,639	-		
Shareholders' equity	125,236	46,183	5,666	213,310	33,474	60,166	210,961	(58,264)	-		
Net revenue	40,012	65,426	7,219	575,098	-	5,567	185,334	-	-		
Net income (loss) for the year	3,956	6,779	(1,078)	(4,259)	-	2,741	(30,384)	(1,225)	-		
Number of shares/quotas	14	9,400	636	302,505	11,000,000	43,623,159	304,779,837	185,007,117	_		
Direct ownership interest (%)	0.01%	0.10%	0.01%	100%	100%	81.86%	100%	63.00%	-		
Opening balances	1	38	-	252,283	40,105	42,381	181,044	-	2,215	**518,067**	396,024
Spin-off	**-**	**-**	**1**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	-
Paid-up capital (4)	**-**	**-**	**-**	**-**	**-**	**-**	**54,190**	**20,000**	**-**	**74,190**	122,012
Equity income (loss) (3)	**-**	**9**	**-**	**(2,771)**	**-**	**3,019**	**(31,807)**	**(725)**	**-**	**(32,275)**	(84,771)
Capital investment loss	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	(66)
Foreign exchange variation over investments	**-**	**-**	**-**	**(38,908)**	**(6,632)**	**-**	**-**	**-**	**-**	**(45,540)**	90,019
Dividends received	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	(3)
Capital transactions	**-**	**-**	**-**	**-**	**-**	**3,591**	**5,941**	**(9,532)**	**-**	**-**	
Equity valuation adjustments	**-**	**-**	**-**	**-**	**-**	**19,077**	**-**	**-**	**-**	**19,077**	(1)
Write-off Goodwill Famastil	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,215)**	**(2,215)**	
Reclassified for provision for unsecured liability (1)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(9,749)**	**-**	**(9,749)**	(5,149)
Closing balances (3)	**1**	**47**	**1**	**210,604**	**33,473**	**68,068**	**209,368**	**-**	**-**	**521,562**	518,067

(1) The unsecured liability of the subsidiary Taurus Máquinas-Ferramenta Ltda., in the amount of R$ 36,709, is recorded in "Related parties" in non-current liabilities.

(2) On December 20, 2011, the investment in the subsidiary Famastil Taurus Ferramentas S.A. was transferred to the subsidiary Polimetal Metalurgia e Plásticos Ltda. as part of the corporate restructuring occurred in 2011. The amount of R$ 2,215 refers to goodwill on investment in Famastil Taurus Ferramentas S.A., that remains in Forjas Taurus S.A.

(3) In order to determine the investment amounts, the value of shareholders' equity and of income (loss) of each investee is adjusted for unrealized profits in intercompany transactions.

(4) The capital contribution in the subsidiary Taurus Máquinas-Ferramenta Ltda., in the amount of R$ 20,000, and in Polimetal Metalurgia e Plásticos Ltda., in the amount of R$ 54,190, were made with loan capitalization.

Notes to the financial statements

Forjas Taurus S.A.

Notes to the financial statements--Continued on December 31, 2016 and 2015
(In thousands of Reais, unless otherwise indicated)

Foreign operation

Taurus Holdings, Inc., a subsidiary located in the United States, is the parent company of Taurus International Manufacturing Inc., of Braztech International L.C., and of other subsidiaries also located in the US territory, mainly carrying out the resale of firearms imported from Forjas Taurus S.A., aimed at wholesalers in that market. The main accounting balances of the subsidiary are shown

		Taurus Holdings, Inc.
		Consolidated
	2016	2015
Assets	**360,271**	441,772
Liabilities	**146,961**	185,294
Net revenue	**575,098**	546,949
Loss for the year	**(4,259)**	(32,977)

Associate

The Company through its subsidiary Polimetal Metalurgia e Plásticos LTDA, sold its minority interest of 35% in the company Famastil Taurus Ferramentas S.A., for R$ 5,000 (five million reais), on June 02, 2016.

This operation was approved by the Company’s Board of Directors and the respective payment was made on the same date. Accordingly, the Company gives continuity to its operating and financial restructuring process, intensifying the focus on its "core business".

The investment in this associated company was evaluated under the equity method and was stated at restated cost, in the amount of R$ 9,851, on May 31, 2016.

The result of the equity pick-up recorded from January 1, 2016 to the realization of the divestiture was (R$ 1,804). It was recorded the write-off of the value of R$ 303, related to the equity valuation adjustment.

The loss on disposal accounted for was R$ 4,851.

Notes to the financial statements

16. Property, plant and equipment

Property, plant and equipment items are stated at historical acquisition or construction cost, net of accumulated depreciation and impairment losses. As described in note 17, in 2016 the Company prepared a study of impairment for its intangible assets and also for the recoverability of its fixed assets. On December 31, 2016, the tests performed did not indicate the need of forming a provision for impairment losses on Company’s property, plant and equipment.

The Company chose to revalue the fixed asset items for their deemed cost on the year opening date of the year 2009. The effects of the deemed cost, net of tax effects, increased property, plant and equipment with a contra entry in shareholders' equity.

The cost includes expenditures that are directly attributable to the acquisition of assets. The cost of assets built by the Company includes materials and labor, as well as any other costs attributable to bringing the assets to the location and condition requires for them to operate in the manner intended by management, costs for dismantling and restoration of the site where they are located, and loan costs on qualifiable assets for which their start capitalization date is January 1, 2009 or later.

Gains and losses on disposal of a property, plant and equipment item are determined by comparing the proceeds from disposal with the carrying amount of Property, plant and equipment and are recognized net within "Other income" in the income (loss).

Depreciation is recognized in the income statement using the straight-line method over the estimated useful life of each part of an item of property, plant and equipment. The useful estimated lives for the current and comparative periods are as approximately as follow:

Group	Useful life - in years
Buildings	27
Machinery and equipment	15–20
Dies and tools	5
Furniture	15
Other components	5–6

The depreciation methods, useful lives and residual values are reviewed at each year end and potential adjustments are recognized as a change in accounting estimates.

Notes to the financial statements

									Consolidated
	Land	Buildings	Machinery and facilities	Furniture and computers	Vehicles	Other	Construction in progress	Advances to suppliers	Total
Cost or deemed cost									
Balance at December 31, 2014	**35,685**	**93,383**	**256,591**	**24,843**	**3,293**	**227**	**9,746**	**297**	**424,065**
Additions	**43**	**251**	**19,986**	**2,455**	**205**	**-**	**16,832**	**-**	**39,772**
Disposals	**-**	**(148)**	**(30,531)**	**(768)**	**(983)**	**(97)**	**(4)**	**(70)**	**(32,601)**
Transfers	**-**	**-**	**4,756**	**510**	**-**	**-**	**(5,266)**	**-**	**-**
Effect of exchange variation	**2,516**	**16,715**	**16,019**	**2,745**	**74**	**61**	**-**	**-**	**38,130**
Balance at December 31, 2015	**38,244**	**110,201**	**266,821**	**29,785**	**2,589**	**191**	**21,308**	**227**	**469,366**
Additions	**2,549**	**10,671**	**4,178**	**1,323**			**28,150**	**145**	**47,016**
Disposals	**(21,208)**	**(6)**	**(25,670)**	**(5,647)**	**(117)**	**(119)**	**(11,443)**	**-**	**(64,210)**
Transfers	**(67)**	**15,344**	**5,449**	**(667)**	**(190)**		**(19,793)**	**(76)**	**-**
Effect of exchange variation	**(1,301)**	**(8,653)**	**(8,824)**	**(1,551)**	**(1,262)**	**(32)**	**-**	**-**	**(21,623)**
Balance at December 31, 2016	**18,217**	**127,557**	**241,954**	**23,243**	**1,020**	**40**	**18,222**	**296**	**430,549**
Depreciation									
Balance at December 31, 2014	**(143)**	**(16,554)**	**(129,979)**	**(13,773)**	**(2,517)**	**-**	**-**	**-**	**(162,966)**
Depreciation for the year	**(41)**	**(5,114)**	**(27,721)**	**(4,497)**	**(419)**	**-**	**-**	**-**	**(37,792)**
Disposals	**-**	**-**	**16,391**	**1,968**	**688**	**-**	**-**	**-**	**19,047**
Effect of exchange variation	**-**	**(3,682)**	**(8,681)**	**(2,033)**	**(70)**	**-**	**-**	**-**	**(14,466)**
Balance at December 31, 2015	**(184)**	**(25,350)**	**(149,990)**	**(18,335)**	**(2,318)**	**-**	**-**	**-**	**(196,177)**
Depreciation for the year	**(44)**	**(4,498)**	**(26,950)**	**(1,977)**	**(65)**	-	-	-	**(33,534)**
Disposals	**34**	**811**	**20,430**	**4,698**	**1,500**	**-**	**-**	**-**	**27,473**
Effect of exchange variation	**-**	**2,125**	**6,961**	**1,215**	**38**	**-**	**-**	**-**	**10,339**
Balance at December 31, 2016	**(194)**	**(26,912)**	**(149,549)**	**(14,399)**	**(845)**	**-**	**-**	**-**	**(191,899)**
Book value									
December 31, 2015	**38,060**	**84,851**	**116,831**	**11,450**	**271**	**191**	**21,308**	**227**	**273,189**
December 31, 2016	**18,023**	**100,645**	**92,405**	**8,844**	**175**	**40**	**18,222**	**296**	**238,650**

Notes to the financial statements

									Parent company
	Land	**Buildings**	**Machinery and facilities**	**Furniture and computers**	**Vehicles**	**Other**	**Construction in progress**	**Advances to suppliers**	**Total**
Cost or deemed cost									
Balance at December 31, 2014	**-**	**3,177**	**87,137**	**8,259**	**1,848**	**-**	**3,300**	**-**	**103,721**
Additions	**-**	**-**	**983**	**1,152**	**92**	**-**	**4,899**	**-**	**7,126**
Disposals	**-**	**-**	**(24,728)**	**(511)**	**(476)**	**-**	**-**	**-**	**(25,715)**
Transfers	**-**	**-**	**611**	**3**	**-**	**-**	**(614)**	**-**	**-**
Effect of exchange variation	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at December 31, 2015	**-**	**3177**	**64,003**	**8,903**	**1,464**	**-**	**7,585**	**-**	**85,132**
Additions		**3,194**	**221**	**631**			**8,728**		**12,774**
Disposals	**-**	**-**	**(7,084)**	**(3,548)**	**(104)**	**-**	**(482)**	**-**	**(11,218)**
Transfers	**-**	**3,739**	**3,374**	**(8)**	**(2)**	**-**	**(7,103)**	**-**	**-**
Effect of exchange variation	**-**	**-**	**-**	**-**	**(1,224)**	**-**	**-**	**-**	**(1,224)**
Balance at December 31, 2016	**-**	**10,110**	**60,514**	**5,978**	**134**	**-**	**8,728**	**-**	**85,464**
Depreciation									
Balance at December 31, 2014	**-**	**(1,044)**	**(48,202)**	**(5,369)**	**(1,375)**	**-**	**-**	**-**	**(55,990)**
Depreciation for the year	**-**	**(313)**	**(7,574)**	**(733)**	**(159)**	**-**	**-**	**-**	**(8,779)**
Disposals	**-**	**-**	**13,608**	**156**	**211**	**-**	**-**	**-**	**13,975**
Effect of exchange variation	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at December 31, 2015	**-**	**(1,357)**	**(42,168)**	**(5,946)**	**(1,323)**	**-**	**-**	**-**	**(50,794)**
Depreciation for the year	-	**(439)**	**(5,335)**	**(576)**	**(40)**	-	-	-	**(6,390)**
Disposals	**-**	**-**	**6,082**	**2,743**	**1,293**	**-**	**-**	**-**	**10,118**
Effect of exchange variation	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance at December 31, 2016	**-**	**(1,796)**	**(41,421)**	**(3,779)**	**(70)**	**-**	**-**	**-**	**(47,066)**
Book value									
December 31, 2015	**-**	**1820**	**21,835**	**2,957**	**141**	**-**	**7,585**	**-**	**34,338**
December 31, 2016	**-**	**8,314**	**19,093**	**2,199**	**64**	**-**	**8,728**	**-**	**38,398**

Notes to the financial statements

Construction in progress

The balance of constructions in progress in the amount of R$ 8,728 in the parent company and R$ 18,222 in consolidated in 2016 (R$ 7,585 and R$ 21,308 in 2015, respectively) refers to machinery and equipment still in the implementation phase and constructions in progress. These assets should come into operation during 2017.

Guarantee

The Company uses its assets as guarantees for the funds obtained from financial institutions. Although much of the fixed assets is guaranteeing loans and financing, the Company has been historically settling its obligations in the contractual terms, and the guarantees with assets have never been used. In 2017, the Company used the amount of R$ 94,773 in guarantees (R$ 55,912 in 2015).

Reclassification for investment property

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as an investment property. Any gain on from this remeasurement is recognized in income (loss) as the gain reverses an impairment loss on the specific property, and any remaining gain recognized as other comprehensive income and presented under equity valuation adjustment account. Any loss is immediately recognized in income (loss).

17. Intangible assets

Goodwill

The goodwill resulting from the acquisition of investments, after appropriate allocations, is included in intangible assets. They are presented in the parent company statement under the investment group.

Goodwill generated in business combinations are recorded in intangible assets and were determined in accordance with accounting practices in force at the time of each business combination, adjusted for the reclassification of certain intangibles. Goodwill is measured at cost, less impairment losses.

Notes to the financial statements

Other intangible assets

Separately acquired intangible assets are measured at cost upon initial recognition, while the cost of intangible assets acquired in a business combination is the fair value at the acquisition date. The balances are presented net of accumulated amortization and impairment losses.

Development expenditures involving a plan or project aiming at the production of new products or substantially enhanced are capitalized are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and use or sell the asset.

The amortization of intangible assets, other than goodwill, is based on their estimated useful lives and is recognized in profit or loss under the straight-line method. The estimated useful lives for the current and comparative periods are approximately 5 years for system development and deployment costs.

We also clarify that the recovery of the book value of goodwill and intangible assets with indefinite useful life is assessed annually using the concept of “value in use” through discounted cash flow models of cash generating units.

Notes to the financial statements

						Consolidated
	Software	Trademarks and patents	Goodwill	Product development	Other intangible assets	Total
Cost						
Balance at December 31, 2014	1,471	22,953	40,822	10,478	1,143	76,867
Acquisitions	-	-	-	144	3,919	4,063
Transfer of other groups	1,131	-	-	(9)	9	1,131
Write-offs	-	(3,576)	-	(68)	-	(3,644)
Effect of exchange variation	-	7,818	3,852	-	1,217	12,887
Balance at December 31, 2015	2,602	27,195	44,674	10,545	6,288	91,304
Acquisitions				1,650	27	1,677
Transfer of other groups	3,519	(1)	-	(370)	(3,148)	-
Write-offs	(25)	(1,380)	-	(1,298)	(216)	(2,919)
Effect of exchange variation	-	(3,770)	(1,992)	-	(781)	(6,543)
Balance at December 31, 2016	6,096	22,044	42,682	10,527	2,170	83,519
Amortization						
Balance at December 31, 2014	(1,371)	(276)	-	(6,949)	(201)	(8,797)
Amortization for the year	(64)	(91)	-	(894)	(86)	(1,135)
Transfer of other groups	-	-	-	-	-	-
Write-offs	-	-	-	74	-	74
Balance at December 31, 2015	(1,435)	(367)	-	(7,769)	(287)	(9,858)
Amortization for the year	(27)	(90)	-	(530)	(60)	(707)
Transfer of other groups	(194)	-	-	88	106	-
Write-offs	23	-	-	1,237	-	1,260
Balance at December 31, 2016	(1,633)	(457)	-	(6,974)	(241)	(9,305)
Book value						
December 31, 2015	1,167	26,828	44,674	2,776	6,001	81,446
December 31, 2016	4,463	21,587	42,682	3,553	1,929	74,214

Notes to the financial statements

Impairment test for cash generating units containing goodwill

For impairment testing purposes, the goodwill is allocated to the Group's operating divisions, which represent the lowest level inside the Group, at which the goodwill is monitored for purposes of internal management, never above the Group's operating segments.

Cash-generating unit	2016	2015
Firearms	**42,682**	44,675

The recoverability test for CGUs mentioned above is performed annually based on the fair value net of sales expenses, which is estimated based on discounted cash flows. On December 31, 2016, the tests performed did not indicate the need of forming a provision for impairment losses on goodwill and intangible assets with indefinite useful lives.

Main assumptions used for forecasting the discounted cash flows

The main assumptions used in the calculation of the recoverable value are the cash flow discount rate and growth rates. Assumptions adopted are as follows:

	Discount rate WACC	Average growth rate
Cash-generating unit	**2016**	**2016**
Firearms	16.8%	9.4%

Discount rate

The discount rate for CGU is represented by a post-tax rate based on US Treasury Bonds for 20 years, adjusted for a risk premium that reflects the risks of investments in equity securities and the systematic risk of the unit in question. The company estimated, based on management's experience with assets of this CGU, the weighted average of the capital cost of the industry in which such CGU operates, which was calculated based on a possible debt/shareholders' equity ratio of 22.4% for Firearms CGU and of 36.9% for Armouring CGU, at the market interest rate of 14%.

Notes to the financial statements

Growth rate and perpetuity

The forecasts are in line with the Business Plan prepared by the Company's management. It is expected that the projected sales growth is in line with the curve observed in previous years, and in line with the economic growth of the country. After the projection period, we considered the growth and constant percentage of economic growth (growth in perpetuity).

In order to calculate the perpetuity, a nominal growth rate of 4.5% was used, in line with the long-term inflation expectation projected by the Brazilian Central Bank (BACEN) and macroeconomic indicators published in Focus report of BACEN, and in the Country Forecast report of Economist Intelligence Unit (EIU).

Notes to the financial statements

18. Loans and financing

The terms and conditions of outstanding loans were as follows:

							Consolidated
					2016		2015
	Currency	Nominal interest rate	Year of maturity	Contracted value	Book value	Contracted value	Book value
Loans and financing							
Working capital	R$	CDI +2.42–3.00% p.a.	2018	**2,500**	**1,253**	35,000	23,532
FINAME	R$	2.50–8.70% p.a.	2021	**8,515**	**2,284**	8,515	4,272
FINEP	R$	4–5.25% p.a.	2020	**14,095**	**8,348**	64,240	23,059
BNDES	R$	3.50% p.a.	2020	**9,995**	**7,675**	9,995	9,678
FNE	R$	9.50% p.a.	2019	**9,806**	**4,232**	9,806	5,641
Advance from receivables	R$	24.60% p.a.	2017	**6,136**	**6,136**	54,589	54,589
Foreign exchange advance	USD	9.80% p.a.	2017	**28,358**	**28,065**	191,948	191,948
Working capital	USD	Libor + 1.55–5.6% p.a	2021	**499,162**	**490,990**	106,400	154,932
Working capital	USD	3.05–5.20%	2016	**-**	**-**	25,037	47,923
Working capital	USD	80–100% of CDI p.a.	2019	**65,072**	**65,466**	31,390	106,183
Investments	USD	5.33% p.a.	2021	**6,035**	**15,652**	6,035	19,712
Investments	USD	Libor + 2.25% p.a.	2021	**1,731**	**3,768**	1,731	4,796
FINIMP	USD	Libor + 2.53–6.0905% p.a.	2016	**-**	**-**	4,178	11,889
Dell financing	USD	0% cost	2016	-	**-**	201	225
Total					**633,869**		658,379
Current liabilities					**60,757**		459,193
Non-current liabilities					**573,112**		199,186

Notes to the financial statements

							Parent company
	Currency	**Nominal interest rate**	**Year of maturity**	**Contracted value**	**2016 Book value**	**Contracted value**	**2015 Book value**
Loans and financing							
Working capital	R$	CDI + 2.42–3.00%	2018	**2,500**	**1,253**	35,000	23,532
FINAME	R$	2.50–5.50%	2021	**2,304**	**1,139**	2,304	1,626
BNDES	R$	3.50%	2020	**9,995**	**7,675**	9,995	9,678
Advance from receivables	R$	24.60%	2017	**6,136**	**6,136**	969	969
Foreign exchange advances	USD	9.80%	2017	**28,358**	**28,065**	191,948	191,948
Working capital	USD	Libor+ 3.41–5.60%	2021	**424,162**	**422,898**	31,400	89,313
Working capital	USD	3.05–3.91%	2016	**-**	**-**	21,891	47,492
Working capital	USD	85–100% of CDI	2019	**65,072**	**65,466**	31,390	106,183
FINIMP	USD	Libor + 2.23–4.41% p.a.	2016	-	**-**	3,170	7,879
Total					**532,632**		478,620
Current liabilities					**54,567**		386,085
Non-current liabilities					**478,065**		92,535

Schedule of maturities of non-current liabilities:

Year of maturity	**Consolidated**		**Parent company**	
	2016	**2015**	**2016**	**2015**
2017	**-**	149,957	**-**	73,976
2018	**124,786**	20,171	**119,314**	14,433
2019	**167,547**	8,069	**162,119**	2,272
2020	**201,081**	20,989	**131,652**	1,854
2021 onwards	**79,698**	-	**64,980**	-
	573,112	199,186	**478,065**	92,535

Notes to the financial statements

Loans and financing are guaranteed by promissory notes, interest earning bank deposits, fiduciary assignment of machinery and equipment, and real estate mortgages, quotas and collateral of subsidiaries. The sureties granted by the parent company and its subsidiaries are shown in Note 25 - Related parties.

Certain loans and financing agreements entered into by the Company and its subsidiaries contain restrictive covenants that limit certain corporate amendments, including: changes in the Company's direct or indirect control, reduction of the share capital of the Company and/or its parent company, distribution of dividends, payment of interest on own capital, or any other payments to shareholders by the Company and/or its parent company in the event of default of any of the obligations and reduction of the Company's equity capital. If the restrictions are not met, creditors may anticipate maturity.

In December 2016, it was realized the rescheduling of part of the debt with Banco do Brasil S.A., Banco Bradesco S.A., Banco Itaú S.A., Banco Santander S.A. and Banco Haitong S.A. through PPe and Debentures, which are collateralized by: guarantee, chattel mortgage, mortgages, fiduciary assignment and external pledge that will be shared with the creditors of the operation of international guarantee and creditor of debentures.

The interest payment schedule began on January 4, 2017, payable on semi-annual basis to June 21, 2018, and as of this date the principal and quarterly charges will be paid to June 14, 2021.

					2016
					Parent company
MATURITIES	**2018**	**2019**	**2020**	**2021**	**TOTAL**
PPE	97,345	129,792	129,792	64,966	**421,895**
DEBENTURES	15,691	20,919	20,919	10,483	**68,012**
TOTAL	**113,036**	**150,711**	**150,711**	**75,449**	**489,907**

Covenants

The instrument, which was included in re-profile of debt process signed in December/2016, provides for the early maturity in cases of non-compliance of covenants that define, among other obligations: the maintenance of certain financial ratios, such as: (net debt/EBITDA) equal to or less than 3.5 in 2017 and 3x as from 2018 and EBITDA/net financial expenses equal to or greater than 1.10x in 2017 and 1.20x as from 2018 where: net debt is equal to the total debt (including sureties and guarantees) minus cash and cash equivalents, EBITDA is equal to earnings before taxes, interest, taxes, depreciation and amortization in the last 12 months and net financial expenses correspond to total financial income less financial expenses in the last 12 months, adjusted for non-recurring items and guaranteed as: surety, lien, mortgage, fiduciary assignment and external pledge that will be shared with international guarantee and debenture operation creditors.

Notes to the financial statements

19. Debentures

The debentures issued by the Company in a single series, not convertible into shares, distributed in the secondary market through the National Debenture System, with restricted placement efforts aimed at 3rd issue aimed at banking institutions.

Debentures	Principal (R$)	Issuing Date	Securities in the market	Average interest rate	2016	2015
3rd issuance (a)	100,000	06/13/2014	10,000	DI rate + 10.30% (2016)	**68,444**	116,125
				Grand total	**68,444**	127,863
				Current liabilities	**433**	94,890
				Non-current liabilities	**68,011**	32,973
				Incurred cost transactions	**3,584**	2,620
				Appropriate cost transactions	**2,962**	1,593
				Unearned transaction costs	**622**	1,027

<u>Covenants</u>

The instrument, which was included in re-profile of debt process signed in December/2016, provides for the early maturity in cases of non-compliance of covenants that define, among other obligations: the maintenance of certain financial ratios, such as: (net debt/EBITDA) equal to or less than 3.5 in 2017 and 3x as from 2018 and EBITDA/net financial expenses equal to or greater than 1.10x in 2017 and 1.20x as from 2018 where: net debt is equal to the total debt (including sureties and guarantees) minus cash and cash equivalents, EBITDA is equal to earnings before taxes, interest, taxes, depreciation and amortization in the last 12 months and net financial expenses correspond to total financial income less financial expenses in the last 12 months, adjusted for non-recurring items and guaranteed as: surety, lien, mortgage, fiduciary assignment and external pledge that will be shared with international guarantee and debenture operation creditors.

Such ratios are duly monitored by management. The 3rd issue agreement requires that the indexes should be met on annual basis. Considering the renegotiation of the agreement, these indexes were not determined in the year ended December 31, 2016.

Notes to the financial statements

20. Other accounts payable

	Consolidated		Parent company	
	2016	**2015**	**2016**	**2015**
Performance bonus	191	8,068	-	-
Accrued interest	8,703	6,190	-	-
Royalties	3,846	9,596	3,846	9,596
Insurance and freight	15,749	6,057	11,777	316
Legal provisions	-	14,775	-	-
Provisions for unsecured liability (note 15)	-	-	36,709	46,704
Other (i)	9,840	3,547	5,864	5,382
	38,329	**48,233**	**58,196**	**61,998**
Current	35,253	44,124	18,411	11,185
Non-current	3,076	4,109	39,785	50,813

21. Salaries and social security charges

	Consolidated		Parent company	
	2016	**2015**	**2016**	**2015**
Salaries	3,296	6,505	2,108	6,478
Social security charges	10,806	10,266	4,451	3,844
Provisions for vacations	20,543	16,304	8,290	9,210
	34,645	**33,075**	**14,849**	**19,532**

22. Taxes, rates and contributions

	Consolidated		Parent company	
	2016	**2015**	**2016**	**2015**
ICMS	5,732	2,892	2,709	1,202
IPI	8,761	2,310	8,447	-
PIS	1,039	33	560	2
COFINS	4,820	155	2,578	7
IRRF	20,342	19,763	1,943	728
OTHER	972	1,091	948	928
	41,666	**26,244**	**17,185**	**2,867**
Current	**39,170**	**24,634**	**16,241**	**1,257**
Non-current	**2,496**	**1,610**	**944**	**1,610**

23. Provisions for civil, labor and tax risks

Provisions are formed for all contingencies referring to lawsuits in which an outflow of funds will probably be required to settle the contingency or obligation and a reasonable estimate can be made.

Notes to the financial statements

Based on information from its legal advisors and analysis of pending legal proceedings, the Company recorded provision in an amount considered sufficient to cover estimated losses as follow:

				Consolidated
			2016	2015
	Provision	Judicial deposit (1)	Net	Net
Labor	**35,349**	**10,350**	**24,999**	29,056
Civil	**9,432**	**-**	**9,432**	27,260
Tax	**7,050**	**1,058**	**5,992**	5,403
	51,831	**11,408**	**40,424**	61,719
Classified in current liabilities	**40,090**			
Classified in the non-current liabilities	**11,741**			

(1) Recorded in other accounts receivable in non-current assets.

Changes in provisions are as follows:

			Consolidated
	Civil and labor	Tax	Total
Balance at December 31, 2015	59,767	6,450	66,218
Provisions formed during the year	**32,406**	**1,085**	**33,490**
Provisions used during the year	**(34,769)**	**(485)**	**(35,254)**
Write-off of provision	**(12,623)**	**-**	**(12,623)**
Balance at December 31, 2016	**44,781**	**7,050**	**51,831**

			Parent company
	Civil and labor	Tax	Total
Balance at December 31, 2015	16,107	-	16,107
Provisions formed during the year	**6,803**	-	**6,803**
Provisions used during the year	**(4,154)**	**-**	**(4,154)**
Balance at December 31, 2016	**18,756**	**-**	**18,756**

Notes to the financial statements

The Company and its subsidiaries have other processes that have been assessed by the Company's legal advisors as being a possible or remote risk of loss which cannot be determined with certainty, for which no provision has been recorded in view of the fact that the accounting practices adopted in Brazil do not require their calculation as shown below:

	Consolidated				Parent company			
	12/31/2016		12/31/2015		12/31/2016		12/31/2015	
	Possible	Remote	Possible	Remote	Possible	Remote	Possible	Remote
Tax	**25,893**	**418**	7,653	418	**736**	-	-	-
Civil	**18,123**	**357**	13,925	4,856	**11,264**	**206**	10,415	554
Labor	**59,823**	**3,403**	42,302	3,437	**38,270**	**1,703**	26,774	558
Other	**8,006**	**722**	10,979		**7,728**	**340**	10,901	
	111,845	**4,900**	74,859	8,711	**57,998**	**2,249**	48,090	1,112

Hunter Douglas

The subsidiary Taurus Máquinas-Ferramenta Ltda. was party to a lawsuit filed by the company Hunter Douglas N.V. (a company organized under the laws of Curacao, headquartered in Rotterdam, the Netherlands) against the company Wotan Máquinas Ltda. on the collection originated from export financing loan agreement signed between the two in 2001. Defendant due to the supervening location of the industrial park held with Wotan Máquinas Ltda. in 2004 by that subsidiary.

By means of a signing of a Definitive Purchase and Sale and Credit Assignment Agreement, entered into on June 26, 2015, in which T. Investments Co. Inc., a company belonging to Taurus Group, a corporation headquartered in the city of Panama, acquired the credit of Hunter Douglas N.V. against Wotan Máquinas Ltda. and other rights in the amount of US$ 10,250,000. The fulfillment of this commitment resulted in the acquisition of the following by the Company: i) credit of Hunter Douglas N.V. before Wotan Máquinas Ltda.; ii) all rights linked or ancillary to the credit, especially mortgages, and iii) all rights arising from the proceeding, directly linked to credit or not.

On April 29, 2016, the parties signed in the aforementioned process agreement to close the dispute, which was homologated on June 30, 2016. In the homologated agreement, Wotan Máquinas Ltda. agreed to transfer the real estate properties recorded under enrollment numbers 63.714 and 11.400 of the registry of real estate properties of the city of Gravataí (RS), to T INVESTMENTS, as settlement of the liability.

Real estate properties were evaluated at R$ 14,000 (real estate 11,400) and R$ 15,800 (real estate 63,714) totaling R$ 29,800.

Notes to the financial statements

The transfer was not made in the term established in the agreement, since WOTAN MÁQUINAS LTDA. failed to meet the precedent conditions to make the transfer, remaining T INVESTMENTS as transferee of the mortgage according to registrations contained in the enrollment numbers informed. T INVESTMENTS CO. INC should promote the execution of the agreement homologated so as to obtain in court the transfer of real estate. It is important to point out that the values corresponding to this agreement are 100% accrued in the financial statements of the Group.

Carter Case

The main proceeding which Taurus is party, is related to the signing of a agreement to end the lawsuit filed in US Court for the Southern District of Florida against Taurus and its subsidiaries in the United States, Taurus Holdings, Inc. and Taurus International Manufacturing, Inc. (together, the "Companies"). Said agreement resulted from individual lawsuit, Chris Carter vs. Forjas Taurus, S.A. et. al., on alleged defects presented in certain models of the Companies' pistols, classified as a possible risk of loss by its legal advisors. However, the possible consequences of this lawsuit led to the decision, in April 2015, to enter into said agreement, which aimed to minimize potential future risks to the Company, related to a possible change in the level of the lawsuit and considering the specific features of the North-American legal environment, even with a historically low number of defects reported by the Company's customers.

On July 18, 2016, the Judge of the U.S. District Court for the Southern District of Florida granted final approval. This decision also recognized the value of USD 9,000 thousand as lawyers' fees payable in 03 (three) annual installments on: i) January 15, 2017; ii) January 15, 2018 and; iii) January 15, 2019.

However, the parties negotiated and on August 26, 2016 they filed a joint request to change the terms of the agreement, solely with respect to the payment of legal fees. In the proposal submitted to the Judge, the value was reduced from USD 9,000 thousand to USD 8,300 thousand, in single payment. An escrow deposit was made for this value by Taurus through a secured account.

The release of this value is contingent upon the occurrence of the following facts: (i) homologation of the request of change mentioned above; (ii) final and unappealable decision which homologated the principal agreement, after the judgment of appeals in progress, except if in the judgment of these appeals, the agreement was entirely annulled, on definitive basis.

On October 18, 2016, the Judge of the U.S. District Court for the Southern District of Florida homologated the request of change mentioned in item (i) above and it will be definitive in case no appeal is filed by any of the interested parties or third parties in the legal term.

Notes to the financial statements

It is hereby ratified that all the other payments related to the agreement, in the total value of USD 12,438 thousand, were made in 2015.

The agreement approved is the result of intense negotiations and, based on the opinion of its US legal advisors, management of Taurus understands that its signing was the most effective measure to end the lawsuit in reference and its possible developments, as well as the one that involved the least financial impact to the Company, avoiding the risks and potential additional adverse effects to which the Company would be exposed in the event of continued litigation.

Sanctioning Administrative Processes - PMESP

The Company was summoned to present defense in two (02) administrative processes filed by the Military Police of the State of São Paulo (Sanctioning Process No. CSMAM-002/30/16 and Sanctioning Process No. 003/30/2016 in addendum to Process No. CSMAM 01/30/14) which challenges the possibility or not of partial or total noncompliance with the agreements for acquisition and supply of 98,465 (ninety-eight thousand, four hundred and sixty-five) firearms, type pistol, models 24/7 and 640, between years 2007 and 2011, in the first process and also agreements for acquisition and supply of 5,931 (five thousand, nine hundred and thirty-one) firearms, type submachine gun, model SMT 40 in year 2011 in the second process and its addendum, in the total amount of R$ 22,681,184.00 (twenty-two million, six hundred and eighty-one thousand, one hundred and eighty-four reais).

In relation to Sanctioning Process No. CSMAM-002/30/16, the Company considers possible some monetary loss, but since it is an administrative process and is at initial phase, we are presently unable to estimate the values, and the sanctions to which the Company is subject are provided for in article 87 of Federal Law No. 8.666/93, combined with article 81 of State Law (SP) No. 6.544/89.

In relation to Sanctioning Process No. CSMAM 01/30/14, administrative decision was given suspending the Company's right to contract with the public administration of the State of São Paulo, without the application of any monetary penalty.

Anyway, the declaration of suspension of the right to contract with administration is restricted to the federated entity of the declaring authority (State of São Paulo), not affecting negotiations with other States.

Finally, sales to the government of the State of São Paulo in the last 3 years represented less than 1% of the Company's consolidated sales in the period.

Notes to the financial statements

Djibouti

There is a prosecution in secrecy of Justice at the 11th Federal Court of Porto Alegre, against two former employees of the Company and one citizen from Yemen, due to alleged irregular sale of firearms in year 2013 to the Government of Djibouti, whose final destination would be Yemen. Although the Company and its officers are not parties to the process, as soon as the Company became aware of the prosecution, potentially harmful to its reputation, required and had deferred its qualification in the process, as interest party, with the purpose of clarifying to the Judge the facts known by it and providing the necessary support to the investigations. There are no estimated effects or provisions concerning the subject that are or should be duly reflected in the financial statements of the Company on this date.

24. Financial instruments

a) Derivatives

The Company and its subsidiaries carry out operations with derivative financial instruments. The management of these instruments is done through operating strategies and internal controls, aimed at assuring liquidity, profitability and security. The contracting of financial instruments with the objective of offering protection is performed by means of a periodic analysis of the risk exposure that Management intends to cover (exchange rate, interest rate, etc.). The control policy consists of permanent follow-up of the conditions engaged versus those in force in the market.

We summarize below our positions with derivative financial instruments:

	Consolidated		Parent company	
	2016	**2015**	**2016**	**2015**
Derivative financial instruments assets	**-**	6,920	**-**	6,920
Derivative financial instruments liabilities	**(543)**	(956)	**-**	-
	(543)	5,964	-	6,920

Notes to the financial statements

All the operations with financial instruments are classified and recognized in the financial statements of the Company, as the table below:

		Consolidated			
		2016		**2015**	
Instrument	**Contracting currency referring to the notional amount**	**Notional in thousands**	**Fair value**	**Notional in thousands**	**Fair value**
Swap Fixed x Libor (i)	Dollars American - USD	**5,711**	**(543)**	**5,711**	**(956)**
Swap Pre x CDI (ii)	Reais - BRL			-	-
Swap Interest + V.C. USD x CDI + R$ (iii)	Reais - BRL	-	-	**100,000**	**6,366**
Swap + *CDI x* V.C. USD (iii)	Reais - BRL	**-**	**-**	**21,987**	**554**
Non-deliverable forward (export) (iv)	US Dollars - USD	**-**	**-**	**-**	**-**
Non-deliverable forward (foreign currency debt) (v)	US Dollars - USD	**-**	**-**	**-**	**-**
		5,711	**(543)**		**5,964**

(i) Conventional currency swaps of Libor 6m x CDI in order to determine a debt payment flow linked to a post-fixed rate to a post-fixed rate in the domestic market.

(ii) Conventional swaps of fixed rates related to Real Estate Receivable Certificates (CRIs) in order to link exposure to interest rates to a post-fixed rate in the domestic market.

(iii) Conventional swaps of Interbank Deposits (DI) versus the US dollar, in order to link the debt in Brazilian reais, tied to the DI, to a fixed debt in US Dollar. To that end, the Company has conventional dollar swaps versus DI with the purpose of linking the debt in US Dollars to a debt in Brazilian reais tied to the DI. Such swaps are tied to the debts regarding amounts, terms and cash flow.

(iv) Non-deliverable forwards (export) contracted to hedge a percentage of the export revenue, with a high probability of occurrence against the fluctuation of the US Dollar.

(v) Non-deliverable forward (foreign currency debt) contracted with the purpose of using the hedge instrument as foreign exchange hedging due to effects of fluctuations in exchange rates, financial flow of financing agreements and foreign currency loans.

The fair value does not represent the obligation of an immediate disbursement or cash receipt, as this effect will only occur on the contractual verification dates or on the maturity dates of each transaction.

Notes to the financial statements

a) Fair value vs. book value

The fair values of the financial assets and liabilities, together with the book values presented in the balance sheet, are as follows:

	Consolidated			
	2016		2015	
Assets measured at fair value	**Book value**	**Fair value**	**Book value**	**Fair value**
Forward exchange contracts and interest rate swap used to hedge transactions (i)	-	-	6,920	6,920
Assets measured at amortized cost				
Cash and cash equivalents (ii)	**26,708**	**26,708**	60,312	60,312
Interest earning bank deposits (ii)	**3,186**	**3,186**	34,626	34,626
Accounts receivable (iii)	**150,197**	**150,197**	192,076	192,076
	180,091	**180,091**	287,014	287,014
Liabilities measured at fair value				
Forward exchange contracts and interest rate swap used to hedge transactions (i)	**543**	**543**	-	-
Liabilities measured by the amortized cost				
Loans and financing (iv)	**599,668**	**474,255**	411,842	368,311
Debentures (iv)	**68,444**	**74,276**	127,863	132,423
Foreign exchange advances (iv)	**28,065**	**24,698**	191,948	181,081
Suppliers and advance from receivables (ii)	**134,848**	**134,848**	135,813	135,813
Advance of real estate credits (iv)	**-**	**-**	-	-
	831,025	**708,077**	867,466	817,628

	Parent company			
	2016		2015	
Assets measured at fair value	**Book value**	**Fair value**	**Book value**	**Fair value**
Forward exchange contracts and interest rate swap used to hedge transactions (i)	-	-	6,920	6,920
Assets measured at amortized cost				
Cash and cash equivalents (ii)	**1,313**	**1,313**	15,822	15,822
Interest earning bank deposits (ii)	**-**	**-**	-	-
Accounts receivable and other receivables (iii)	**45,701**	**45,701**	71,152	71,152
	47,014	**47,014**	86,974	86,974
Liabilities measured at fair value				
Forward exchange contracts and interest rate swap used to hedge transactions (i)	-	-	-	-
Liabilities measured by the amortized cost				
Loans and financing (iv)	**498,431**	**414,774**	285,703	268,800
Debentures (iv)	**68,444**	**74,276**	127,863	132,423
Foreign exchange advances (iv)	**28,065**	**24,698**	191,948	127,578
Suppliers and advance from receivables (ii)	**131,212**	**131,212**	120,044	120,044
	726,152	**644,960**	725,558	648,845

Notes to the financial statements

(i) The fair value of forward exchange agreements is based on the listed market price, if available. If a listed market price is not available, fair value is estimated by discounting the difference between the contractual forward price and the current forward price by using a risk-free interest rate (based on government bonds). The fair value of swap contracts is based on brokers' quotations. These quotations are tested for reasonability by estimating discounted future cash flows based on contract conditions and maturities and using market interest rates of similar instruments on the measurement date. Fair values reflect the instrument credit risk and include adjustments to consider the credit risk of the Company's entity and the counterpart, if applicable.

(ii) Due to the short-term cycle, it is assumed that the fair value of cash and cash equivalents, receivables, suppliers, other accounts payable and advances from receivables are close to its book values.

(iii) The fair value of accounts receivable and other receivables is estimated as the present value of future cash flows, discounted at the market interest rate on presentation date.

(iv) The fair value that is determined for disclosure purposes is calculated based on the present value of principal and future cash flows, discounted at market interest rate on the date of presentation of the financial statements. For convertible debt securities, the market interest rate is determined by reference to similar liabilities that do not have a conversion option. For financial leases, the interest rate is calculated by referring to similar lease agreements.

According to the hierarchical classification criteria for determining fair value: Level 1: prices quoted (not adjusted) in active markets, net and visible to identical assets and liabilities and identical which are accessible at the measurement date; *Level 2*: prices quoted (that can be adjusted or not) for similar assets or liabilities in active markets; and Level 3: assets and liabilities that are not based on observable market data (unobservable inputs); the Company classified the fair values of financial instruments as Level 2.

Notes to the financial statements

25. Related parties

	Balances of subsidiaries outstanding with the parent company							Effect on the result of transactions of subsidiaries with parent company	
	Current assets (ii)	Non-current assets (credits with related parties) (iii)	Total assets	Current liabilities (i)	Non-current liabilities		Total liabilities	Income	Expense
December 31, 2015									
Taurus Blindagens Ltda.	-	-	-	41,198	25,626		66,824	-	-
Taurus Blindagens do Nordeste Ltda.	-	-	-	-	15,572		15,572	-	-
Taurus Holdings, Inc.	-	-	-	58,726	6,290		65,016	299,544	4,484
Taurus Security Ltda.	-	547	547	-	-		-	-	-
Taurus Investimentos Imobiliários Ltda.	38	-	38	-	-		-	-	5,476
Taurus Máquinas-Ferramenta Ltda.	-	16,792	16,792	-	46,704		46,704	-	-
Polimetal Metalurgia e Plásticos Ltda.	29,498	45,263	74,761	81,974	-		81,974	10,371	136,983
	29,536	62,602	92,138	181,898	94,192		276,090	309,915	146,943
December 31, 2016									
Taurus Blindagens Ltda.	**10**	**-**	10	**777**	**24,056**	**(iv)**	24,833	**281**	**3,118**
Taurus Blindagens Nordeste Ltda.	**26**	**-**	26	**182**	**9,853**	**(iv)**	10,035	**24**	**1,560**
Taurus Holdings, Inc.	**13**	**-**	13	**69,258**	**5,250**	**(v)**	74,508	**359,711**	**-**
Taurus Investimentos Imobiliários Ltda.	**50**	**-**	50	**916**	**-**		916	**-**	**1,761**
Taurus Máquinas-Ferramenta Ltda.	**-**	**16,941**	16,941	**-**	**36,709**		36,709	**1,006**	**-**
Taurus Plásticos Ltda.	**17**	**-**	17	**-**	**-**		-	**-**	**-**
Polimetal Metalurgia e Plásticos Ltda.	**9,639**	**-**	9,639	**26,903**	**-**		26,903	**1,288**	**173,057**
	9,755	**16,941**	**26,696**	**98,036**	**75,868**		**173,904**	**362,310**	**179,496**

(i) Refers to amounts recorded under Suppliers - R$ 28,014, advance from client, R$ 41,187 and financial loans, R$ 28,835.

(ii) Refers to amounts recorded under Trade accounts receivable, R$ 346, advance to suppliers, R$ 1,259 and financial loans, R$ 8,150.

(iii) Represent loan agreements with the parent company Forjas Taurus S.A., and are restated to 100% of the CDI (Interbank Deposit Certificate).

(iv) Represent loan agreements with subsidiary Taurus Blindagens Ltda. and Taurus Blindagens Nordeste Ltda. are restated to 100% of the CDI (Interbank Deposit Certificate) in the amount of R$ 33,908.

(v) Refers to advances received from clients

Notes to the financial statements

Operations involving the Company and the subsidiary Taurus Holdings, Inc., refer to sales of firearms to be marketed by the subsidiary in the US market.

In relation to transactions involving the Company and the subsidiary Polimetal Metalurgia e Plásticos Ltda., refer to the purchase of products in the process, since the subsidiary carries out a part of the production process in the firearms' segment.

The transactions carried out with related parties follow the price conditions and terms agreed between the parties.

With the capital increases, approved by the Board of Directors at the meetings held on 01.06.2016, 06.02.2016 and 06.27.2016, CBC Participações S.A., parent company of the Company, held on December 31, 2016, 91.91% of common shares and 2.51% of preferred shares, totaling 70.99% of the total capital of Taurus.
On December 31, 2016, operations involving Forjas Taurus S.A. and CBC refer mainly to sales of firearms for trading, and purchase of ammunition. The amount of these operations is shown below:

	Current assets	Current liabilities	Income	Expense
Companhia Brasileira de Cartuchos	**-**	**25,023**	**61,769**	**25,071**

Remuneration of Directors and Board Members

The remuneration of directors and board members includes salaries, fees and benefits:

	Consolidated		Parent company	
	2016	**2015**	**2016**	**2015**
Salaries and benefits of statutory directors	**6,244**	6,732	**6,244**	6,732
Remuneration and benefits of the Board of Administration	**361**	545	**361**	545
Remuneration and benefits of the Tax Council	**540**	479	**540**	479
Total	**7,145**	7,756	**7,145**	7,756

The Company does not have remuneration benefit policies for key Management personnel that may be characterized as: post-employment benefits, termination benefits, share-based remuneration or other long-term benefits.

Notes to the financial statements

Operations of directors and board members

Directors and board members hold a non-material percentage of Company's voting shares.

Sureties among related parties

Loans and financing are guaranteed by promissory notes, fiduciary assignment of machinery and equipment, and real estate mortgages. The sureties granted between subsidiaries and parent company are as follows:

	2016	2015
Polimetal Metalurgia e Plásticos Ltda.	**42,023**	151,601
Forjas Taurus S.A.	**95,934**	95,749
Taurus Blindagens Ltda	**494,807**	-
	632,764	247,350

26. Shareholders' equity / Unsecured liability (parent company)

a) Capital

In 2016, there were 3 capital increases that totaled R$ 29,242, which were approved at the Board of Directors' Meeting held on January 06, 2016, June 02, 2016 and June 27, 2016. Accordingly, the controlling shareholder, CBC Participações S.A., became the holder of 91.91% of the common shares issued.

As of December 31, 2016, the Company's capital was R$ 393,977,026.09 (three hundred ninety-three million, nine hundred seventy-seven thousand seven and twenty-six and nine centavos), represented by 58,278,569 (fifty-seven million two hundred seventy-eight thousand five hundred sixty-nine) shares and 44,642,459 (forty-four million, six hundred forty-two thousand and four hundred fifty-nine common shares and 13,636,110 (thirteen million, six hundred thirty-six thousand and one hundred ten) preferred shares, all nominative, book-entry and with no par value.

Subscription bonus
Shareholders who participated in the capital increase approved during Special Shareholders' Meeting held on September 29, 2015 was assigned, as an additional advantage, a subscription bonus for each share subscribed, according to the type of share. Subscription bonuses were valid until 01/30/2017 ("Maturity") and had an exercise price of R$ 1.64 for common and preferred shares.

Preferred shares
Preferred shares do not entitle to differentiated dividends and takes priority in the settlement of their share of capital.

According to the Company's Bylaws, in its Article 5, paragraph 4, the preferred shares will be entitled to vote at any General Meeting deliberations on the matters listed below, in which case each preferred share correspond to one vote:

Notes to the financial statements

(i) Transformation, Take-over, Merger or Spin-off of the Company;

(ii) approval of agreements entered into between the Company and its Controlling Shareholder, as defined in Level 2 Regulation, directly of by means of third parties, as well as other companies in which the Controlling Shareholder holds interests, whenever, pursuant to law or statutory provision, such matters should be submitted to the General Meeting;

(iii) appraisal of assets earmarked for the capital increase subscription of the Company;

(iv) choice of a specialized company for determination of the Company's Economic Value; under Chapter VII hereof; and

(v) change or revocation of statutory provisions which change or modify any of the requirements established in item 4.1 Regulations of the Level 2, excepting that this voting right shall prevail only while the Contract of Participation of Level 2 Corporate Governance is in force.

Authorized shares (in thousands of shares)

	2016	**2015**
Common shares	**51,851**	51,851
Preferred shares	**103,702**	103,702
	155,553	155,553

Shares issued and fully paid-in

	Common (ON)		**Preferred**	
	Amount in thousands	**Amount in R$ thousand**	**Amount in thousands**	**Amount in R$ thousand**
December 31, 2015				
ON (Common shares) R$1.69 - PN (Preferred shares) R$1.13*	27,447	46,385	13,002	14,692
December 31, 2016				
ON (Common shares) R$1.61 - PN (Preferred shares) R$1.80*	**44,642**	**71,874**	**13,636**	**24,545**

*Share closing quotation on the date indicated, multiplied by the total shares outstanding on that date.

b) Equity valuation adjustments

Deemed cost

The equity valuation adjustments' caption in shareholders' equity includes adjustments for the adoption of deemed cost of fixed assets on the transition date for IFRS. Amounts recorded in equity valuation adjustments are totally or partially reclassified to full or partial income (loss) for the year upon depreciation of items related to or disposal of assets.

Fair value of property investments

As described in note 14, in 2016 the Company recognized the fair value of investment property, according to the Brazilian accounting practices (BR GAAP) and international accounting practices (IFRS). The initial recognition of investment property at fair value is made in the shareholders' equity. After the initial recognition, the fair value should be reviewed on annual basis and the changes in fair value are recognized directly in the result for the year.

Notes to the financial statements

Accumulated translation adjustments

Accumulated translation adjustments include all foreign currency differences deriving from the translation of financial statements of foreign operations.

c) Earnings per share

Basic earnings per share	**2016**	2015
Loss attributable to shareholders (in thousands of R$)	**(103,027)**	(253,810)
Balance of shares at the end of the year	**58,278,569**	40,448,248
Total shares	**58,278,569**	40,448,248
Earnings per share - Basic (in R$)	**(1.76784)**	(6.27493)
Diluted earnings per share	**2016**	2015
Loss attributable to shareholders (in thousands of R$)	**(103,027)**	(253,810)
Balance of shares at the end of the year	**58,278,569**	40,448,248
Bonus effect on share subscription*	**34,062**	778,077
Total shares considered	**58,312,631**	41,226,325
Earnings per share considering the bonus and diluted effect in R$	**(1.76585)**	(6.15650)

*Refers to the effect of share subscription bonds, as described in item “a” of this note.

d) Capital transactions

The corporate restructuring in May 27, 2011 involving the subsidiary Polimetal Metalurgia e Plásticos Ltda. and the Company resulted in changes in ownership interest between the parties involved in the amount of R$ 40,996, which was recognized in unsecured liability in the capital transaction account.

27. Net operating income

Sale of assets

Operating income is recognized when:

(i) There is convincing evidence that the most significant risks and rewards of ownership of the goods have been transferred to the buyer, and there is no continuing involvement with the goods sold;

(ii) It is probable that the financial economic benefits will flow to the entity, and;

(iii) The related costs and potential return of goods can be reliably estimated, there is no continued involvement with the goods sold, and the amount of operating revenue can be reliably measured.

Notes to the financial statements

Sales tax

Sales revenues are subject to the following taxes and contributions, and the following basic rates:

	Rates
ICMS - Value-Added Tax on Sales and Services	0–25%
IPI - Excise tax	0–45%
Contribution for social security funding–COFINS	3% and 7.6%
Social integration program–PIS	0.65% and 1.65%

	Consolidated		Parent company	
	2016	**2015**	**2016**	**2015**
Sales of goods	**966,119**	956,254	**545,589**	500,887
Rendering of services	**40**	622	**9**	622
Adjustment to present value	**-**	(7,258)	**-**	(2,310)
Total gross revenue	**966,159**	949,618	**545,598**	499,199
Sales tax	**(109,745)**	(119,054)	**(39,836)**	(44,000)
Refunds and rebates	**(26,141)**	(6,755)	**(13,506)**	(3,398)
Total net operating revenue	**830,273**	823,809	**492,256**	451,801

Because the Company's sales have short-term maturity, and the effects of the calculation of adjustment to present value are immaterial, the Company no longer presents the calculation of present value in its financial statements.

28. Expenses per type

	Consolidated		Parent company	
	2016	**2015**	**2016**	**2015**
Expenses according to the role				
Cost of products sold	**(637,072)**	(581,736)	**(447,231)**	(331,956)
Sales expenses	**(130,732)**	(108,839)	**(47,300)**	(38,820)
General and administrative expenses	**(131,981)**	(122,235)	**(66,110)**	(49,218)
Other operating expenses	**(41,241)**	(87,941)	**(11,402)**	(19,331)
	(941,026)	(900,751)	**(572,043)**	(439,325)
Expenses per type				
Depreciation and amortization	**(34,241)**	(35,300)	**(6,891)**	(7,606)
Personnel expenses	**(289,828)**	(306,040)	**(92,281)**	(140,732)
Lawsuits	**(22,542)**	(82,548)	**(9,299)**	(12,636)
Tax expenses	**(8,314)**	-	**(6,114)**	-
Raw materials and use and consumption materials	**(341,005)**	(243,853)	**(371,610)**	(182,117)
Freight and insurance	**(28,711)**	(35,188)	**(20,311)**	(15,203)
Third party services	**(52,688)**	(35,676)	**(21,079)**	(14,854)
Advertising and publicity	**(21,833)**	(19,335)	**(1,367)**	(1,696)
Provision for losses with securities - Renill	**-**	(2,510)	**-**	-
Expenses with product warranty	**(9,167)**	(4,035)	**(6,781)**	520
Water and electricity	**(15,796)**	(18,752)	**(2,746)**	(7,922)
Travel and accommodation	**(7,393)**	(5,064)	**(3,563)**	(3,193)
Commission expenses	**(37,964)**	(23,158)	**(9,862)**	(3,886)
Cost of write-off property, plant and equipment	**(10,563)**	(12,662)	**(2,382)**	(11,321)
Losses in the production process	**(5,450)**	(16,653)	**(2,514)**	(9,942)
Other expenses	**(55,531)**	(59,977)	**(15,243)**	(28,737)

Notes to the financial statements

	(941,026)	(900,751)	**(572,043)**	(439,325)

29. Net financial income (loss)

Financial income (loss) mainly includes income from interest on investment funds, changes in fair value of assets measured at fair value through profit or loss and gains on hedge instruments. The financial income (loss) is recognized within the accrual period.

	Consolidated		Parent company	
	2016	**2015**	**2016**	**2015**
Financial expenses				
Interest	**(79,614)**	(73,076)	**(74,539)**	(66,697)
Exchange variation	**(3,532)**	(249,198)	**(2,858)**	(228,805)
IOF (Tax on financial transactions)	**(2,541)**	(2,144)	**(1,592)**	(705)
Swap on financial operations	**(9,413)**	(16,746)	**(9,413)**	(16,746)
Adjustment to present value		(10,156)		(9,163)
Other expenses	**(9,518)**	(8,005)	**(6,047)**	(1,109)
	(104,618)	(359,325)	**(94,449)**	(323,225)
Financial income				
Interest	**3,734**	6,590	**3,321**	7,611
Exchange variation	**96,217**	86,380	**88,695**	79,546
Swap on financial operations	**836**	30,722	**836**	30,722
Adjustment to present value		11,290		2,975
Other income	**1,122**	5,768	**943**	1,934
	101,909	140,750	**93,795**	122,788
Net financial income (loss)	**(2,709)**	(218,575)	**(654)**	(200,437)

30. Insurance coverage

The Company adopts the policy of contracting insurance coverage for assets subject to risks to cover eventual claims, considering the nature of its activity. The adequacy of insurance coverage is determined by the Company's management, which considers it sufficient to cover any losses.

In 2016, insurance coverage for the Company was as follows:

	2016	
	Consolidated	**Parent company**
Material damages	**405,792**	**80,000**
Civil liability	**197,021**	**15,000**
Loss of profit	**233,521**	**233,521**

31. Provision for product warranty

The Company quantifies and records an estimate for the costs related to the warranty, according to historical and current repair costs. The provision for product warranty ensures that the repair costs in case of replacement or repair do not affect the operating results for the periods in which these additional costs occurred. Therefore, amounts are recorded for the accrual basis of accounting. At December 31, 2016 and 2015, the balances are shown as follow:

Notes to the financial statements

	Consolidated		Parent company	
	2016	**2015**	**2016**	**2015**
Domestic market	6,590	7,054	5,122	5,586
Foreign market	9,936	11,079	-	1,477
Total	16,526	18,133	5,122	7,063
Current liabilities	11,091	12,913	5,122	7,063
Non-current liabilities	5,435	5,220	-	-

32. Subsequent events

Capital increase

The Company's Board of Directors, at meeting held on January 31, 2017, approved the capital increase in the amount of R$ 10,511,814.52 (ten million, five hundred and eleven thousand, eight hundred fourteen reais and fifty-two cents), upon issuance of 6,409,643 (six million, four hundred and nine thousand, six hundred and forty-three) new shares, of which 1,802,855 (one million, eight hundred and two thousand, eight hundred and fifty-five) common shares and 4,606,788 (four million, six hundred and six thousand, seven hundred and eighty-eight) preferred shares, all at issue price of R$1.64 (one real and sixty-four cents) per share, as result of the exercise of 1,802,855 (one million, eight hundred and two thousand, eight hundred and fifty-five) subscription bonus class 1 and 4,606,788 (four million, six hundred and six thousand, seven hundred and eighty-eight) subscription bonus class 2, all issued in the context of the capital increase of the Company homologated on September 29, 2015.

In view of such increase, the Company's new capital amounted to R$ 404,488,840.61 (four hundred four million, four hundred eighty-eight thousand, eight hundred forty and sixty-one centavos), represented by 64,688,212 (sixty-four million, six hundred eight-eight thousand and two hundred twelve) shares, of which 46,445,314 (forty-six million, four hundred forty-five thousand and three hundred fourteen) are common shares and 18,242,898 (eighteen million, two hundred forty-two thousand and eight hundred ninety-eight) are preferred shares, all nominative, book-entry and with no par value.

In addition to the dilution of the current common shareholders of the Company by 3.881673%, of the preferred shareholders by 25.252501% and of the total shareholders by 9.908518%, there are no other material legal and economic consequences from this capital increase, since the exercise of this subscription bonus was already expected and permitted, under the terms of the capital increase homologated at the Special Shareholders' Meeting held on September 29, 2015.

The new common and preferred shares shall entitle to full dividends that may be declared and all other rights and benefits conferred to the other holders of common and preferred shares issued by the Company, on equal conditions.

The Company also informs that the Subscription bonus issued in the context of the capital increase homologated at Special Shareholders' Meeting held on September 29, 2015 had their maturity on 01.30.2017. Accordingly, the 8,618 subscription bonus class 1 and 55,628 subscription bonus class 2 issued and not exercised were canceled.

Notes to the financial statements

Operation with related party

On February 24, 2017, the Company's Board of Directors approved the signing of the private instrument of temporary transfer of license of operation and manufacturing processes ("agreement") for the manufacturing of certain models of long firearms with COMPANHIA BRASILEIRA DE CARTUCHOS ("CBC"), Related Party of the Company. The agreement will be effective for thirty-six (36) months and, besides the production of certain long firearms of the Company's portfolio, it also provides for the lease of machines and equipment for manufacturing of long weapons owned by the Company. The conditions were established based on certain market conditions, according to the standards and procedures set forth in the Policy of Related Party Transactions of the Company.

The main purposes of the agreement are: (I) to increase the efficiency of the operation of long firearms considering lower production costs of the CBC plant in Montenegro-RS, compared to costs incurred by the Company, observing that this segment had already been operating with negative operating margins in the last two years; (II) to allow the Company to focus its efforts on the production of guns, pistols and tactical firearms, representing most of its production and better operating margins; (III) to allow the Company to cover the global demand for long firearms, considering the increased manufacturing installed capacity of CBC; and, consequently, (iv) the optimization of distribution of these firearms to several markets.

According to the conditions established in the agreement, the sale of these long firearms will continue to be made by Taurus, being realized only the temporary transfer of license of operation and manufacturing processes.

Considering that the manufacturing, use, traffic and trade of firearms object of this agreement are controlled activities (art. 9 of Decree No. 3665/2000 - "R-105"), the signing of the agreement depends on authorization and regularization by the Brazilian Army. In case of failure to obtain the required authorizations, the agreement will be canceled, and the original condition of the operation will be returned to the parties, free of charge related to indemnity or reimbursement.

The manufacturer of the firearms will be fully responsible for the technical assistance and warranty of the products, as provided for in the agreement. Also, CBC may only produce and/or trade the long firearms object of the agreement during the effectiveness of it, being forbidden the maintenance of operation of such firearms after the termination of the agreement.

Capital budget proposal

Description	Investments		Sources of resources	Int. (%)
Forjas Taurus - São Leopoldo (RS) Unit	**R$ Million**	**USD Million***		
Research and development of products	5.8	1.7	Own	20.7%
Modernization and expansion of capacity	1.8	0.5	Own	6.4%
Information technology	0.2	0.1	Own	0.7%
	7.8	**2.3**		**27.9%**
Taurus Blindagens Ltda. - PR and BA units				
Research and development of products	1.4	0.4	Own	5.0%
Information technology	0.2	0.1	Own	0.7%
	1.6	**0.5**		**5.7%**
Polimetal Metalúrgia e Plásticos Ltda. - São Leopoldo (RS)				
Modernization and expansion of capacity	1.8	0.5	Own	6.4%
Information technology	**0.6**	**0.2**	**Own**	**2.1%**
	2.4	**0.7**		**8.6%**
CAPEX - Forjas Taurus S.A. Consolidado Brasil	**11.8**	**3.5**		**42.1%**
Taurus Holdings, Inc. and Subsidiaries - Miami - Florida (USA)				
Research and development of products	13.3	4.0	Own	47.5%
Modernization and expansion of capacity	2.3	0.7	Own	8.2%
Information technology	0.6	0.2	Own	2.1%
	16.2	**4.9**		**57.9%**
CAPEX Forjas Taurus S.A. - Consolidated	**28.0**	**8.4**		**100.0%**

Dollar R$/USD 3.30

Other information the Company deems to be relevant

OPINION OF THE AUDIT AND RISK COMMITTEE OF FORJAS TAURUS S.A.

The members of the Audit and Risk Committee of Forjas Taurus S.A., in the exercise of its legal duties and responsibilities, as provided for in the Internal Rules of the Advisory Committees to the Board of Directors, carried out the examination and analysis of the financial statements, together with the independent auditors' report and the Management Report for the year 2016 (“2016 Annual Financial Statements”) and, considering information provided by Company’s management and by KPMG Auditores Independentes, unanimously declare that they reflect fairly, in all material respects, the financial position of the Company and its subsidiaries, and recommend the approval of the documents by the Board of Directors and its submission to the Annual General Meeting, pursuant to the Corporate Law.

Porto Alegre, March 22, 2017.

Sérgio Laurimar Fioravanti
Fábio Mazzaro
Thiago Piovesan

Opinions and Statements / Independent auditors’ report – Unqualified

INDEPENDENT AUDITOR REPORT ON INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of Forjas Taurus S.A.

Opinion

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

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

Basis for opinion

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

Main audit issues

The main audit issues are those that, in our professional judgment, were the most significant ones in our audit of the current year. These issues were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and when we formed our opinion on these individual and consolidated financial statements, and, accordingly, we do not express a separate opinion on these issues.

Provisions and contingent liabilities – tax, labor and civil – Parent Company and Consolidated

As described in Note 23 to the financial statements, the Company and its subsidiaries are party to tax, labor and civil lawsuits and administrative processes in course before courts and governmental agencies, derived from the normal course of its business.

The measurement, accounting recognition as a provision, and the respective disclosure of contingencies related to these lawsuits and administrative proceedings, require judgment by the Company and its legal advisors. Changes in the assumptions used by the Company to exercise such significant judgment, or changes in external conditions, including the positioning of authorities, can significantly impact the amount of provision recognized in the individual and consolidated financial statements and the investment value recorded under the equity method in parent company’s financial statements; thus, we include such issue in our audit.

How our audit conducted this issue

Our audit procedures included, without limitation:

• Evaluation of the design and implementation of key internal controls and accounting policies applicable for the recognition, measurement and disclosure of losses on judicial or administrative disputes, including the assumptions and judgments used by the Company and its subsidiaries to determine the amounts recorded.

• Obtaining of confirmation of balances and status with the legal counsel of the Company and its subsidiaries concerning judicial or administrative disputes where they appear as claimants or defendants so as to determine the reasonableness of the value recorded and disclosures made in the notes.

• We considered, when necessary, the involvement of our tax and legal experts to analyze recent decisions, case laws and change of thesis at the courts, so as to evaluate the fairness of the values and disclosures made in the financial statements.

Impairment of deferred taxes

As described in note 13 to the financial statements, the Group has deferred tax assets derived from deductible temporary differences and tax losses and social contribution tax loss carryforwards, which were accounted for considering a study prepared by the Company and its subsidiaries and approved by the Board of Directors, on the probable amount of taxable income that will available in the future for the realization of these assets.

Future taxable income was determined with the assistance of outside experts contracted by the Company and its subsidiaries, and required the use of estimates and significant judgment by the Company and its subsidiaries. Changes in the assumptions used by the Company to exercise this significant judgment may materially affect the amount of these taxes recognized in the individual and consolidated financial statements and the value of investment recorded under the equity method in the financial statements of the parent company, and therefore, we considered this subject significant in our audit.

How our audit conducted this issue

Our audit procedures included, without limitation:

• Evaluation of the design, implementation and effectiveness of key internal controls, related to the process for determination and approval of the assumptions used for purposes of preparing the projection of results, which is the base for the evaluation concerning the realization of assets.

• With the assistance of our corporate finance experts, we analyzed the supporting documentation and the main assumptions used by the Company in the projections of future taxable income, as follows: (a) the financial statements and management reports containing historical data; (b) annual budget prepared by Management; (c) projections of macroeconomic indicators of the Brazilian Central Bank - BACEN; and (d) we held discussions with management regarding its vision of the business and outlooks for the Company's operations, as well as compared certain data, when available, with other external sources and evaluated the consistency of these assumptions with the business plans approved by the Board of Directors.

• We evaluated the criteria to determine the tax base, accounting classification and analysis of realization of the values of deferred taxes with the assistance of our tax experts;

• We also evaluated if the Company's projections indicated, for the portion of unused tax losses and deductible temporary differences recognized as deferred tax assets, the existence of future taxable income, sufficient to permit their realization, as well as we evaluated the fairness of the disclosures included in the notes of the Company.

• We performed the analysis of information about deferred taxes in the notes to the financial statements. Impairment of goodwill and fixed assets

As described in notes 17 and 16 to the financial statements, the Company and its subsidiaries have goodwill and fixed assets, respectively, and have recorded recurring losses and difficult cash generation. With the identification of these indicators ("triggers") the Company evaluated the existence of reduction to recoverable value concerning its cash generating units ("UGCs") and, to calculate the recoverable value, it used discounted cash flow models prepared by expert contracted by the Company and approved by the Board of Directors, which consider significant judgments and use of market and business assumptions, including (i) growth of revenue (including market share and growth of volume), (ii) operating margins and (iii) discount rates applied to projected future cash flows. In view of the relevance and the high level of judgment involved in the process of determining the estimates of future profitability of cash generating units for purposes of evaluating the recoverable value of such assets, we consider this issue as relevant to our audit.

How our audit conducted this issue

Our audit procedures included, without limitation:

• Evaluation of the design, implementation and operational effectiveness of the relevant internal controls related to the preparation and review of the business plan, budget, technical studies and analyses of the recoverable value of cash generating units where these assets were allocated.

• Analysis of the model used by the Company and its subsidiaries to determine the cash generating units.

• Analysis of reasonableness of the assumptions used to determine discount rates and recalculation of these fees.

• Analysis, with the assistance of our corporate finance experts, of projected future cash flows used in the models so as to determine if they are reasonable in relation to the current economic scenario, to the markets where the Company and its subsidiaries operate, to the future projections of the performance of such markets and to the projections of operating performance of the Company.

• We evaluated the sensitivity analysis of the main assumptions used in the calculations.

• Comparison of projected cash flows, including assumptions related to revenue growth rates and operating margins with the historical performance to evaluate the reasonableness of the Company's projections.

• Evaluation of the fairness of disclosures included in the financial statements. Valuation and existence of inventories

As described in note 01 to the financial statements, in 2016, Forjas Taurus underwent a significant operating restructuring, including the physical change of its principal production plant and the simultaneous replacement of the principal Information Technology operating system (ERP), producing changes in processes and internal controls connected to the physical existence and valuation of inventories, resulting in the increase of physical inventory adjustments determined in counts made during the exercise. Additionally, the Company has slow-movement inventory items whose realization depends on the future use by the Company, based on expectations of future sales that affect the production plans. In view of the risk of material errors associated to changes in internal processes that affect the controls of inventories and due to the level of judgment and uncertainty related to the determination of impairment loss for slow-movement inventory items that may impact the value of these assets in the individual and consolidated financial statements and the value of investment recorded under the equity method in the financial statements of the parent company, we considered these subjects significant to our audit.

How our audit conducted this issue

Our audit procedures included, without limitation:

• Evaluation of the design, implementation and operating effectiveness of key internal controls and accounting policies applicable for the recognition and measurement of losses derived from inventory differences and slow-movement inventories;

• We monitored the general physical inventories taken by the Company and its subsidiaries at the closing of the year, focusing on the controls adopted in the process so as to conclude on the integrity and accuracy of the counts made.

• Audit procedures on physical counts on sample basis and tracing to the records at the end of the inventory taking procedures in order to evaluate if the launchings of adjustments identified in subsidiary ledgers and accounting records of inventories of the Company and its subsidiaries had been made.

• Procedures, on sample basis, on subsidiary ledgers of inventory movements so as to evaluate the existence of items without movement.

• Evaluation of the plans and projections of the Company and its subsidiaries for the items with evidence of slow movement for us to conclude on the reasonableness of the plans and impairment loss recognized.

• Evaluation of the fairness of disclosures included in the financial statements. Other issues

Statements of added value

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

Other information that accompany the consolidated financial statements and the auditor report

The Company’s management is responsible for such other information that comprises the Management Report. Our opinion on the financial statements do not include the Management Report, and we do not express any kind of conclusion on audit on this report.

In connection with the audit of the financial statements, our responsibility is to read the Management Report, and, when carrying it out, consider whether this report is, on all material respects, inconsistent with the financial statements or with the knowledge we obtained in the audit, or seem otherwise materially misstated. If, based on the performed work, we conclude that there is material misstatement in the management report, we are required to report this fact. We do not have anything to report on this respect.

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

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

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

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

Responsibilities of the auditor for auditing individual and consolidated financial statements

Our objectives are to obtain reasonable assurance that the individual and consolidated financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error, and issue an audit report containing our opinion. Reasonable assurance is a high assurance level, but not a guarantee that the audit performed according to the Brazilian and international auditing standards always detect possible existing material misstatements. Misstatements may arise from fraud or error and are considered material when, individually or in aggregate, may influence, from a reasonable perspective, the economic decisions of users taken as base in such individual and consolidated financial statements.

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

• We identified and assessed the risks of material misstatement in the individual and consolidated financial statements, whether caused by fraud or error, planned and performed the audit procedures in response to such risks, as well as obtained appropriate and sufficient audit evidence to base our opinion. The risk of not detecting material misstatement resulting from fraud is higher than that arising from error, once the fraud may involve the act of dodging the internal controls, collusion, falsification, omission or false intentional representations.

• We obtained an understanding of the internal controls relevant to the audit to plan appropriate audit procedures under the circumstances, but not with the objective of expressing opinion on the effectiveness of the internal controls of the company and its subsidiaries.

• We evaluated the adequacy of the adopted accounting policies and the reasonableness of the accounting estimates, and the respective disclosures made by management.

• We concluded about the adequacy of the use, by management, of the accounting basis of going concern, and, based on the audit evidences obtained, whether there is a material uncertainty in relation to the events or conditions that may give rise to significant doubt in relation to the Company's and its subsidiaries' ability to continue as a going concern. If we conclude that there is a material uncertainty, we draw attention in our audit report to the respective disclosures in the individual and consolidated financial statements or include modification in our opinion, if the disclosures are inappropriate. Our conclusions are based on the audit evidences obtained until the date of our report. However, future events or conditions may cause the Company and its subsidiaries to no longer continue as a going concern.

• We evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the corresponding transactions and events compatible with the objective of fair presentation.

• We obtained appropriate and sufficient audit evidence related to the financial information of the group's entities or business activities to express an opinion on the financial statements. We are responsible for the management, oversight and performance of audit of the group, and, consequently, the audit opinion.

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

We also provide to those responsible for governance a statement that we fulfilled the material ethical requirements, including the applicable independence requirements, and report all the possible relationships or issues that could considerably affect our independence, including, when applicable, the respective disclaimers.

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

Porto Alegre, March 23, 2017

KPMG Auditores Independentes

CRC SP014428/F-7

Cristiano Jardim Seguecio

Accountant CRC SP244525/O-9 T-RS

Opinions and Statements / Tax Council opinion or equivalent body

Fiscal Council Opinion

The Fiscal Council of Forjas Taurus S.A., in compliance with legal and statutory provisions, examined the Management Report and the Financial Statements for the year ended December 31, 2016, approved by the Board of Directors in the meeting held on March 23, 2017.

Based on the examinations performed and also considering the Independent auditors' report of KPMG Auditores Independentes, issued with no qualifications on March 23, 2017, and information and clarification received from the Company's management during the year, we conclude that such documents may be examined by the Annual General Meeting.

Porto Alegre, March 23, 2017.

Haroldo Zago

President

Amoreti Franco Gibbon

Board Member

Mauro César Medeiros de Mello

Board Member

Juliano Puchalski Teixeira

Board Member

Rafael de Souza Morsch

Board Member

Opinions and Statements / Statement of the Executive Officers on the Financial Statements

STATEMENT OF THE EXECUTIVE BOARD OF FORJAS TAURUS S.A. ON THE FINANCIAL STATEMENTS FOR YEAR ENDED DECEMBER 31, 2016

Messrs. Marco Aurélio Salvany, Thiago Piovesan and Salésio Nuhs, Directors of Forjas Taurus S.A., a company with head office at Avenida São Borja, 2181/Prédio A, CEP: 93.032-000, São Leopoldo, RS, enrolled in the CNPJ (Corporate Taxpayer's Registry) No. 92.781.335/0001-02, as provided in sections V and VI, article 25, CVM Instruction no. 480, dated December 7, 2009, hereby represent that they reviewed, discussed and agreed with the Financial Statement of Forjas Taurus S.A. and consolidated companies, for the period from January 1, 2016 to December 31, 2016.

Porto Alegre, March 23, 2017.

Marco Aurélio Salvany

CEO

Thiago Piovesan

CFO & IRO

Salésio Nuhs

Director Vice-President of Sales and Marketing

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

STATEMENT OF THE EXECUTIVE BOARD OF FORJAS TAURUS S.A. ON THE INDEPENDENT AUDITORS' REPORT

Messrs. Marco Aurélio Salvany, Thiago Piovesan and Salésio Nuhs, Directors of Forjas Taurus S.A., a company with head office at Avenida São Borja, 2181/Prédio A, CEP: 93.032-000, São Leopoldo, RS, enrolled in the CNPJ (Corporate Taxpayer's Registry) No. 92.781.335/0001-02, as provided in sections V and VI, article 25, CVM Instruction no. 480, dated December 7, 2009, hereby represent that they reviewed, discussed and agreed with the opinions expressed KPMG Auditores Independentes, contained in the Independent Auditors' Review Report with regard to the Financial Statement for the period from January 01, 2016 to December 31, 2016, issued on March 23, 2017.

Porto Alegre, March 23, 2017.

Marco Aurélio Salvany

CEO

Thiago Piovesan

CFO & IRO

Salésio Nuhs

Director Vice-President of Sales and Marketing