Financial statements

Forjas Taurus S.A.

December 31, 2013 and 2012
with Independent Auditor's Report.

Forjas Taurus S.A.

Financial statements

December 31, 2013 and 2012

Contents

MANAGEMENT REPORT 2013

MESSAGE TO SHAREHOLDERS

Dear Shareholders,

Management of Forjas Taurus S.A. (the "Company") submits hereby for your appreciation the Management Report and its complete Individual and Consolidated Financial Statements, with the Independent Auditor's Report of Ernst & Young for the year ended December 31, 2013.

On the date hereof there was also submission of the voluntarily restated Management Report and its complete Individual and Consolidated Financial Statements, including the Independent Auditor's Report of Ernst & Young for the year ended December 31, 2012, to be submitted to the next General Ordinary Shareholders' Meeting/General Special Shareholders' Meeting to be held on April 30, 2014.

Due to the restatement of the Financial Statements ("DFs") for the year ended December 31, 2012 and the Quarterly Information (ITR) for the 9-month period ended September 30, 2013, there was restatement of these periods, thus eliminating: *(i) the independent auditor's qualified opinion on the financial position; and (ii) the independent auditor's adverse conclusion on the results and cash flows for the restated periods.*

Therefore, the comments on performance and management's discussion and analysis of the Company's results, which are an integral part of this Management Report, reflect the new financial situation and the economic and financial results for 2013 and 2012 (restated), after this significant correction made in the financial statements.

In this context of reclassifications between 2013 and 2012, Taurus consolidated net revenue increased 15.2% in 2013, namely from R$701.0 million in 2012 to R$807.3 million in 2013, owing to the 33.3% increase in exports in the year.

Exports accounted for almost 68% of the Company's consolidated net revenue, 64% of which being to the North American market and 4% to other countries. Sales to the Brazilian market accounted for approximately 32% of revenue in 2013.

Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) of R$100.0 million in 2013 was lower than adjusted EBITDA for 2012 of R$130.3 million, due to the decrease in gross margin and the increase in recurring operating expenses. The fast increase in demand led to a mismatch in production and a certain volatility in production levels and decrease in productivity, placing pressure on costs and margins.

Loss of R$80.3 million in 2013 may be explained by the increase in costs proportionally higher than that in revenue due to the increasing required quality requirements as well as the increase in operating expenses. However, the actions being taken by the Company will bring benefits within medium and long term in terms of increase in productivity and margins.

The year of 2013 was also a period of consolidation of the organizational restructuring with extensive changes in the Company's management, with a new functional organizational chart approved at the end of 2012 and concluded in December 2013, with the replacement of the Industrial Executive Officer in January/13, the CEO in November/13 and the hiring of two Vice CEOs: (i) Administrative and Financial Officer and Vice CEO in August/13; and (ii) Sales and Marketing Officer and Vice CEO in December/13.

This is an important transition moment for a new cycle with emphasis on recovering the Company's basic fundamentals, reducing its complexity, resizing the industrial process to increase effectiveness in such process and also in the value chain. The adoption of Lean Manufacturing will contribute to the reduction in rework and working capital optimization.

To meet these objectives we need integrated managerial tools in the administrative, commercial and industrial areas, together with organization, methods, simplifications and best practices in all our new fronts, expanding Corporate Governance.

The restructuring now in progress may represent a strategic retreat, however the Company is convinced that within medium and long term the result thereof will be positive, namely it will lead to increase in cash generation, productivity and recovery of Company margins. It also believes that increased profitability will allow defining more consistent strategic directives for the next years.

In order to ensure increased return for shareholders in the future, we set out below the main initiatives for restructuring the production and sales process, some already concluded and some in progress:

1. Discontinuing of forging for third parties: concluded in November/2013;
2. Transfer of production of long guns to the São Leopoldo plant in July/2014, already adopting lean manufacturing;
3. Production resizing, with decrease in production process complexity;
4. Reimplementation of the Manufacturing Management System;

5. Resizing of markets and products;

6. Focus on quality of processes and products;

7. Reduction of production costs and resources;

8. Review of the expense and cost system;

9. Increase productivity: Reach a balance between supply and market demand;

10. Focus on cash generation and ongoing working capital optimization;

11. Review of the products portfolio, focusing on those with higher margin: drastic reduction in the quantity of models (SKUs);

12. Review of all the logistic chain (use of new modal and inventory reduction);

13. Structuring of the Supply Chain area;

14. Expand export base (emphasis on markets other than that in the USA with higher margins);

15. Develop premium products.

As such, with the measures adopted, the action plan and the industrial, commercial and marketing strategies well oriented and aligned with financial management assumptions focusing on working capital reduction, in 2014 the focus will be on EBITDA and cash generation increase.

Finally, we would like to thank our Customers, Shareholders, Suppliers, the Community and mainly our Employees and external collaborators for their trust in us.

The Management

Our Businesses

Forjas Taurus S.A. ("Company") headquartered in Porto Alegre – Rio Grande do Sul state – Brazil is a Brazilian company that has been listed for over 30 years, and has been listed in Corporate Governance Level 2 of BM&FBOVESPA for almost 3 years (tickers are **FJTA3** and **FJTA4**).

Taurus was founded in 1939 and is a company that stands out owing to the following leading edges:

- Taurus is one of the 3 main manufacturers of light guns in the world operating with six production units in Brazil and one in the USA, at December 31, 2013. The products manufactured by the Company are divided into two segments: **Defense & Security and Metallurgy & Plastics.**

- It is one of the **leaders worldwide** in weapon manufacturing**;**
- It ranks among the **4 biggest weapon distribution networks** in the USA;
- **It manages several brands:** TAURUS, ROSSI, HERITAGE; global distributor of DIAMONDBACK; STEELINJECT; TAURUSPLAST and FAMASTIL by TAURUS.
- **Diversification of products in the Metallurgy & Plastics segment**: M.I.M. (metal injection molding of parts and components of weapons and for third parties), motorcyclist helmets and accessories, bulletproof vests and high density polyethylene molded plastic containers for storage of solid waste for industrial, commercial and environmental use.
- **Diversification of products in the Defense & Security segment:** revolvers, pistols, machine guns, submachine guns, assault rifles and long guns;
- **Strategy of operating with:** (i) traditional product lines in the weapons segment; (ii) certain market niches; (iii) products for restricted use by the Brazilian armed forces; (iv) products for restricted use by government and/or public security of other countries, except the USA;
- **Strategic Defense Company (EED)** registered with the Ministry of Defense since December 2013, being an authorized supplier of the Armed Forces.

Celebrating 75 years in 2014, with approximately 4,500 direct employees at the end of 2013, Taurus is going through major changes, as under: (i) new organizational structure; (ii) new manufacturing management model; (iii) new quality control criterion that aims at reducing the percentage of noncompliant products to zero; (iv) focus on productivity increase; (v) brand revitalization; (vi) fully income oriented; and (vii) ongoing Corporate Governance expansion.

In Brazil, the 6 business units are located as follows:

(***1) Rio Grande do Sul:*** production of hand guns and long guns in Porto Alegre and São Leopoldo;

(***2) Paraná:*** production of bullet proof vests, helmets and plastic containers in the city of Mandirituba; and

(3) Bahia: production of helmets in the city of Simões Filho.

Abroad, the Company's business and weapon manufacturing unit is located in Hialeah in Greater Miami, Florida – USA, which manufactures some TAURUS pistols and revolvers of HERITAGE brand, acquired in May 2012, besides having entered into an Exclusive Global Distribution Agreement with Diamondback Firearms LLC on January 3, 2013, thus becoming the exclusive global distributor of DIAMONDBACK products and modern sports pistols and rifles.

Management Discussion and Analysis – MD&A

1. CONSIDERATIONS ABOUT THE FINANCIAL STATEMENTS

- **Standards and criteria applied in the preparation of the financial information**

The consolidated financial statements of Forjas Taurus S.A. and its subsidiaries are prepared 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). The amounts presented herein are expressed in millions of Brazilian reais unless otherwise stated, thus are subject to rounding.

Since Company management approved the voluntary restatement of the Financial Statements ("DF") for 2012 and the Quarterly Information ("ITR") for 2012 (2Q12, 3Q12 and 4Q12) and for 2013 (1Q13, 2Q13 and 3Q13), all of these periods were restated on this date. Therefore, the Financial Statements for 2013 included the 9 months restated and were compared with the restated amounts for 2012.

The restatement is due to the amendment to the Purchase and Sale Contract ("Contract") for the disposal of operations of Taurus Máquinas-Ferramenta Ltda. ("TMFL"), on September 12, 2013, through which asset sale value was reduced from R$ 115.35 million to R$ 57.52 million, thus resulting in loss of R$ 57.83 million.

Due to the renegotiation of the sales value, the Company's management reviewed all the contracts and correspondence related to this operation and concluded that the events that led to value reduction were already present upon asset sale, for which the original contract was entered into on June 21, 2012 and thus decided to make the restatements.

Management also decided in the Board of Directors' Meeting together with the Company's Supervisory Board members, held on March 28, 2014, for the organization of a Non-Statutory Special Committee ("Special Committee"), in order to analyze and recommend applicable measures subsequent to the restatements for 2012 and 2013.

The Company maintains the market informed about any issues that may arise from the balance sheets for 2013 and 2012, in light of ruling corporation law and accounting practices adopted in Brazil, especially as regards dividends and interest on equity paid related to 2012, and the impossibility of proposal by Management of dividend payment for 2013, owing to the loss posted in 2013 and nonexistence of income reserves for this.

1.1 Investments in subsidiaries and affiliates and basis for consolidation

The following companies were considered direct or indirect subsidiaries totaling shareholding interest of 100% for consolidation purposes:

- Taurus Blindagens Ltda. (BR)
- Taurus Blindagens Nordeste Ltda. (BR)
- Taurus Holdings, Inc. (USA)
- Taurus Security Ltda. (BR)
- Taurus Máquinas-Ferramenta Ltda. (BR)
- Taurus Investimentos Imobiliários Ltda. (BR)
- Taurus Helmets Indústria Plástica Ltda. (BR)
- Polimetal Metalurgia e Plásticos Ltda. (BR)
- Steelinject – Injeção de Aços Ltda. (BR)

The result of affiliate Famastil Taurus Ferramentas S.A. was also considered, of which the financial statements were not consolidated, since we hold shareholding interest therein of 35%, through subsidiary Polimetal Metalurgia e Plásticos Ltda., thus not meeting the specific criteria of CPC 18 and IAS 28 for recognition of joint control of this company.

1.2. Divestitures in 2013 and Subsequent Events

Renegotiation of the Purchase and Sale Contract for disposal of the operations of TMFL (Note 8)

On August 12, 2013, Company management received from Renill Participações Ltda.("RPL") a request of renegotiation of the conditions in the Contract for Purchase and Sale of Units of Interest and Other Covenants, related to disposal of subsidiary SM Metalurgia Ltda. ("SML").

On September 12, 2013, the Company disclosed a Material News Release communicating that it concluded the review of the Contract conditions, related to disposal of subsidiary SML, through execution of an amendment to Contract after evaluation of the terms originally agreed-upon.

The Parties renegotiated the sales price and payment conditions, adjusting the overall value of the Contract related to disposal of subsidiary SML to R$ 57,52 million, payable as follows:

(a) 1st installment, in the amount of R$ 1,960 thousand, duly restated by Long-Term Interest Rate (TJLP) and increased by interest of 1.8% p.a., shall be paid by RPL, through SML, with the supply of parts used in the rendering of warranty services for machines manufactured by TMFL, as well as the supply of parts and components to any company of the Taurus Group;

(b)2 installments in the amount of R$ 2,055 each, duly restated by TJLP and increased by interest of 1.8% p.a., one maturing on 06/30/2014 and another on 12/30/2014; and

(c)balance in 14 twice-annual installments, maturing as from 06/30/2015,duly restated by TJLP and increased by interest of 1.8% p.a., in the amount of R$3,675 thousand each.

Restatement by TJLP and interest of 1.8% p.a. shall be applied since the date of execution of the Contract for Purchase and Sale of Units of Interest and Other Covenants namely June 2012.

2. Consolidated Economic and Financial Performance

The voluntary restatement of results for the 3 first quarters of 2013 (9M13) as well as for 2Q12 and 3Q12 and, consequently, for the year ended Dec/31/12, as established by **CPC 23 – Accounting Practices, Changes in Accounting Estimates and Correction of Errors** (equivalent to IAS 8) and **CPC 24 – Subsequent Events**, is due to the renegotiation of the Purchase and Sale Contract ("Contract") for the disposal of the operations of Taurus Máquinas-Ferramenta Ltda. ("TMFL"), occurred on September 12, 2013, in order to better reflect the Company's financial and economic position.

The table below presents the Company's consolidated economic and financial performance in 2013, compared to the performance in 2012, with inclusion of two additional lines, to clearly disclose **net income or loss from continuing operations**, **net income or loss from discontinued operations (TMFL)** and the Company's final **consolidated** net income or loss and the corresponding margins.

Consolidated Economic and Financial Performance

Consolidated amounts in millions of Brazilian reais, unless otherwise indicated

Ratios	2013	2012	Variation % 2013/2012
Net revenue	**807.3**	**701.0**	**15.2%**
Domestic market	260.0	290.4	-10.5%
Foreign market	547.3	410.6	33.3%
COGS	565.6	434.2	30.3%
Gross Profit	241.7	266.7	-9.4%
Gross Margin - %	**29.9%**	**38.1%**	**-8.1 p.p.**
Operating Expenses	-225.7	-182.6	23.6%
Operating Profit (EBIT)	16.0	84.2	-81.0%
EBIT Margin - %	**2.0%**	**12.0%**	**-0.8 p.p.**
Net Financial Income	-73.6	-44.5	65.2%
Depreciation and amortization (1)	35.3	31.2	13.0%
Net Income - Continuing Operations	-80.3	17.8	-551.7%
Net Income Margin - Cont. Operations	**-9.9%**	**2.5%**	**-12.5 p.p.**
Net Income - Descontinuing Operations	0.0	-135.0	-100.0%
Net Income - Consolidated	-80.3	-117.2	-31.5%
Net Income Margin - Consolidated	**-9.9%**	**-16.7%**	**6.8 p.p.**
Adjusted EBITDA (2)	100.0	130.3	-23.2%
Adjusted EBITDA Margin - %	**12.4%**	**18.6%**	**-6.2 p.p.**
Total Assets	1,184.1	1,114.3	6.3%
Equity	146.0	201.8	-27.6%
Investiments (CAPEX)	28.2	90.2	-68.7%

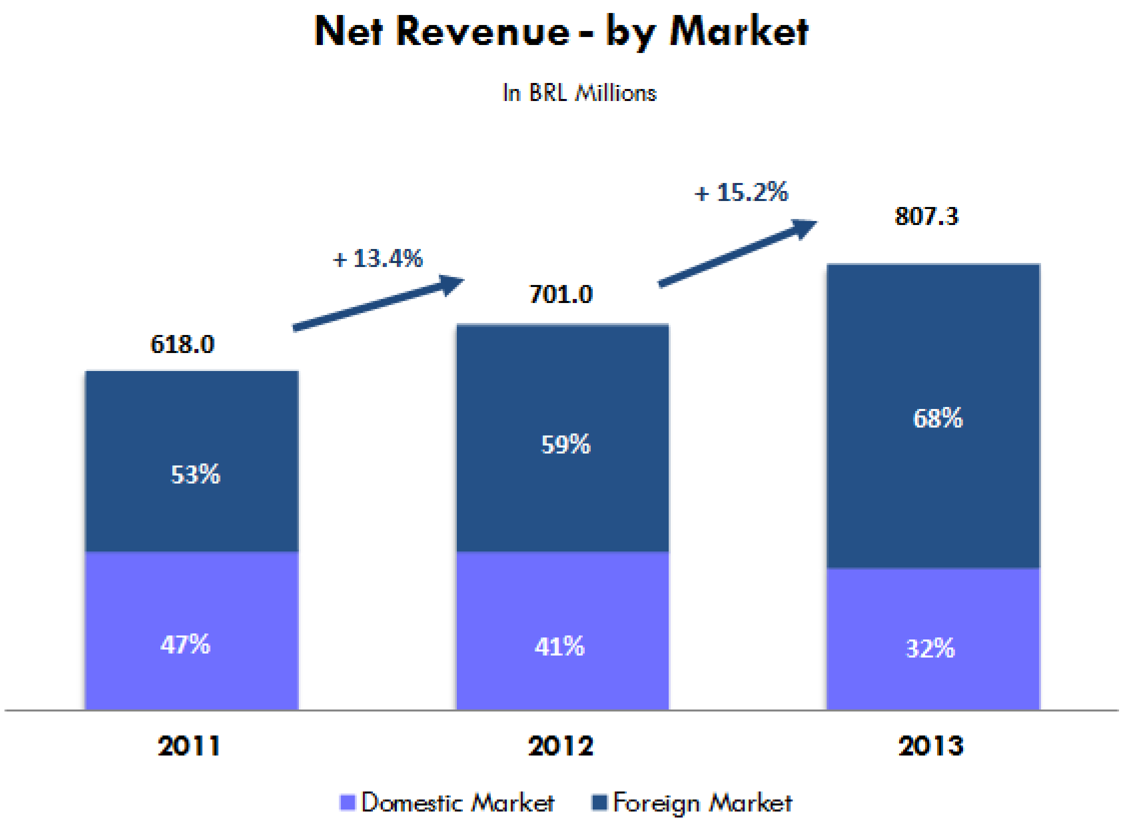
(1) Depreciation and amortization: these amounts include total depreciation and amortization based on cash flow for DFP

(2) Adjusted EBITDA: Earnings before interest, tax, depreciation and amortization and net earnings from non-recurring operations. The computing process was developed acording the CVM nº 527 instruction of October 04, 2012.

Net Revenue

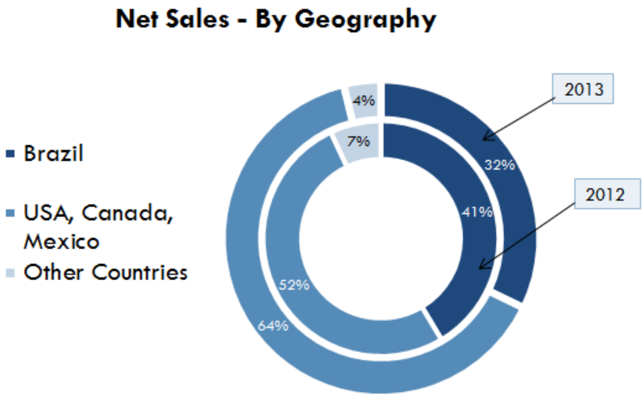
Forjas Taurus S.A. and subsidiaries posted in 2013 consolidated net revenue of R$ 807.3 million, up 15.2% compared to R$ 701.0 million in 2012, which in turn had already been up 13.4% compared to 2011, mainly due to the 33.3% increase in exports due to foreign exchange rate devaluation, since the sales in the domestic market decreased.

The percentage of exports in relation to total net revenue increased from 59% in 2012 to 68% in 2013, namely to R$547.3 million (compared to R$ 410.6 million in 2012). Higher sales concentration took place in 1Q13 (31.5% of total) when there was atypical demand, followed by sales in the 3Q13 (26.6%), 2Q13 (24.1%) and 4Q13 (17.7%).



Distribution of consolidated net revenue by geographic region illustrated in the graph below shows that the North American market (USA, Mexico and Canada) continues accounting for the main percentage of exports, representing 64% of total revenue in 2013, followed by Brazil - 32% and other countries – 4% to which we export.

The positive performance of exports in 2013 is basically due to high demand in the USA due to the following: (i) sending of 23 proposals to the US Congress by reelected President Barack Obama, restricting much more the use of guns by civilians, soon after his inauguration on Jan/16/13, which were not eventually approved by Congress; and (ii) several incidents involving weapons in the USA increasing the fear related to more restrictive measures.

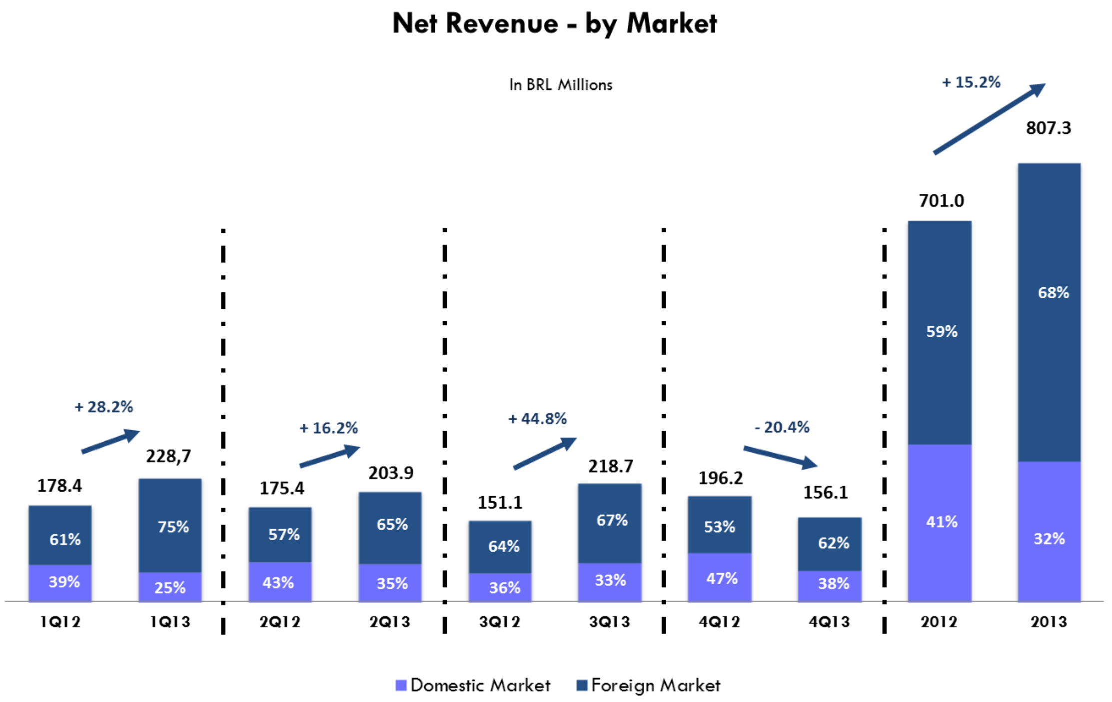


In analyzing exports in the last two years and comparing the same 2013 and 2012 quarters, the evolution was quite positive also when comparing the same 2012 and 2011 quarters, evidencing a certain typical seasonality, except for 1Q13, which owing to the aforementioned factors was exceptionally strong.

	4Q13/4Q12	3Q13/3Q12	2Q13/ 2Q12	1Q13/ 1Q12
Exports % 2013 evolution	-7.4%	51.0%	31.1%	58.9%
	4Q12/4Q11	**3Q12/3Q11**	**2Q12/ 2Q11**	**1Q12/ 1Q11**
Exports % 2012 evolution	16.6%	46.4%	21.1%	20.5%

In the domestic market, in turn, consolidated net revenue for 2013 decreased and performance for the quarters was more erratic, totaling R$260.0 million, down 10.5% compared to 2012, since expected demand for public and private security in the Brazilian market in connection with the 2014 and 2016 sports events did not materialize as expected.

Consequently, there was decrease in the percentage related to total revenue in the domestic market to 32% in 2013 (compared to 41% in 2012), as shown in the graph below:



Segment information

The table below sets out breakdown of net revenue, gross result, gross margin and pretax income by business segment. The information presented refers to the 12-month periods ended December 31, 2013 and 2012 (restated), according to IFRS, net of transactions between subsidiaries of each segment.

RESULTS BY BUSINESS SEGMENT
Consolidated amount in millions of reais

Comparative - Year over Year

	Net Revenue					Gross Income			Gross Margin			Income before taxes		
	2013	Part. %	2012	Part. %	Var.	2013	2012	Var.	2013	2012	Var.p.p	2013	2012	Var.
Firearms	621.2	76.9%	516.5	73.7%	20.3%	195.0	198.9	-2.0%	31.4%	38.5%	-7.1	(30.9)	26.9	NS
Helmets	127.6	15.8%	121.5	17.3%	5.0%	45.6	47.5	-4.0%	35.7%	39.1%	-3.4	23.9	31.1	-23%
Others	58.6	7.3%	63.0	9.0%	-7.0%	1.1	20.3	-94.3%	2.0%	32.2%	-30.2	(50.6)	(18.4)	NS
Total	**807.3**	**100.0%**	**701.0**	**100.0%**	15.2%	**241.7**	**266.7**	-9.4%	**29.9%**	**38.1%**	**-8.1**	**(57.6)**	**39.6**	NS

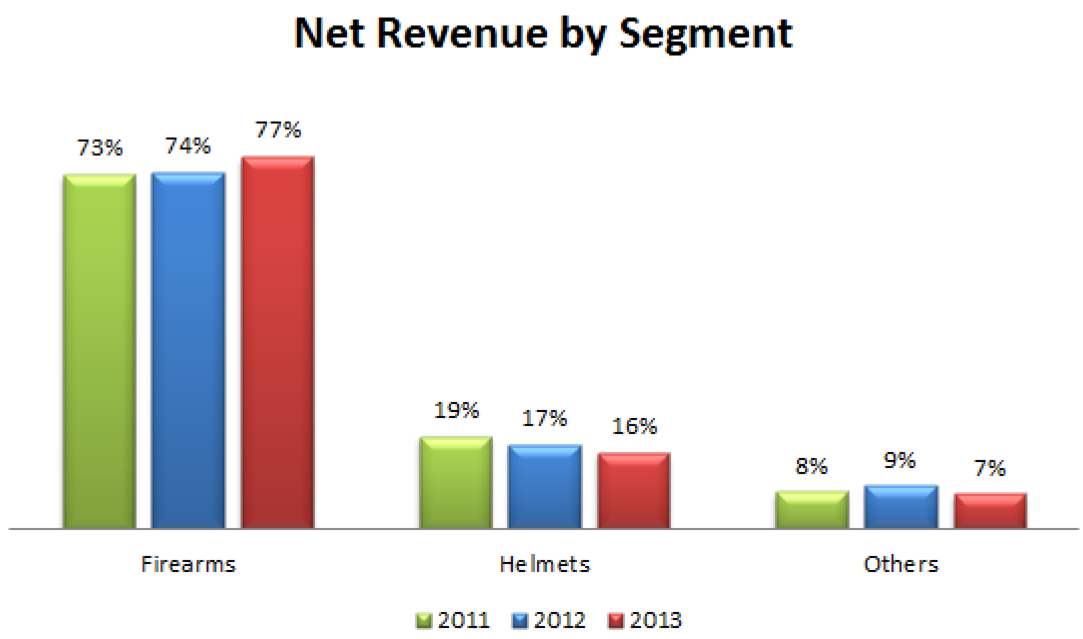
(i) *Firearms – operations conducted by Forjas Taurus S.A. and Taurus Holdings, Inc. (USA);*

(ii) *Helmets for motorcyclists – operations conducted by Taurus Blindagens Ltda., Taurus Helmets Indústria Plástica Ltda. and Taurus Blindagens Nordeste Ltda.;*

(iii) *Other – segments of forging (Polimetal Metalurgia e Plásticos Ltda.), M.I.M – Metal Injection Molding, bulletproof vests and molded plastic products (Taurus Blindagens Ltda.)*

I. Defense and Security Segment

This segment includes handguns (revolvers and pistols for military and civil use), long guns (rifles and carbines) and submachine guns.



The Company's main segment is that of Defense & Security, of which the products are weapons, accounting for 77% of consolidated net revenue. There was 20.3% increase in revenue of the segment, totaling R$ 621.2 million in 2013. Gross profit was down 2.0% due to the 30.3% increase in cost of products sold in 2013 compared to 2012, due to the following: (i) change in the product mix; (ii) unproductivity resulting from noncompliant products, which has reduced; and (ii) pressure from costs: raw materials and labor.

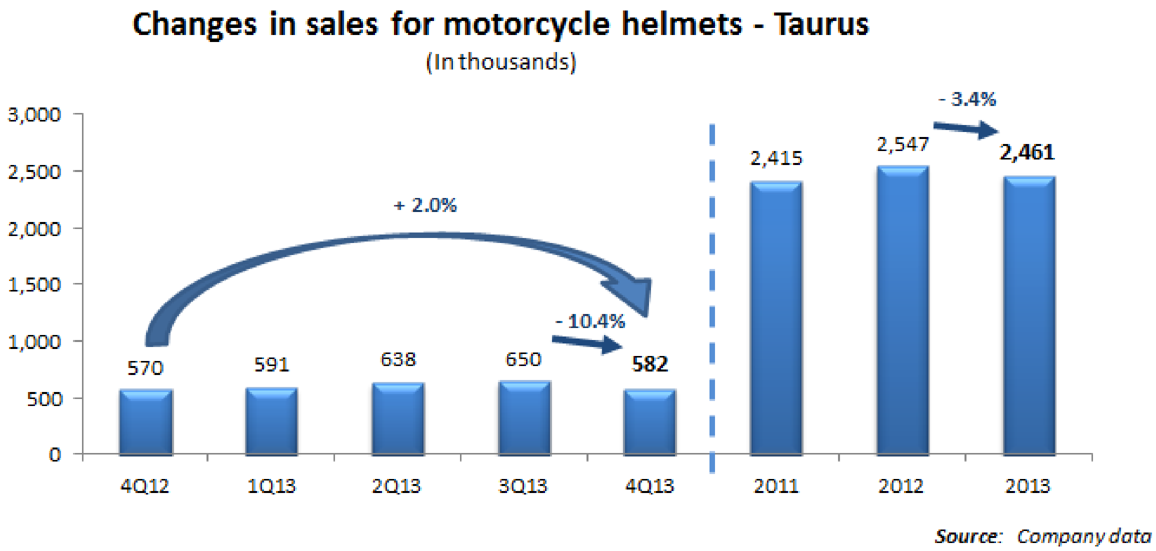
Consequently, gross margin decreased from 38.5% in 2012 to 31.4% in 2013.

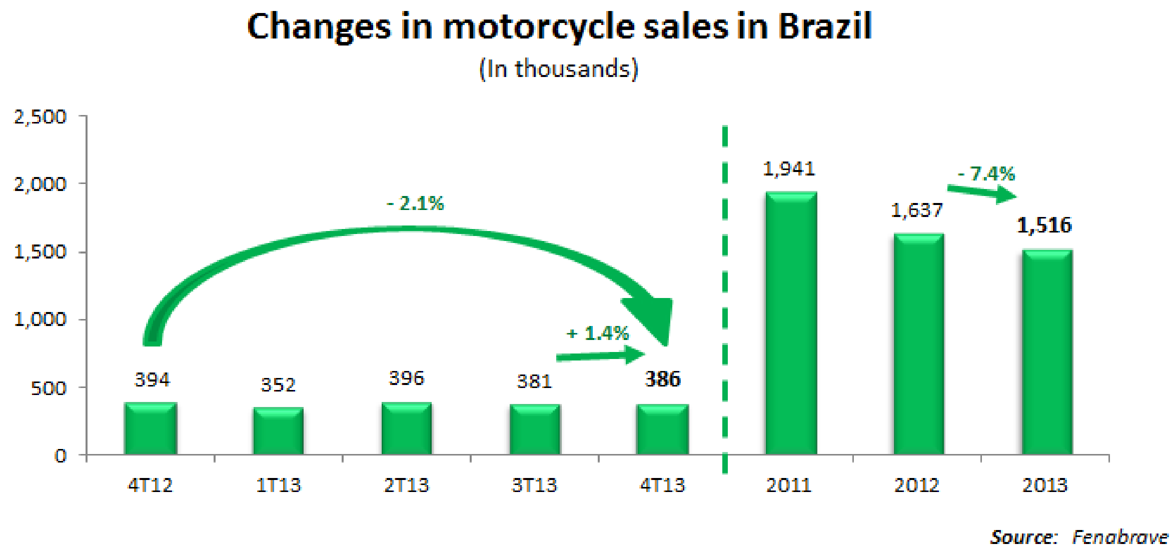
ii. Metallurgy and Plastics Segment

This segment accounts for 23.1% of net revenue, including the operations of Polimetal in the São Leopoldo unit (in the Rio Grande do Sul state) of forging and M.I.M.- *Metal Injection Molding*, as well as the activities of the helmet for motorcyclists plants (in the Paraná and Bahia states) and production of bulletproof vests and plastic containers (in the Paraná state).

Helmets for motorcyclists

There was 5% increase in net revenue from helmets, which represents 15.8% of total net revenue, amounting to R$127.6 million. Gross profit amounted to R$ 45.6 million, with gross margin of 35.7% in 2013, representing a decrease of 4% in gross profit and margin, that was 39.1% in 2012. The margin decrease is due to the following: (i) decrease in the demand for helmets in 2013 compared to 2012 due to the decrease in the offer of consumer credit; and (ii) cost of raw materials and labor.





The graphs above show that despite the 7.4% decrease in motorcycle sales in Brazil, Taurus helmet sales decreased proportionally less by 3.4%, however with lower average price, since there was 5% revenue increase in 2013, gaining market share of competitors and reaching 51% market share in Brazil.

Other products from the Metallurgy and Plastics segment

Revenue reached R$58.6 million in 2013, down 7% compared to 2012. The main products from this segment are: bulletproof vests, plastic containers in the shielding area and plastics as well as metallurgy products.

Gross profit amounted to R$1.1 million with margin of 2% due to the process for decommissioning forging for third parties started in April/13 and concluded in November/13 and also because sales volume of other products was not sufficient to offset the business decommissioning.

Consolidated gross profit and gross margin

Consolidated gross profit reached R$ 241.7 million in 2013, down 9.4% compared to 2012 (R$ 266.7 million), resulting in gross margin of 29.9% in 2013, 8.1 percentage points below gross margin of 38.1% of 2012. The 15.2% increase in net revenue was not enough to offset the 30.3% increase in cost of products sold in 2013, due to the following: (i) decrease in production volume generated by noncompliant products in the segment of weapons, due to increased quality requirements, thus generating unproductivity; (ii) lower gross profit in the helmets segment, due to a more competitive market and lower average prices; (iii) decommissioning of forging for third parties; and (iv) effect from foreign exchange rate on cost of raw materials.

Operating Expenses

Operating expenses totaled R$ 225.7 million in 2013 due to 36% increase in selling, general and administrative expenses, being 23.6% higher than operating expenses of R$ 182.6 million in 2012, representing 32.2% of net revenue in 2013 (26% in 2012).

Operating expenses increased due to nonrecurring expenses related to expenses with technical consulting, lawyer fees and specialized consulting for the changes in senior management structure that took place in 2013, additional independent audit expenses due to the restatement of Quarterly Information - ITR for 2012 and 2013, as well as the Financial Statements for 2012. It should be highlighted that there was increase in recurring selling and administrative expenses in the computation of net revenue.

Adjusted EBITDA

Consolidated cash generation in 2013, measured by adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) defined by CVM Rule No. 527/12, totaled R$ 100.0 million with adjusted EBITDA margin of 12.4% (R$ 130.3 million and adjusted EBITDA margin of 18.6% for 2012).

Adjusted EBITDA was calculated eliminating non-recurring revenues and expenses for 2013.

The 18.9% decrease is mainly due to the following factors: (i) 30.3% increase in CPS; (ii) 23.6% increase in operating expenses, due to the increase in expenses with consulting, legal advisory, additional independent audit due to the restatements of financial information, severance pay and sundry provisions (but which were in great part eliminated for not being recurring expenses).

Among other purposes, EBITDA is used as indicator of Company commitments related to loans, financing and debentures.

CONSOLIDATED EBITDA

In thousands of BRL

PERIOD	2012	2013
= NET PROFIT	(117,210)	(80,310)
(+) IR/CSLL	21,833	22,744
(+) Net Financial Expenses	134,897	175,731
(-) Net Interest Income	(90,348)	(102,136)
(+) Depreciation/Amortization	31,241	35,306
= EBITDA CVM Reg. 527/12	(19,587)	51,335
(+) Income from Discontinued Operations (1)	131,903	-
(+) Loss of Taurus Máquinas-Ferramenta Ltda. (2)	17,940	27,356
(+) Non-recurring Expenses	-	21,331
= ADJUSTED EBITDA	130,256	100,022

(1) Net result from discontinued operations duly discounting the effects from depreciation, amortization, taxes, net financial result, according to EBITDA calculation method

(2) Loss of Taurus Máquinas-Ferramenta Ltda. for 4Q12, period in which the operation was no longer discontinued.

Financial income (expenses)

Net financial expenses in 2013 totaled R$ 73.6 million compared to R$44.5 million in 2012. This increase is mainly due to the increase in negative net interest and negative net exchange variation (US$ appreciation to the other currencies generated exchange loss on onerous liabilities), despite the decrease in average financial cost of loans and financing, with extension of debt repayment term.

Net income (loss) for the year

Net income (loss) from Continuing Operations

In 2013, Forjas Taurus S.A. and subsidiaries posted **loss from continuing operations of** R$ 80.3 million, compared to **net income of** R$ 17.8 million in 2012.

Loss from Discontinued Operations

Due to restatement of the financial statements for 2012, all the effect from TMFL disposal (write-down of asset value and additional provisions) was retroactively recorded in 2Q12, thus generating loss of R$ 135 million in 2012, with reclassification and elimination of the impact in 2013.

Consolidated Loss for the Year

Consolidated loss for 2013 amounted to R$ 80.3 million, compared to R$117.2 million in 2012. The factors that led to this loss in 2013 were: (i) 33.3% increase in CPS, above the increase in revenue; (ii) decrease in production volume due to unproductivity; and (iii) increase in operating expenses.

3. Financial Position

Cash and short-term investments totaled R$ 281.1 million at Dec/31/13, down 14% compared to R$ 327.8 at Sep/30/13 (and up 56% compared to R$ 180.8 million at Dec/31/12), being remunerated by variable rates from 98% to 103% of CDI, by first tier financial institutions.

Consolidated short and long-term loans and financing totaled R$ 819.2 million at Dec/31/13, down 5% compared to Sept/30/13, which are mainly destined to: (i) working capital and (ii) investments in industrial modernization.

Net debt after cash and cash equivalents amounted to R$ 538.1 million, up 1% compared to Sept/30/13 and up 2% compared to Dec/31/12, with efforts to optimize working capital, including inventory reduction; improvement of maturity schedule of accounts payable and receivable and increase in tax recovery**.**

As an ongoing objective, we seek to **extend payment term** of our debts. However, due to the restatement of the financial statements, there was transfer of loans (R$ 388.5 million), debentures (R$ 57.6 million) and mortgage credits (R$ 19.6 million) to current liabilities, even when maturing within long term, owing to existence of contracts with covenants not complied with.

The balance of debentures at 12/31/13 including 1st and 2nd issue amounted to R$ 57.6 million in current liabilities compared to R$ 77.1 million at 09/30/13. With the reclassification to the short term portion, the maturity schedule presented below encumbered 2013. Final maturity of 1st issue debentures is April/14 and 2nd issue debentures mature in 2016.

With the restatement of the Financial Statements, calculation of financial ratios (Net Debt/EBITDA and EBITDA/Net Financial Expenses) changed, and there was noncompliance with covenants, reason why loans and financing related to these contracts were automatically transferred to the short-term portion.

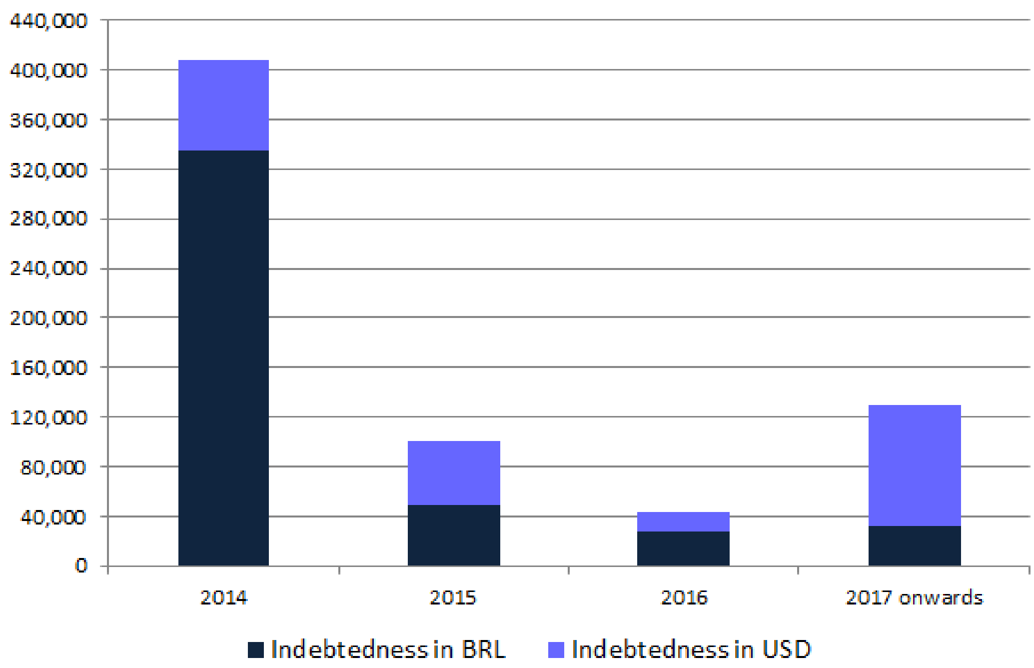
Consequently, the balances of debentures, financing and advance on mortgage credits that had contractual covenants were classified in current liabilities (transferred from long-term to short-term portion), owing to the noncompliance with the ratios if we do not eliminate the non-recurring effects (renegotiation of TMFL) in P&L, reason why the Company convened two General Debenture Holders' Meetings, one for the 1st and the other for the 2nd issue, at least 15 days in advance, being held on 11/12/13.

In addition, we started to consider advance on receivables as debt, even without right to indemnity, meeting the request of debenture holders in their General Meeting held on Nov/12/13 to vote about early settlement of 1st and 2nd issues.

All the main creditors were visited or contacted in order to explain the transitory noncompliance with the covenants. Debenture holders did not show interest in early settlement of the two issues, as initially proposed by the Company.

See the maturity schedule temporarily concentrated within short term:

Maturity of consolidated debt – In thousands of reais



We set out below the Company's financial position, including advance on mortgage credits (CRI) and the sureties and guarantees, as well as the financial position of Taurus

Máquinas-Ferramenta Ltda., which was restated and consolidated, as well as the main related financial ratios:

In millions BRL

	12/31/2013	09/30/2013	12/31/2012	Var. Dec/13 x Sep/13	Var. Dec/13 x Dec/12
Short term indebtedness	388.5	367.3	322.6	6%	20%
Long term indebtedness	273.2	302.8	255.5	-10%	7%
Exchange Serves	0.0	0.0	5.1	-	-
Debentures	57.6	77.1	94.7	-25%	-39%
Antecipation Mortages	19.6	22.1	28.7	-11%	-32%
Advance on Receivables	116.0	124.6	26.4	-7%	340%
Derivatives	-35.6	-32.5	-25.8	10%	38%
Gross Indetbetedness	819.2	861.4	707.2	-5%	16%
(-) Cash available and financial investments	281.1	327.8	180.8	-14%	56%
Net Indebtedness	538.1	533.6	526.4	1%	2%
Adjusted EBITDA	100.0	124.2	130.3	-19%	-23%
Net Indebtedness/Adjusted EBITDA	5.38x	4.30x	4.04x		
Adjusted EBITDA/Financial Expenses Net	1.36x	1.85x	2.92x		

Consequently, the Company's general indebtedness indices for 2013 changed compared to 2012.

4. Equity

The Company's consolidated equity at Dec/31/13 totaled R$ 146.0 million representing book value per share of R$ 1.03 (R$ 1.43 at Dec/31/12) of capital, comprising 141,412,617 outstanding issued shares.

5. Value added

The Company generated consolidated value added (wealth generated by the Company and its subsidiaries) of R$ 459.7 million in 2013, up 25.5% compared to 2012 (R$ 366.2 million), distributed as follows:

			In millions BRL
	2013	**2012**	**Variation**
Employees	186.9	165.8	12.7%
Government	157.9	161.6	-2.3%
Funders	195.2	156.0	25.1%
Shareholders	0.0	16.7	-100.0%
Reinvestments	-80.3	-133.9	-40.0%
Total	**459.7**	**366.2**	**25.5%**

6. Consolidated investments

Consolidated investments in 2013 totaled R$ 28.2 million (R$ 90.2 million in 2012). These were allocated on a 28% basis to expand the production capacity of the Company and its subsidiaries; 59% to modernization of industrial facilities and 13% to ongoing improvement and other investments. Depreciation and amortization totaled R$35.3 million in 2013 compared to R$31.2 million in 2012.

The capital budget that had been approved for 2013 amounted to R$39.6 million. The positive difference of R$ 11.4 million between budget and actual amounts for 2013 is due to the carry-over of amounts for 2013 that were paid in 2014.

See below consolidated capital budget in 2013 by company:

Forjas Taurus S.A. Consolidated

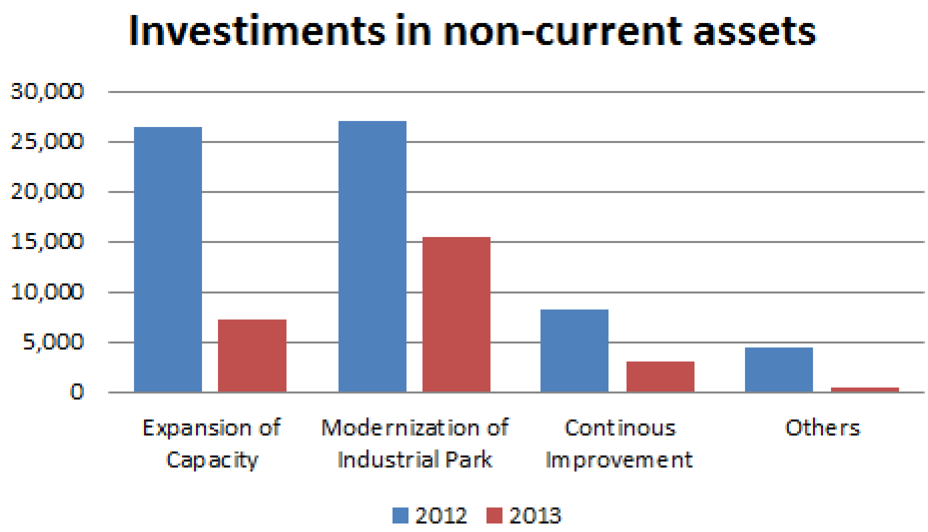
Investiments (CAPEX) until 2013

In thousands of BRL

Description	Sources of Funds	Investiments	
Forjas Taurus - Unit of Porto Alegre (RS)		**Thousands of BRL**	**Thousands of USD**
Research and development of products and processes	Debt	3,813	1,628
Modernization and expansion of production capacity	Debt	3,542	1,512
	Total	**7,355**	**3,140**
Forjas Taurus - Unit of São Leopoldo (RS) - Long Guns - Branch 5			
Research and development of products and processes	Debt	152	65
Improving productivity of manufacturing processes	Debt	180	77
	Total	**332**	**142**
Taurus Blindagens Ltda. - Unit of Mandirituba (PR) and Simões Filho (BA)			
Modernization and / or automation	Debt	1,818	776
	Total	**1,818**	**776**
Polimetal Metalurgia e Plásticos Ltda. - São Leopoldo (RS)			
Modernization and expansion of production capacity	Debt	9,389	4,008
Transfer Steelinject to Polimetal's plant		2,898	1,237
	Total	**12,287**	**5,245**
Total Investments (CAPEX) of the Consolidated Forjas Taurus S.A. in Brazil		**21,792**	**9,302**
Taurus Holdings, Inc. and Subsidiaries - Miami - Florida (EUA)			
Modernization and expansion of production capacity	Debt	**4,479**	1,912
Total Global Investiments (CAPEX) of the Forjas Taurus S.A. (Consolidated)		**26,271**	**11,214**

* Dolar R$/USD 2.34

In analyzing investments in property, plant and equipment in 2013, the distribution may be seen in the graph below:



The Board of Directors' meeting held on March 25, 2014 approved the Company's capital budget for 2014, in the amount of R$ 55.2 million, as shown below, which will be proposed in the next Ordinary General Meeting to be held on April 30, 2014.

Forjas Taurus S.A. Consolidated

Investments (CAPEX) for 2014

Description	Sources of Funds	Investments	
Forjas Taurus - Unit of Porto Alegre (RS)		**Thousands of BRL**	**Thousands of USD**
Research and development of products and processes	Debt	8,971	3,738
Modernization and expansion of production capacity	Debt	7,031	2,930
Licensing, improvements and deployment of new ERP modules	Debt	10,854	4,522
	Total	**26,856**	**11,190**
Forjas Taurus - Unit of São Leopoldo (RS) - Long Guns - Branch 5			
Research and development of products and processes	Debt	1,866	778
Improving productivity of manufacturing processes	Debt	1,315	548
	Total	**3,181**	**1,325**
Taurus Blindagens Ltda. - Unit of Mandirituba (PR) and Simões Filho (BA)			
Modernization and / or automation	Debt	6,000	2,500
	Total	**6,000**	**2,500**
Polimetal Metalurgia e Plásticos Ltda. - São Leopoldo (RS)			
Modernization and expansion of production capacity	Debt	8,367	3,486
Transfer Branch 5 to Polimetal's plant		4,553	1,897
	Total	**12,920**	**5,383**
Total Investments (CAPEX) of the Consolidated Forjas Taurus S.A. in Brazil		**48,957**	**20,399**
Taurus Holdings, Inc. and Subsidiaries - Miami - Florida (EUA)			
Modernization and expansion of production capacity	Debt	**6,226**	**2,594**
Total Global Investiments (CAPEX) of the Forjas Taurus S.A. (Consolidated)		**55,182**	**22,993**

* Dolar R$/USD 2.40

7. Capital Market and Corporate Governance

Forjas Taurus S.A. is a Brazilian publicly-traded company that has been listed on BM&FBOVESPA for more than 30 years and since July 2011 it has been listed at Corporate Governance Level 2 on BM&FBOVESPA.

The Company's result for 2013 had already been anticipated by the market based on the result for 9M13 and estimates (guidance) previously provided and affected its share price and liquidity in the capital market. We continued with our efforts to expand and diversify the shareholders base and to keep the market informed about the actions to recover positive fundamentals for the Company, since they have recently changed, both in terms of demand and supply, as explained in the Message to Shareholders.

However, **the credit risk perception** is maintained. Due to the 1st and 2nd debenture issues that are still outstanding, the Company annually reviews its related risk assessment. The review for 2013 of the risk rating by Fitch Ratings resulted in **maintenance of the long term A – (Bra)** rating for the two issues further considering the long term rating as stable, also the 1st issue will be liquidated in April 2014.

With the restatement for 2012 and the results for 2013, the Company will have to conduct a new negotiation round to discuss its financial ratios, linked to contracts with banks and debenture holders, on a waiver basis alike that obtained upon disclosure of results for 9M13.

We highlight below the Investor Relations program and the commitments and targets assumed together with Company management in 2013:

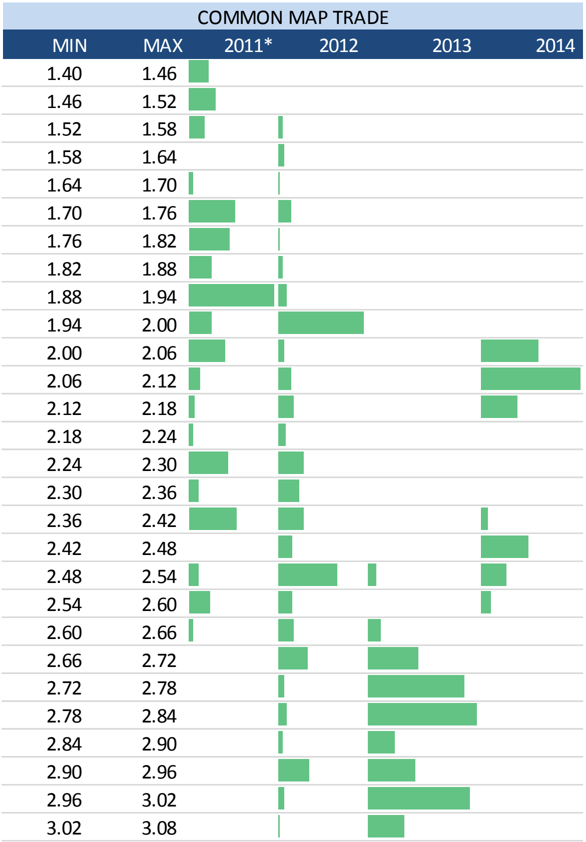
- Visit to the main investors, brokers and investment banks (sellers / *sell side* analysts and managers / *buy side* analysts) in the Brazilian and foreign market;
- Several visits to the plant by investors/fund managers/analysts;
- Conduction of 3 collective meetings in the year (in Porto Alegre, Rio de Janeiro and São Paulo);
- Expansion and diversification of the shareholders base, significantly changing the profile of institutional shareholders and new shareholders;

At Dec/31/13 the Company had 141,412,617 issued shares, being ex-treasury, totaling 128,976,510 outstanding shares, highlighting that dividends per share are calculated deducting treasury shares since they are not entitled to dividends.

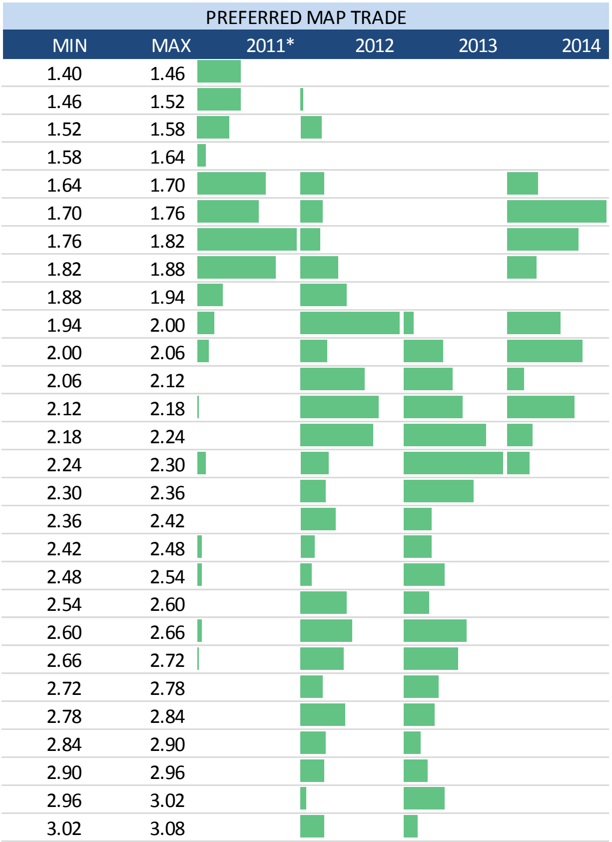
The same Board of Directors' Meeting approved the proposal for amending article 37 of the Company's Articles of Incorporation to be submitted to the next Ordinary/Special General Meeting to be held on April 30, 2014 for approval, in order to introduce a new paragraph, providing for an Incentive Plan to be defined by the Board of Directors, according to the overall compensation budget approved by the General Meeting.

Performance of Shares in 2013

	2013	2012	2011	2013 x 2012	2013 x 2011	2012 x 2011
1. Share Price						
ON - FJTA3*	R$ 2.66	R$ 3.25	R$ 1.49	-18%	79%	118%
PN - FJTA4*	R$ 2.28	R$ 2.90	R$ 1.42	-21%	61%	104%
IBOVESPA*	51,507	60,952	56,754	-15%	-9%	7%
* cotação do último pregão do ano						
2. Market Value - In thousands of BRL						
ON - FJTA3	R$ 125,386	R$ 153,197	R$ 70,235	-18%	79%	118%
PN - FJTA4	R$ 214,947	R$ 273,398	R$ 133,871	-21%	61%	104%
TOTAL	R$ 340,333	R$ 426,595	R$ 204,106	-20%	67%	109%
3. Liquidity Index						
ON - FJTA3						
Number of Trades*	9	12	10	-21%	-6%	19%
Financial Volume in BRL*	29,640	26,004	46,708	14%	-37%	-44%
Number of shares trades*	10,067	10,931	22,698	-8%	-56%	-52%
* period averages						
PN - FJTA4						
Number of Trades*	233	163	74	42%	213%	120%
Financial Volume in BRL*	540,736	639,017	378,049	-15%	43%	69%
Number of shares trades*	220,992	274,407	167,176	-19%	32%	64%
* period averages						



Post-restructuring*



Post-restructuring*

At Dec/31/13, capital comprised 47,137,539 common shares, representing 33.3% of total capital and 94,275,078 preferred shares representing the remaining 66.7%. There are 2,827,206 common shares in treasury and 9,608,901 preferred shares, which may be cancelled, disposed of or used in a Stock Options Plan at any time by operation of Board of Director's resolution.

8. Relationship with Independent Auditors

Abiding by CVM Rule No. 509/11, the Company informs hereby that Ernst & Young Auditores Independentes only rendered independent audit services in the year ended December 31, 2013, and has not rendered any other services to the Company and/or its subsidiaries, except for the necessary and additional procedures related to the restatement of the financial statements for the year ended December 31, 2012 for purposes of the voluntary restatement.

9. Executive Board Representation

The Executive Board, abiding by article 25, paragraph 1, items V and VI of CVM Rule No. 480/2009, represents hereby to have revised, discussed and approved the Financial Statements of Forjas Taurus S.A., with the opinions expressed in the Independent Auditor's Report on the referred to Financial Statements for the year ended December 31, 2013, and the restated financial statements for the year ended December 31, 2012, which were re-filed with the Brazilian Securities and Exchange Commission ("CVM") and disclosed to the market on the date hereof.

10. Prospects

The international macroeconomic context indicates a relative surmounting of systemic risks associated with the European crisis, the tax risks in the USA and sustainability of China's growth. However, in the domestic scenario, the Brazilian economy presents elements posing higher risk than that for last year, with Brazilian GDP growth of 2.3% and industrial production growth of only 1.2 in 2013.

The scenario expected for 2014 also involves uncertainties both for the international and the domestic market. The consensus for global GDP growth is around 3.5% to 4% for the year driven by developed economies, while for Brazil projections indicate a rate between 2.4% to 3%, although there are more pessimistic estimates.

The fundamentals for the sector and the Company.

In relation to demand, with the loss of dynamism in the international economy, mainly in the US market, the demand for weapons may present more moderate growth in 2014. Especially, the US guns market for civilians in which demand was high in 2013. However, there is potential for growth in exports to other countries, mainly in the segment of weapons for public security.

In the domestic market, in turn, there is also potential to expand consumption in the public security area, with the permission for the purchase of more than two guns by military or civilian policeman. In addition, the Company may enjoy the advantages resulting from its registration as a Strategic Defense Company (EED) with the Ministry of Defense, becoming a qualified supplier of products to the armed forces in 2013.

In relation to supply, the Company has several action plans to keep focus on quality of processes and products in the weapons segment, the increase in productivity and business profitability. The adoption of a new manufacturing management model will bring productivity gains within medium and long term. In the helmets segment, we have sufficient installed capacity to respond to an adventitious increase in consumption.

For 2014, the priority will be to increase cash generation for all the business segments. Again, the quest for simplicity and recovery of the Company's fundamentals, which include creativity, innovation and quality, will be fundamental.

Main fronts in 2014:

1) Update and re-implement the ERP system, improving internal controls, managerial reports and introduce new modules in the new integrated management system;
2) Improve visualization of expense and cost items, to allow expediting decisions;
3) Integrate the structures of the organization more effectively in Production Planning and Control (PPC) operations in Brazil and the USA;
4) Expand M.I.M. markets, increasing profitability in the segment;
5) Improve the integrated hedge policy with hiring of specialized financial management consulting services;
6) Envisage the increase in exports to other countries;

7) Envisage the Company as EED and supplier of the Armed Forces;
8) Envisage the Company as product maintenance servicing provider;

Estimates (*Guidance*)

The Company had provided growth projections for 2013 based on the prospects for its two main business segments, namely Defense & Security and Metallurgy & Plastics and had made a review thereof upon the original presentation for the 3Q13.

Due to the restatement of the Quarterly Information (ITR) for 2013, we are comparing the amounts originally projected, those restated for 2012 and the review of projections for 2013:

In BRL Millions	Restatement 2012	Guidance 2013 (Original)	Guidance 2013 (Reviewed)	Realized 2013	Variation Guidance/Realized
Net Revenue	> R$ 701.0	R$ 785.0	R$ 850.0	R$ 807.3	-5.0%
Adjusted EBITDA	> R$ 130.3	R$ 170.0	R$ 151.0	R$ 100.0	-33.8%
CAPEX	R$ 90.2	R$ 39.7	R$ 39.7	R$ 28.2	-29.0%

Considering the transition moment, not only of the manufacturing management model as well as of the new executive board, inaugurated in 4Q13, management elected not to provide estimates of revenue and EBITDA for 2014, until the production levels have stabilized, its processes have been reviewed and new management tools have been introduced to render the Company's strategic planning feasible.

In relation to CAPEX, capital budget for 2014 proposed by Management, to be submitted to the Ordinary General Meeting for approval, amounted to R$ 55.2 million, with good allocation to best manufacturing practices, which is fundamental upon review of its management model.

Management continues confident in relation to medium and long-term results from the actions currently in progress at the Company. We will monitor the results and keep the market informed about: (i) evolution of the action plans presented; (ii) any corrections in strategic directives; and (iii) the consequences from the restatement of financial information for 2012 and 2013.

Porto Alegre, March 28, 2014.

BOARD OF DIRECTORS

Luis Fernando Costa Estima

Chairman

Danilo Angst

Vice-Chairman

Carlos Augusto Leite Junqueira de Siqueira

Fernando José Soares Estima

Manuel Jeremias Leite Caldas

Marcos Tadeu de Siqueira

Ruy Lopes Filho

Board Members

Executive Board

André Ricardo Balbi Cerviño

CEO

Eduardo Ermida Moretti

Sales and Marketing Officer and Vice CEO

Eduardo Feldmann Costa

Administrative and Financial Officer and Vice CEO

Doris Beatriz França Wilhelm

Investor Relations Officer

REPRESENTATION OF THE EXECUTIVE BOARD OF FORJAS TAURUS S.A. ON THE INDEPENDENT AUDITOR'S REPORT

Messrs. André Ricardo Balbi Cerviño, Eduardo Ermida Moretti, Eduardo Feldmann Costa and Mrs. Doris Beatriz França Wilhelm, Executive Officers of Forjas Taurus S.A., a company with main place of business at Avenida do Forte, nº 511, Vila Ipiranga, Porto Alegre, Rio Grande do Sul State, enrolled with Brazil's IRS Registry of Legal Entities under CNPJ No. 92.781.335/0001-02, abiding by items V and VI, article 25, of Brazilian Securities and Exchange Commission (CVM) Rule No. nº 480, dated December 7, 2009, hereby declare that they reviewed, discussed and agreed with the opinions expressed by Ernst &Young Auditores Independentes S.S., in the Independent Auditor's Report on the Financial Statements for 2013 issued on March 25, 2014.

Porto Alegre, March 25, 2014.

André Ricardo Balbi Cerviño
CEO

Eduardo Ermida Moretti
Sales and Marketing Officer and Vice CEO

Eduardo Feldmann Costa
Administrative and Financial Officer and Vice CEO

Doris Beatriz França Wilhelm
Investor Relations Officer

REPRESENTATION OF THE EXECUTIVE BOARD OF FORJAS TAURUS S.A. ON THE FINANCIAL STATEMENTS FOR 2013

Messrs. André Ricardo Balbi Cerviño, Eduardo Ermida Moretti, Eduardo Feldmann Costa and Mrs. Doris Beatriz França Wilhelm, Executive Officers of Forjas Taurus S.A., a company with main place of business at Avenida do Forte, nº 511, Vila Ipiranga, Porto Alegre, Rio Grande do Sul State, enrolled with Brazil's IRS Registry of Legal Entities under CNPJ No. 92.781.335/0001-02, abiding by items V and VI, article 25, of Brazilian Securities and Exchange Commission (CVM) Rule No. 480, dated December 7, 2009, hereby declare that they reviewed, discussed and agreed with the Financial Statements of Forjas Taurus S.A. and subsidiaries for 2013.

Porto Alegre, March 24, 2014.

André Ricardo Balbi Cerviño
CEO

Eduardo Ermida Moretti
Sales and Marketing Officer and Vice CEO

Eduardo Feldmann Costa
Administrative and Financial Officer and Vice CEO

Doris Beatriz França Wilhelm
Investor Relations Officer

Supervisory Board Report

The Supervisory Board of Forjas Taurus S.A., abiding by legal and statutory provisions, examined the Management Report and the Financial Statements for the year ended December 31, 2013.

Based on the examination made and further considering the unqualified Independent Auditor's Report of Ernst & Young Auditores Independentes S.S. issued on March 25, 2014, as well as the information and clarifications received from Company management during the year, the Supervisory Board concluded that the referred to documents are in conditions to be submitted to the Ordinary Shareholders' meeting for approval.

Porto Alegre, March 28, 2014.

Mauro César Medeiros de Mello

Amoreti Franco Gibbon

Juliano Puchalski Teixeira

Marcelo de Deus Saweryn

Reinaldo Fujimoto

AUDIT AND RISK COMMITTEE REPORT
OF FORJAS TAURUS S.A.

The members of the Audit and Risks Committee of Forjas Taurus S.A., exercising their attributions and legal prerogatives, as provided for by the Statutes of the Board of Directors Advisory Committees, examined and analyzed the financial statements, with the Independent Auditor's Report and the Management Report for 2013 ("Annual Financial Statements for 2013") and, considering the information provided by Company Management and Ernst & Young Auditores Independentes S.S, have unanimously considered that they present fairly, in all material respects, the financial position of the Company and its subsidiaries and recommend that the documents be approved by the Board of Directors and that they be submitted to the Ordinary Shareholders' Meeting, on the terms of Brazil's Corporation Law.

Porto Alegre, March 25, 2014.

Danilo Angst
Eduardo Feldmann Costa
Manuel Jeremias Leite Caldas
Ruy Lopes Filho

Forjas Taurus S.A. Consolidado

Orçamento de capital para o Exercício de 2014

Descrição	Fontes de Recursos	Investimentos	
Forjas Taurus - Unidade de Porto Alegre (RS)		**R$ mil**	**USD mil**
Pesquisa e desenvolvimento de produtos e processos	Terceiros	8.971	3.738
Modernização e ampliação da capacidade de produção	Terceiros	7.031	2.930
Licenciamento, melhorias e implantação de novos módulos do ERP	Terceiros	10.854	4.522
	Total	**26.856**	**11.190**
Forjas Taurus - Unidade de São Leopoldo (RS) - Armas Longas - Filial 5			
Pesquisa e desenvolvimento de produtos e processos	Terceiros	1.866	778
Melhoria de produtividade dos processos de fabricação	Terceiros	1.315	548
	Total	**3.181**	**1.325**
Taurus Blindagens Ltda. - Unidades de Mandirituba (PR) e Simões Filho (BA)			
Modernização e/ou automação	Terceiros	6.000	2.500
	Total	**6.000**	**2.500**
Polimetal Metalúrgia e Plásticos Ltda. - São Leopoldo (RS)			
Modernização e ampliação da capacidade de produção	Terceiros	8.367	3.486
Transferência da unidade Filial 5 para planta Polimetal		4.553	1.897
	Total	**12.920**	**5.383**
Total dos Investimentos (CAPEX) da Forjas Taurus S.A. Consolidado no Brasil		**48.957**	**20.399**
Taurus Holdings, Inc. and Subsidiaries - Miami - Florida (EUA)			
Modernização e ampliação da capacidade de produção	Terceiros	**6.226**	**2.594**
Total Global dos Investimentos (CAPEX) da Forjas Taurus S.A (Consolidado)		**55.182**	**22.993**

* Dolar R$/USD 2,40

A free translation from Portuguese into English of Independent Auditor's Report on individual financial statements in accordance with accounting practices adopted in Brazil and on consolidated financial statements in accordance with IFRS and also with accounting practices adopted in Brazil

Independent auditor's report on financial statements

The
Shareholders, Board of Directors and Officers
Forjas Taurus S.A.
Porto Alegre - RS

We have audited the accompanying individual and consolidated financial statements of Forjas Taurus S.A. ("Company"), identified as Company and Consolidated, respectively, which comprise the balance sheet as at December 31, 2013, and the related statements of operations, statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting practices and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether these financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the Company's financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting practices used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the individual financial statements

In our opinion, the individual financial statements referred to above present fairly, in all material respects, the financial position of Forjas Taurus S.A. as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with the accounting practices adopted in Brazil.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Forjas Taurus S.A. as at December 31, 2013, and its consolidated financial performance of its operations and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the accounting practices adopted in Brazil.

Emphasis of a matter

As described in Note 3.a, the individual financial statements were prepared in accordance with accounting practices adopted in Brazil. In the case of Forjas Taurus S.A., these practices differ from IFRS applicable to separate financial statements solely with respect to the measurement of investments in subsidiaries and affiliates, under the equity method, while such investments would be measured at cost or fair value for IFRS purposes. Our opinion is not qualified in respect of this matter.

Other matters

Statements of value added

We have also reviewed the individual and consolidated statements of value added (SVA) for the year ended December 31, 2013, prepared under the responsibility of Company management, of which the presentation is required by Brazilian corporate legislation for publicly-traded companies and as supplementary information under IFRS, which do not require SVA presentation. These statements have been subjected to the same auditing procedures previously described and, in our opinion, are presented fairly, in all material respects, in relation to the overall financial statements.

Porto Alegre, March 25, 2014.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/O-6/F/RS

Luis Carlos de Souza
Accountant CRC-1SC021585/O-4

Forjas Taurus S.A.

Balance sheets
December 31, 2013 and 2012
(In thousands of reais)

		Consolidated		Company	
	Note	2013	2012	2013	2012
Assets					
Current assets					
Cash and cash equivalents	9	**281,119**	180,781	**27,874**	101,560
Trade accounts receivable	10	**161,660**	148,847	**171,648**	57,803
Inventories	11	**218,269**	261,527	**80,702**	103,951
Derivative financial instruments	21	**45,212**	33,513	**45,096**	32,925
Prepaid expenses		**9,059**	9,086	**1,897**	2,368
Taxes recoverable	12	**35,785**	39,428	**25,195**	29,567
Assets held for sale	8	**5,588**	-	**-**	-
Other accounts receivable		**25,980**	29,093	**18,090**	19,769
		782,672	702,275	**370,502**	347,943
Noncurrent assets					
Receivables from related parties	22	**-**	-	**21,115**	114,580
Deferred tax assets	13	**44,364**	44,049	**-**	-
Taxes recoverable	12	**2,179**	4,925	**859**	1,645
Other accounts receivable		**4,271**	7,496	**2,462**	2,430
		50,814	56,470	**24,436**	118,655
Investments					
Subsidiaries	15	**-**	-	**430,287**	296,369
Associated companies	15	**14,194**	15,543	**-**	-
Other investments		**349**	350	**190**	190
Property, plant and equipment	16	**268,484**	278,485	**57,379**	62,334
Intangible assets	17	**67,581**	61,181	**4,642**	4,832
		350,608	355,559	**492,498**	363,725
Total assets		**1,184,094**	1,114,304	**887,436**	830,323

	Note	Consolidated		Company	
		2013	2012	2013	2012
Liabilities and equity					
Current liabilities					
Suppliers		**32,978**	34,958	**63,487**	40,742
Loans and financing	18	**388,530**	322,555	**324,403**	294,113
Debentures	19	**57,565**	94,698	**57,565**	94,698
Foreign exchange drafts		**-**	5,128	**-**	5,128
Payroll and related charges		**29,768**	27,263	**18,149**	16,506
Taxes, charges and contributions		**18,287**	24,631	**3,508**	7,065
Advance on receivables		**115,972**	26,375	**71,040**	-
Advances from customers		**8,311**	16,567	**8,025**	12,147
Derivative financial instruments	21	**9,595**	7,750	**9,010**	6,576
Advance on real estate credits	14	**19,606**	28,711	**-**	-
Commissions payable		**1,588**	3,885	**745**	2,829
Dividends payable		**7**	7,040	**7**	7,040
Provision for civil, labor and tax contingencies	20	**6,897**	4,507	**3,135**	3,469
Other accounts payable		**48,370**	34,445	**32,507**	11,256
		737,474	638,513	**591,581**	501,569
Noncurrent liabilities					
Loans and financing	18	**273,151**	255,485	**110,425**	88,970
Taxes payable		**4,371**	4,276	**1,444**	**-**
Deferred tax liabilities	13	**12,872**	5,777	**3,456**	2,348
Provision for civil, labor and tax contingencies	20	**5,109**	2,651	**388**	388
Other accounts payable		**5,124**	5,822	**34,149**	35,268
		300,627	274,011	**149,862**	126,974
Total liabilities		**1,038,101**	912,524	**741,443**	628,543
Equity	23				
Capital		**257,797**	257,797	**257,797**	257,797
Treasury shares		**(32,895)**	(32,895)	**(32,895)**	(32,895)
Capital transactions		**(40,996)**	(40,996)	**(40,996)**	(40,996)
Dividends to be assigned		**-**	321	**-**	321
Accumulated losses		**(99,659)**	(20,604)	**(99,659)**	(20,604)
Equity valuation adjustments		**37,483**	37,773	**37,483**	37,773
Cumulative translation adjustments		**24,263**	384	**24,263**	384
Total equity		**145,993**	201,780	**145,993**	201,780
Total liabilities and equity		**1,184,094**	1,114,304	**887,436**	830,323

See accompanying notes.

Forjas Taurus S.A.

Statements of operations
Years ended December 31, 2013 and 2012
(In thousands of reais)

		Consolidated		Company	
	Note	**2013**	**2012**	**2013**	**2012**
Net operating revenue	24	**807,340**	700,971	**384,100**	383,144
Cost of sales	29	**(565,619)**	(434,237)	**(311,813)**	(275,683)
Gross profit		**241,721**	266,734	**72,287**	107,461
Operating income (expenses)					
Selling expenses	29	**(126,341)**	(89,419)	**(47,399)**	(32,249)
Administrative and general expenses	29	**(77,885)**	(60,730)	**(35,895)**	(32,594)
Other operating income (expenses), net	25	**(20,117)**	(33,297)	**(5,438)**	(9,169)
		(224,343)	(183,446)	**(88,732)**	(74,012)
Income before net financial expenses, equity pickup and income taxes		**17,378**	83,288	**(16,445)**	33,449
Financial income	26	**102,136**	90,348	**86,024**	78,338
Financial expenses	26	**(175,731)**	(134,897)	**(148,791)**	(119,125)
Net financial expenses		**(73,595)**	(44,549)	**(62,767)**	(40,787)
Equity pickup	15	**(1,349)**	875	**(488)**	25,787
Income before income taxes		**(57,566)**	39,614	**(79,700)**	18,449
Income and social contribution taxes	27	**(22,744)**	(21,833)	**(610)**	(668)
Income (loss) from continuing operations		**(80,310)**	17,781	**(80,310)**	17,781
Loss from discontinued operations	8	**-**	(134,991)	**-**	(134,991)
Loss for the year		**(80,310)**	(117,210)	**(80,310)**	(117,210)
Loss per common share – basic and diluted (in R$)	23.d			**(0.5679)**	(0.8288)
Loss per preferred share – basic and diluted (in R$)	23.d			**(0.5679)**	(0.8288)
Earnings (loss) per common share – basic and diluted – of continuing operations (in R$)	23.d			**(0.5679)**	0.1257
Earnings (loss) per preferred share – basic and diluted – of continuing operations (in R$)	23.d			**(0.5679)**	0.1257

See accompanying notes.

Forjas Taurus S.A.

Statements of comprehensive income
Years ended December 31, 2013 and 2012
(In thousands of reais)

	Consolidated		Company	
	2013	**2012**	**2013**	**2012**
Loss for the year	**(80,310)**	(117,210)	**(80,310)**	(117,210)
Other comprehensive income Other comprehensive income to be classified in the income statement for the year in subsequent periods:				
Cumulative translation adjustment	**23,879**	11,527	**23,879**	11,527
Adjustments of financial instruments, net of tax effects	**965**	(965)	**965**	(965)
Total comprehensive income (losses)	**(55,466)**	(106,648)	**(55,466)**	(106,648)

See accompanying notes.

Forjas Taurus S.A.

Statements of changes in equity
Years ended December 31, 2013 and 2012
(In thousands of reais)

			Income reserves									
	Capital	Treasury shares	Legal reserve	Reserve for investments	Capital transactions	Equity valuation adjustments	Cumulative translation adjustments	Dividends to be assigned	Accumulated losses	Equity of controlling shareholders	Noncontrolling shareholders	Total equity
Balance at December 31, 2011	257,797	(32,895)	25,718	81,578	(40,996)	44,807	(11,143)	469	-	325,335	(100)	325,235
Approval of prior year proposed dividends	-	-	-	-	-	-	-	(469)	-	(469)	-	(469)
Cumulative translation adjustment	-	-	-	-	-	-	11,527	-	-	11,527	-	11,527
Realization of equity valuation adjustment – appreciation of assets, net of tax effects	-	-	-	-	-	(4,318)	-	-	4,318	-	-	-
Realization of equity valuation adjustment – appreciation of assets of subsidiaries, net of tax effects	-	-	-	-	-	(1,751)	-	-	1,751	-	-	-
Unrealized gains with hedge instruments, net of tax effects	-	-	-	-	-	(965)	-	-	-	(965)	-	(965)
Other	-	-	-	-	-	-	-	-	(75)	(75)	100	25
Net income (loss) for the year	-	-	-	-	-	-	-	-	(117,210)	(117,210)	-	(117,210)
Proposed allocations:												
Setting up of reserves	-	-	(25,718)	(81,578)	-	-	-	-	107,296	-	-	-
Dividends and interest on equity (Note 23.e)	-	-	-	-	-	-	-	-	(16,363)	(16,363)	-	(16,363)
Proposed dividends in addition to minimum mandatory dividends	-	-	-	-	-	-	-	321	(321)	-	-	-
Balance at December 31, 2012	**257,797**	**(32,895)**	**-**	**-**	**(40,996)**	**37,773**	**384**	**321**	**(20,604)**	**201,780**	**-**	**201,780**
Approval of prior year proposed dividends	-	-	-	-	-	-		(321)	-	(321)	-	(321)
Cumulative translation adjustment	-	-	-	-	-	-	23,879	-	-	23,879	-	23,879
Realization of equity valuation adjustment – appreciation of assets, net of tax effects	-	-	-	-	-	(633)	-	-	633	-	-	-
Realization of equity valuation adjustment – appreciation of assets of subsidiaries, net of tax effects	-	-	-	-	-	(622)	-	-	622	-	-	-
Unrealized gains with hedge instruments, net of tax effects	-	-	-	-	-	965	-	-	-	965	-	965
Loss for the year	-	-	-	-	-	-	-	-	(80,310)	(80,310)	-	(80,310)
Balance at December 31, 2013	**257,797**	**(32,895)**	**-**	**-**	**(40,996)**	**37,483**	**24,263**	**-**	**(99,659)**	**145,993**	**-**	**145,993**

See accompanying notes.

Cash flow statements
Years ended December 31, 2013 and 2012
(In thousands of reais)

	Consolidated		Company	
	2013	**2012**	**2013**	**2012**
Cash flow from operating activities				
Income (loss) before income and social contribution taxes	**(57,566)**	(95,377)	**(79,700)**	(116,542)
Adjustments to reconcile net income to cash and cash equivalents provided by operating activities:				
Depreciation and amortization	**35,307**	31,241	**11,925**	11,810
Cost of fixed asset disposals	**4,673**	6,599	**1,059**	2,321
Cost of intangible asset disposals	**1,469**	385	**-**	-
Provision for fixed assets impairment	**-**	13,522	**-**	-
Write-off of assets held for sale	**-**	2,527	**-**	-
Contract renegotiation (Note 8a)	**-**	57,830	**-**	-
Allowance for doubtful accounts	**3,822**	14,894	**1,603**	75
Provision for inventory losses	**(8,254)**	9,566	**(422)**	-
Additional provision for loss	**-**	59,746	**-**	-
Provision for contingencies	**4,848**	-	**(334)**	-
Equity pickup	**1,349**	(875)	**488**	(25,787)
Equity pickup –discontinued operation	**-**	-	**-**	134,991
Impairment of permanent assets	**863**	-	**-**	-
Loss from change in investment in subsidiaries	**-**	-	**106**	450
Provision for interest on loans and financing	**93,644**	64,155	**71,930**	50,763
Derivative financial instruments	**(13,334)**	(20,450)	**(13,217)**	(21,520)
Non-controlling interest	**-**	100	**-**	-
	124,387	239,240	**73,138**	153,103
Changes in assets and liabilities				
Decrease (increase) in inventories	**51,512**	(13,617)	**23,671**	(33,263)
(Increase) decrease in trade accounts receivable	**(16,635)**	10,547	**(115,448)**	87,001
Decrease (increase) in other accounts receivable	**30,954**	(24,566)	**11,345**	(20,463)
(Decrease) increase in suppliers	**(1,980)**	4,632	**22,745**	24,904
Increase (decrease) in accounts payable	**80,457**	(40,481)	**77,790**	(43,214)
Dividends and interest on equity received	**262**	589	**17,000**	29,975
Payment of income and social contribution taxes	**(20,084)**	(20,087)	**-**	-
	124,486	(82,983)	**37,103**	44,940
Net cash flow provided by operating activities	**191,307**	60,880	**30,541**	81,501
Cash flow from investing activities				
Receivables from related companies	**-**	219	**(30,903)**	(55,493)
Investments	**-**	(34,118)	**(1,686)**	(1,819)
Property, plant and equipment	**(26,271)**	(58,780)	**(7,223)**	(13,497)
Intangible assets	**(1,976)**	(3,187)	**(616)**	(763)
Net cash flow used in investing activities	**(28,247)**	(95,866)	**(40,428)**	(71,572)
Cash flow from financing activities				
Dividends and interest on equity paid	**(7,354)**	(21,130)	**(7,354)**	(21,130)
Borrowings	**206,834**	329,682	**159,145**	216,727
Loans and financing repayment	**(219,401)**	(216,309)	**(181,117)**	(152,560)
Interest paid	**(42,801)**	(38,619)	**(34,473)**	(24,819)
Other	**-**	(219)	**-**	2,093
Net cash provided by (used in) financing activities	**(62,722)**	53,405	**(63,799)**	20,311
Increase (decrease) in cash and cash equivalents	**100,338**	18,419	**(73,686)**	30,240
Statement of (decrease) increase in cash and cash equivalents				
At beginning of year	**180,781**	162,226	**101,560**	71,320
Changes in cash from discontinued operations	**-**	136	**-**	-
At end of year	**281,119**	180,781	**27,874**	101,560
Increase (decrease) in cash and cash equivalents	**100,338**	18,419	**(73,686)**	30,240

See accompanying notes.

Forjas Taurus S.A.

Statements of value added
Years ended December 31, 2013 and 2012
(In thousands of reais)

	Note	Consolidated 2013	Consolidated 2012	Company 2013	Company 2012
Revenues					
Sales of goods, products and services		**897,065**	850,071	**450,924**	458,385
Other revenues	25	**10,689**	7,986	**2,717**	2,497
Allowance for doubtful accounts		**(3,822)**	(14,894)	**(1,603)**	(75)
		903,932	843,163	**452,038**	460,807
Inputs acquired from third parties, including the amount of taxes – ICMS, IPI, PIS and COFINS					
Cost of products, goods and services sold		**279,472**	225,378	**162,850**	202,977
Materials, electricity, third-party services and others		**230,252**	176,852	**118,157**	48,605
		509,724	402,230	**281,007**	251,582
Gross value added		**394,208**	440,933	**171,031**	209,225
Depreciation and amortization		**35,307**	31,241	**11,925**	11,810
Net value added produced by the Company		**358,901**	409,692	**159,106**	197,415
Value added received in transfer					
Equity pickup		**(1,349)**	875	**(488)**	25,787
Equity pickup – discontinued operations		**-**	(134,991)	**-**	(134,991)
Financial income		**102,136**	90,600	**86,024**	78,338
		100,787	(43,516)	**85,536**	(30,866)
Total value added to be distributed		**459,688**	366,176	**244,642**	166,549
Distribution of value added					
Employees					
Direct compensation		**160,577**	138,205	**80,586**	75,322
Benefits		**16,481**	18,488	**10,578**	9,493
Government Severance Indemnity Fund for Employees - FGTS		**9,873**	9,124	**6,406**	5,821
		186,931	165,817	**97,570**	90,636
Government					
Federal		**126,164**	132,876	**40,498**	46,781
State		**31,696**	28,463	**24,289**	12,817
Municipal		**6**	249	**5**	168
		157,866	161,588	**64,792**	59,766
Financing agents					
Interest		**172,395**	135,311	**148,791**	119,098
Rents		**15,116**	11,886	**6,331**	5,262
Other		**7,690**	8,784	**7,468**	8,997
		195,201	155,981	**162,590**	133,357
Interest on equity					
Dividends and interest on equity		**-**	16,684	**-**	16,684
Accumulated losses, net of realization of equity valuation adjustments		**(80,310)**	(133,894)	**(80,310)**	(133,894)
		(80,310)	(117,210)	**(80,310)**	(117,210)
		459,688	366,176	**244,642**	166,549

See accompanying notes.

(In thousands of reais, unless otherwise stated)

1. Operations

Forjas Taurus S.A. ("Company") is a Brazilian stock corporation, with its registered office in Porto Alegre (RS), and its activities include the manufacture and sale of revolvers, military and civilian pistols, ammunition and investing in other companies. The subsidiary companies produce and sell civilian pistols, glasses, metal parts to order, bullet proof vests, motorbike helmets, injected plastic products, tools for civil construction, mechanical, gardening and similar products, the purchase, sale and rental of own and third party real estate.

At December 31, 2013, the Company and its subsidiaries operated with six industrial plants, three of which are located in the state of Rio Grande do Sul, one in the state of Paraná, one in the state of Bahia and one located in the United States of America.

Sales made by the Company and its subsidiaries are directed mainly to private customers in the foreign market, particularly those located in North America, and also public bodies in the domestic market, mainly the state, civil and military police. Sales made by the Company and its subsidiaries are not subject to restrictions and there is no significant concentration that implies significant dependence on government bodies or any other single client. Given the specific characteristics of the weapons and ammunitions market, the Company and its subsidiaries are supervised and follow the rules issued by the national and foreign security bodies for part of their operations.

The Company's shares, ON (FJTA3) and PN (FJTA4), have been listed on Bovespa since March 1982.

2. The Company's entities

		Investment interest	
	Country	**2013**	**2012**
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%**	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%**	35.00%
Taurus Helmets Indústria Plástica Ltda.*	Brazil	**100.00%**	100.00%
Polimetal Metalurgia e Plásticos Ltda.	Brazil	**100.00%**	100.00%
Steelinject – Injeção de Aços Ltda.***	Brazil	**-**	100.00%

(*) The investments reported represent the percentage interest held by the investing Company directly or indirectly in the capital of the subsidiary companies.
(**) Not consolidated.
(***) Merger of this company into Polimetal Metalurgia e Plásticos Ltda. was decided on July 30, 2013.

2. The Company's entities (Continued)

Disposal of operations of subsidiary Taurus Máquinas-Ferramenta Ltda.

The Board of Directors' meeting held on June 21, 2012 approved disposal of operations of subsidiary Taurus Máquinas-Ferramenta Ltda. to Renill Participações Ltda. The operation was made through disposal of SM Metalurgia Ltda., a subsidiary of Taurus Máquinas-Ferramenta Ltda. (Note 8).

3. Basis for preparation

a) Statement of compliance (with International Financial Reporting Standards - IFRS and CPC rules)

These financial statements include the consolidated financial statements prepared 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) and the individual financial statements of the Company prepared in accordance with BR GAAP.

The Company's individual financial statements were prepared in accordance with BR GAAP and, in the case of the Company, these practices differ from IFRS applicable to separate financial statements, since the investments held in subsidiaries and associated companies are valued using the equity method in BR GAAP, whilst for purposes of IFRS they are valued at cost or fair value.

b) Basis for measurement

The individual and consolidated financial statements were prepared on a historical cost basis, except for the following material items recognized in the balance sheets: derivative financial instruments stated at fair value and financial instruments stated at fair value through profit or loss.

c) Functional and reporting currency

The individual and consolidated financial statements are presented in Brazilian Reais, which is the functional currency of the Company and its subsidiaries located in Brazil. The functional currency of the subsidiary Taurus Holdings, Inc., located in the United States, is the US dollar.

3. Basis for preparation (Continued)

d) Use of estimates and judgments

The preparation of the individual and consolidated financial statements in accordance with IFRS and CPC pronouncements requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenues and expenses. Actual
results may differ from the amounts estimated.

Estimates and assumptions are reviewed periodically. Reviews with respect to accounting estimates are recognized in the period estimates are revised and in any future periods affected.

Information on key judgments referring to accounting policies adopted that affect the amounts recognized in the individual and consolidated financial statements and information about uncertainties, assumptions and estimates is included in the following notes: 13 – Deferred tax assets and liabilities, 20 – Provision for civil, labor and tax contingencies and 21 – Financial instruments.

Authorization to conclude the preparation of these financial statements was provided at the Executive Board meeting held on March 24, 2014.

4. Significant accounting practices

The accounting practices described below were consistently applied to all the presented periods in these individual and consolidated financial statements.

The accounting practices are consistently applied by the Company's investees:

a) Basis of consolidation

(i) *Business combinations*

As part of the transition to IFRS and CPC, the Company opted for not restating business combinations before January 1, 2009. In relation to acquisitions before January 1, 2009, goodwill represents the amount recognized under the accounting practices previously adopted. These intangible assets were submitted to impairment testing as of the transition date, as described in Note 4e(i).

4. Significant accounting practices (Continued)

a) Basis of consolidation (Continued)

(i) *Business combinations* (Continued)

Business combinations as from January 1, 2009 are accounted for by the acquisition method. The cost of an acquisition is measured by the sum of consideration transferred, evaluated based on
the fair value at acquisition date, and the amount of any non-controlling interest in acquiree.

(ii) *Subsidiaries*

The financial statements of subsidiaries are included in the consolidated financial statements as from the date of beginning of control until the date such control ceases to exist. The accounting practices of subsidiaries are aligned with the practices adopted by the Company.

In the individual financial statements of the Company, investments in subsidiaries are recognized by the equity method.

(iii) *Investment in associated companies*

This refers to companies over which the Company, directly or indirectly, holds significant influence, but not control over their financial and operating policies.

Investments in associated companies are stated by the equity method and initially recognized at cost. Such Company investments include goodwill on acquisition, net of any accumulated impairment losses (goodwill on associated companies is not separately tested for impairment). The consolidated financial statements include revenues, expenses and equity changes of associated companies, after adjustments to align their accounting practices with those of the Company.

Despite the significant influence over the economic and operating activities, the financial statements of associated company Famastil Taurus Ferramentas S.A. were not consolidated since the company does not meet the specific criteria of CPC 18 and IAS 28 for recognition of control over this company.

4. Significant accounting practices (Continued)

a) Basis of consolidation (Continued)

(iv) *Transactions eliminated in consolidation*

Intercompany balances and transactions and any revenues or expenses derived from intercompany transactions are eliminated in the preparation of the consolidated financial statements. Unrealized gains from transactions with investees stated by the equity method are eliminated against the investment in proportion to the Company's ownership interest in investee. Unrealized losses are eliminated alike the elimination of unrealized gains, but only to the point that there is no evidence of impairment loss of the asset.

b) Foreign currency

(i) *Transactions in foreign currency*

Transactions in foreign currency are translated to the functional currencies of the Company's entities at the exchange rate of transaction date. Monetary assets and liabilities denominated and computed in foreign currency at the reporting date are translated to the functional currency at the exchange rate of that date. Exchange gain or loss for monetary items is the difference between amortized cost of functional currency at the beginning of the period, adjusted by interest and effective payments during the period, and the amortized cost in foreign currency at the exchange rate of reporting period end. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate of fair value computation date. Currency translation differences are recognized in P&L. Non-monetary items measured at historical cost in foreign currency are translated at the exchange rate of the transaction date.

(ii) *Foreign operations*

Assets and liabilities from foreign operations, including goodwill and fair value adjustments, are translated to Brazilian Real at the exchange rate of reporting date. Revenues and expenses of foreign operations are translated to Brazilian Real at the exchange rate of transaction date. There are no operations in hyperinflationary economies.

4. Significant accounting practices (Continued)

b) Foreign currency (Continued)

(ii) *Foreign operations* (Continued)

Currency translation differences are recognized in other comprehensive income and presented in equity.

Exchange gains or losses resulting from monetary item receivable from or payable to a foreign operation, of which settlement has not been planned nor is probable to take place in the foreseeable future and whose essence is considered as being part of the net investment in the foreign operation, are recognized in other comprehensive income.

c) Financial instruments

(i) *Non-derivative financial assets*

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

Short-term investments redeemable within up to 90 days from the investment date and with low risk of change in their market value are considered to be cash equivalents.

There was no change in the policy for determining cash and cash equivalent components in the disclosed years.

The Company recognizes its financial assets in the category of loans and receivables and deposits initially on the date of their origination.

The Company stops recognizing a financial asset when the contractual rights to cash flows from the asset expire or when the Company transfers the rights to receive contractual cash flows from a financial asset in a transaction in which essentially all risks and rewards from title to the financial asset are transferred. Any interest that is created or held by the Company in the financial assets is recognized as an individual asset or liability.

Financial assets or liabilities are offset and the net amount is stated in the balance sheet only when the Company has the legal right to offset amounts and has the intention of liquidating on a net basis or realizing the asset and liquidating the liability simultaneously.

4. Significant accounting practices (Continued)

c) Financial instruments (Continued)

(i) *Non-derivative financial assets* (Continued)

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value increased by any attributable transaction costs. After initial recognition, loans and receivables are measured at amortized cost through the effective interest method, adjusted by any impairment loss.

(ii) *Non-derivative financial liabilities*

The Company recognized issued debt bonds and subordinated liabilities initially on the date of origination thereof. All the other financial liabilities (including liabilities at fair value through profit or loss) are initially recognized on the trading date on which the Company becomes party to the contractual provisions of the instrument. The Company writes off a financial liability when its contractual obligations are liquidated, cancelled or mature.

The Company has the following non-derivative financial liabilities: loans, financing, non-convertible debentures, bank overdraft facility, suppliers and other accounts payable.

Such financial liabilities are initially recognized at fair value increased by any attributable transaction costs. After initial recognition, these financial liabilities are measured at amortized cost through the effective interest method.

(iii) *Derivative financial instruments*

The Company maintains derivative financial instruments to provide hedge against the currency and interest rate risk. Embedded derivatives are separated from their main contracts and individually recorded if the economic characteristics and risks of the main contract and the embedded derivative are not intrinsically related; or if an individual instrument under the same conditions of the embedded derivative fits into the definition of derivative, and the combined instrument is not measured at fair value through profit or loss.

4. Significant accounting practices (Continued)

c) Financial instruments (Continued)

(iii) *Derivative financial instruments* (Continued)

Derivatives are initially recognized at fair value; attributable transaction costs are recognized in P&L when incurred. After initial recognition, derivatives are measured at fair value at balance sheet date and changes in fair value are recorded in P&L.

When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are immediately recognized in P&L.

Financial assets and liabilities are offset and the net amount is stated in the balance sheet only when the Company has the legal right to offset amounts and has the intention of liquidating on a net basis or realizing the asset and liquidating the liability simultaneously.

d) Property, plant and equipment

(i) *Recognition and measurement*

Property, plant and equipment items are measured at historical cost of acquisition or construction, less accumulated depreciation and accumulated impairment losses.

The Company opted for reevaluating property, plant and equipment items at deemed cost for the opening date of 2009. The effects from deemed cost increased property, plant and equipment balance, the balancing entry being to equity, net of tax effects.

Cost includes expenses that are directly attributable to acquisition of an asset. The cost of assets build by the entity itself includes the cost of materials, labor and any other costs to place the asset in the site and in the conditions necessary for the operation thereof in the form intended by management, dismantling costs, costs to recover the site in which such assets are located and costs of loans in connection with qualifying assets for which the date for beginning of capitalization is January 1, 2009 or a later date.

4. Significant accounting practices (Continued)

d) Property, plant and equipment (Continued)

(i) *Recognition and measurement* (Continued)

Gains and losses on the disposal of a property, plant and equipment item are determined comparing the amounts resulting from asset disposal with the related carrying amount, and are recognized net in other revenues account in the income statement.

(ii) *Subsequent costs*

The replacement cost of a property, plant and equipment item is recognized in the book value of the item if it is probable that the economic benefits from the component will flow to the Company and when the cost thereof may be reliably measured. The book value of a component that has been replaced by another is written off. The costs of routine maintenance of property, plant and equipment are recognized in P&L as incurred.

(iii) *Depreciation*

Depreciation is calculated on the depreciable value, which is the cost of an asset.

Depreciation is recognized in P&L on the straight line basis taking into consideration the estimated useful life of each part of a property, plant and equipment item, since this is the method that most adequately reflects the standard of consumption of future economic benefits from the assets.

The estimated useful lives for the current and comparative periods are approximately the following:

Buildings	27 years
Machinery and equipment	From 15 to 20 years
Casts and tooling	5 years
Furniture	15 years
Other components	From 5 to 6 years

The depreciation methods, the useful lives and the residual values are reviewed every year end and any adjustments are recognized as change in accounting estimates.

4. Significant accounting practices (Continued)

e) Intangible assets

(i) *Goodwill*

Goodwill on the acquisition of investments, after applicable allocations, is included in intangible assets. Goodwill is presented in the investment group in the financial statements of the Company.

Goodwill from business combinations is classified in intangible assets and was determined in accordance with accounting practices in force at the time of each combination, adjusted for the reclassification of certain intangible assets.

Subsequent measurement

Goodwill is measured at cost, less accumulated impairment losses. In relation to investee stated by the equity method, book value of goodwill is included in the book value of investment and impairment loss on said investment is not allocated for any asset, including goodwill, which is part of the book value of investee stated by the equity method. No risk factors were identified that would lead to the understanding that it is necessary to set up provision for impairment of goodwill recognized in the balance sheet at December 31, 2013.

(ii) *Research and development*

Expenses with research activities, made with the possibility of gaining scientific or technological knowledge, are recognized in the income statement as incurred. Development activities involve a plan or project for the manufacture of new or substantially improved products. Development expenses are capitalized only if development costs may be reliably measured, if the product or process are technically and commercially feasible, if the future economic benefits are likely to arise and if the Company has the intention and sufficient resources to conclude the development and use or sell the asset. Capitalized expenses include cost of materials, labor, manufacturing costs that are directly attributable to preparation of the asset for its intended use, and loan costs for qualifying assets for which the date of beginning of capitalization is January 1, 2009 or a later date. Other development expenses are recognized in the income statement as incurred.

4. Significant accounting practices (Continued)

e) Intangible assets (Continued)

(ii) *Research and development* (Continued)

Capitalized development expenses are measured at cost, less accumulated amortization and impairment losses.

(iii) *Other intangible assets*

Other intangible assets that are acquired by the Company and with finite useful lives are measured at cost, less accumulated amortization and accumulated impairment losses.

(iv) *Subsequent expenses*

Subsequent expenses are capitalized only when they increase future economic benefits from the specific asset to which they refer. All the other expenses, including expenses with internally generated goodwill and trademarks are recognized in P&L as incurred.

(v) *Amortization*

Amortization is recognized in P&L on the straight line basis taking into consideration the estimated useful lives of intangible assets, except goodwill, as from the date on which these are available for use, since this method is the one that best reflects the standard of consumption of future economic benefits from the asset. The estimated useful lives for current and comparative periods are approximately the following:

Development costs	5 years
Systems implementation	5 years

f) Trade accounts receivable

Trade accounts receivable are recorded for the billed amount, including direct taxes of which the burden is attributed to the Company.

4. Significant accounting practices (Continued)

f) Trade accounts receivable (Continued)

Present value calculation is made for each transaction based on an interest rate that reflects the term, currency and risk of each transaction. In the period, the average rate used by the Company was of approximately 0.66% p.m. The balancing entry of present value adjustments of accounts receivable is posted to gross revenue in the income statement. The difference between present value of a transaction and the face value of billing is considered financial income, which is recorded based on the amortized cost and effective interest rate methods along the transaction term.

Allowance for doubtful accounts is set up in amount considered sufficient by Management to cover any losses upon realization of accounts receivable.

g) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted moving average (WMA) principle and includes expenses incurred in the acquisition of inventories, production and processing costs and other costs incurred to place them in their current site and conditions. In the case of manufactured inventories and products in process, cost includes a portion of general manufacturing costs based on normal operating capacity.

Net realizable value is the estimated sales price in the normal course of business, less estimated conclusion costs and selling expenses.

Provision for inventory loss is recorded for slow moving products and for items with sales price lower than build-up cost.

4. Significant accounting practices (Continued)

h) Impairment

(i) *Financial assets (including receivables)*

The Company and its subsidiaries evaluate at balance sheet date if there is any objective evidence indicating that the financial asset or group of financial assets is not recoverable. A financial asset or group of financial assets is considered as not recoverable if, and only if, there is objective evidence of non-recoverability thereof as a result of one or more events that have taken place after initial recognition of the asset ("a loss event" incurred) and this loss event has impact on future estimated cash flow of the financial asset or group of financial assets, which may be reasonably estimated. Evidence of impairment loss may include indicators that counterparties (customers, banks and other debtors) are going through significant financial difficulties. The probability that they go bankrupt or through another type of financial reorganization, default on or delay payments may be indicated by a measurable decrease in the estimated future cash flow, such as changes in maturity or economic condition related to default.

(ii) *Nonfinancial assets*

The book values of the Company's nonfinancial assets, except inventories and deferred income and social contribution taxes, are reviewed every reporting date in order to determine whether there is indication of impairment. If such indication exists, the asset recoverable value is determined. In the case of goodwill and intangible assets with indefinite life or intangible assets under development that are not yet available for use, the recoverable value is estimated every year at the same time.

4. Significant accounting practices (Continued)

h) Impairment (Continued)

(ii) *Nonfinancial assets* (Continued)

The recoverable value of an asset or cash generating unit is the higher of value in use and fair value less expenses to sell. In evaluating value in use, the estimated future cash flows are discounted to present value through the discount rate before taxes that reflects the conditions prevailing in the market in relation to the capital recoverability period and specific risks of the asset. For the purpose of testing recoverable value, the assets that may not be individually tested are grouped in the smallest group of assets that generate cash inflow of continuous use that are in large part independent from cash flows of other assets or group of assets (the “cash generating unit or CGU”). For purposes of the goodwill impairment testing, the amount of goodwill computed on a business combination is allocated to the CGU or a group of CGU’s to which the benefit of synergies from the combination is expected. This allocation reflects the lowest level in which goodwill is monitored for internal purposes and is no bigger that an operating segment determined in accordance with IFRS 8 and CPC 22.

The Company’s corporate assets do not generate cash inflows individually. If there is indication that a corporate asset shows impairment, then the recoverable value is allocated to the CGU or group of CGUs to which the corporate asset belongs on a reasonable and consistent basis.

Impairment loss is recognized if the book value of an asset or its CGU exceeds its estimated recoverable value. Impairment losses are recognized in P&L. Impairment losses related to CGUs are initially allocated to reduce the book value of any goodwill allocated to the CGUs and then, if there is any remaining loss, to reduce the book value of the other assets within the CGU or group of CGUs on a pro rata basis.

Impairment related to goodwill is not reversed. In relation to other assets, impairment losses recognized in prior periods are evaluated every reporting date in relation to any indication that the loss has increased, decreased or no longer exists.

4. Significant accounting practices (Continued)

h) Impairment (Continued)

(ii) *Nonfinancial assets* (Continued)

Impairment loss is reversed if there has been a change in the estimates used to determine recoverable value. Impairment loss is reversed only on condition that book value of the asset does not exceed the book value that would otherwise be computed, net of depreciation or amortization, if the impairment loss had not existed.

Goodwill composing book value of investment in an associated company is not individually recognized and, therefore, is not separately tested for impairment. Instead, the total value of investment in an associated company is tested for impairment as a sole asset when there is objective evidence that investment in an associated company may show impairment.

i) Employee benefits

Defined contribution plans

A plan for defined contribution is a post-employment benefit plan under which an entity pays fixed contributions to a separate entity (Private Pension Fund) without any legal or constructive obligation of paying additional amounts. Liabilities for contributions to private pension plans for defined contribution are recognized as expenses with benefits to employees in the income statement in the periods during which services are provided by employees.

Short-term employee benefits

Liabilities in connection with short-term employee benefits are measured on a non-discounted basis and are incurred as expenses as the related service is provided.

The liability is recognized for the expected amount to be paid under the plans of cash bonus or short-term profit sharing if the Company has a legal or constructive obligation of paying this amount due to past service provided by employee and the obligation may be reliably estimated.

4. Significant accounting practices (Continued)

j) Provisions

A provision is recognized in connection with past events if the Company has a legal or constructive obligation that may be reliably estimated and it is probable that economic resources will be require to settle it.

Contingencies

The Company is a party in several judicial and administrative proceedings. Provisions are set up for all contingencies related to legal proceedings, the settlement of which is likely to result in an outflow of funds, in an amount that can be reliably estimated. The assessment of the likelihood of loss includes an analysis of available evidence, the hierarchy of laws, available case law, the latest decisions of courts of law and their relevance in the legal system, as well as the opinion of external legal advisors. The provisions are reviewed and adjusted to take into account changes in circumstances, such as the applicable statute of limitations, outcomes of tax inspections, or additional exposures that may be identified based on new issues or court decisions.

Guarantees

A provision for warranty is recognized when products or services are sold. The provision is based on historic warranty data and weighted probability of disbursements.

k) Revenue recognition

Sale of goods

Operating revenue from sale of goods in the normal course of activities is measured at the fair value of consideration received or receivable. Operating revenue is recognized when there is convincing evidence that most significant risks and rewards inherent to title to goods were transferred to buyer, that it is probable that the economic and financial benefits will flow to the entity, that the associated costs and the possible return of goods may be reliably estimated, that there is no continuous involvement with the goods sold and that the amount of operating revenue may be reliably measured. If it is probable that discounts will be granted and the amount thereof may be reliably measured, then the discount is recognized as a reduction of operating revenue as sales are recognized.

4. Significant accounting practices (Continued)

k) Revenue recognition (Continued)

Financial income

Financial income includes interest income on investment funds, changes in fair value of financial assets measured at fair value through profit or loss and gains on hedge instruments that are recognized in P&L. Interest income is recognized in the income statement through the effective interest method.

l) Taxes

Income and social contribution taxes

Current and deferred income and social contribution taxes for the year are calculated at the rate of 15% and surtax of 10% on the portion of taxable income in excess of R$240 for income tax and 9% on taxable income for social contribution tax, and consider offset of income and social contribution tax losses, limited to 30% of annual taxable profit.

The expense with income and social contribution taxes comprises current and deferred income taxes. Current and deferred taxes are recognized in the income statement unless they are related to business combinations or items recognized directly in equity or in other comprehensive income.

Current tax is the tax payable or receivable expected on taxable income or loss for the year, at the enacted or substantially enacted tax rates at balance sheet date and any adjustment to taxes payable related to prior years.

4. Significant accounting practices (Continued)

l) Taxes (Continued)

Income and social contribution taxes (Continued)

Deferred tax is recognized in relation to temporary differences between accounting and tax bases. Deferred tax is not recognized on the following temporary differences: initial recognition of assets and liabilities in a transaction that is not a business combination and that does not affect accounting records or taxable income or loss, and differences related to investments in subsidiaries and controlled entities when it is probable that they will not be reversed in a foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences resulting from initial goodwill recognition. Deferred tax is measured at the rates that are expected to be applied to temporary differences when these are reversed, based on enacted or substantially enacted laws until the financial statements reporting date.

Deferred tax assets and deferred tax liabilities are offset if there is a legal right of offsetting current tax liabilities and tax assets and they relate to income taxes managed by the same tax authority levied on the same taxed entity.

Deferred income and social contribution tax assets are recognized on unused tax losses, tax credits and deductible temporary differences and when it is probable that future taxable profits will be available to allow realization thereof.

Deferred income and social contribution tax assets are reviewed at every reporting date and reduced to the extent that their realization is no longer probable.

Sales tax

Sales revenues are subject to the following taxes and contributions, at their statutory rates below:

	Rates
State VAT (ICMS)	**0% to 25%**
Federal VAT (IPI)	**0% to 45%**
Contribution Tax on Gross Revenue for Social Security Financing - COFINS	**3% and 7.6%**
Contribution Tax on Gross Revenue for Social Integration Program (PIS)	**0.65% and 1.65%**

Revenues, expenses and assets are recognized net of taxes on sales.

m) Earnings (loss) per share

Basic earnings per share are calculated based on net income for the period attributable to controlling and non-controlling shareholders of the Company divided by the weighted average of outstanding common and preferred shares in the period. Diluted earnings per share are calculated based on the average number of outstanding shares, adjusted by instruments potentially convertible into shares with diluting effect, in the presented periods, on the terms of CPC 41 and IAS 33.

n) Segment reporting

An operating segment is a component of the Company that develops business activities from which it may obtain revenues and incur expenses, including revenues and expenses related to transactions with other Company components. All the operating results of operating segments are periodically reviewed by management for decisions about the resources to be allocated to the segment and for evaluating its performance and for which individual financial information is available.

The results of segments that are reported to management include items directly attributable to the segment, as well as those that may be allocated on a reasonable basis.

Capital expenditures by segment are the total costs incurred during the period for acquisition of fixed assets and intangible assets excepting goodwill.

o) Statements of value added and cash flow statements

The Company prepared individual and consolidated statements of value added (SVA) in accordance with accounting pronouncement CPC 09 – Statement of Value Added, which are presented as an integral part of the financial statements under BR GAAP applicable to publicly-traded companies, which under IFRS SVA represents additional financial information.

Cash flow statements were prepared by the indirect method and are presented in accordance with CPC 03 – R2 (IAS 7) Cash Flow Statement, issued by Brazilian FASB (CPC).

4. Significant accounting practices (Continued)

p) <u>Noncurrent assets held for sale and result from discontinued operations</u>

The Company classifies a noncurrent asset as held for sale if its book value will be recovered through a sale transaction. For this to be the case, the asset or group of assets held for sale should be available for immediate sale in its current conditions, only subject to the terms that are habitual and customary for sale of such assets held for sale. With this, sale thereof should be highly probable.

For the sale to be highly probable, management must be committed to the asset sale plan and must have started a firm program to find a buyer and conclude the plan. In addition, the asset held for sale should be effectively put for sale for a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to be concluded within up to one year as from the date of its classification.

The group of assets held for sale is measured at the lower of book value and fair value less expenses to sell. If book value is lower than fair value, an impairment loss is recognized in P&L. Any reversal or gain will only be recorded until the limit of the recognized loss.

Depreciation of assets held for trading ends when a group of assets is designated as held for sale. The assets and liabilities of the group of discontinued assets are presented in sole lines in assets and liabilities.

4. Significant accounting practices (Continued)

q) Standards and interpretations still not in force at December 31, 2013

We list below standards issued that had not yet entered into force as of the date of issuance of Company's financial statements. Management intends to adopt such standards when they become applicable to the Company.

- *IAS 32 Offsetting Financial Assets and Financial Liabilities:* These amendments clarify the meaning of "currently has a legally enforceable right to set-off the amounts recognized" and the criteria that would cause settlement mechanisms that are nor simultaneous (such as clearing house systems) to qualify for such offsetting. These amendments will become effective for annual periods beginning on or after January 1, 2014. Management does not anticipate any material impact therefrom on the financial statements of the Company.
- IFRS 9 *Financial Instruments*: IFRS 9, as issued, reflects the first phase of IASB work about substitution of IAS 39 and applies to classification and measurement of financial assets and financial liabilities, as defined in IAS 39. The standard initially applied to financial years started on or after January 1, 2013, however the Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures (amendments to IFRS 9 Mandatory Effective Date and Transition Disclosures), issued in December 2011, changed the date of application to January 1, 2015. In subsequent phases, IASB will address hedge accounting and impairment of financial assets.
- *IFRIC 21 Levies:* IFRIC 21 provides guidance on when to recognize a liability for a tax or levy when the obligating event occurs. For a levy that is triggered upon reaching a given metric, the interpretation indicates that no liability should be recognized before the specified metric is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. Management does not anticipate any material impact therefrom on the financial statements of the Company.
- *IAS 39 Novation of Derivatives and Continuation of Hedge Accounting:* This amendment introduces a relief regarding discontinuance of hedge accounting where a derivative, which is designated as hedging instrument, is novated, if specific conditions are met. These amendments are effective for years started on or after January 1, 2014, The Company did not novate its derivatives in the current year. However, this amendment will be applied to future renovations of derivatives. There are no other standards and interpretations issued and not yet adopted that may, in the opinion of management, have significant impact on the Company's disclosed net income or equity. The Company does not expect these changes to impact its financial statements.

4. Significant accounting practices (Continued)

r) <u>Government grants</u>

Government grants are recognized when there is reasonable certainty that the related conditions will be met and that grants will be received. They are systematically recognized in P&L during the periods in which the companies recognize as expense the corresponding costs intended to be offset by subventions.

Only subsidiary Taurus Blindagens Nordeste Ltda. has governmental subvention denominated *ICMS – Desenvolve.* On April 2 and 3, 2005, Resolution No. 118/2005 of DESENVOLVE Deliberative Board was published in the State Official Gazette – DOE, which qualified, subject to the approval from the Plenary Session, the establishment located in Simões Filho/BA, granting to it the benefits of the DESENVOLVE Program (Program for Industrial Development and Economic Integration of the Bahia State), for the implementation of the plant to manufacture safety helmets and anti-riot shields, on the following terms:

- Deferral of recording and payment of ICMS on imports and acquisitions in the State of Bahia and in other states in relation to ICMS rate differential, of items intended for fixed assets, to the moment of their disposal;
- Extension of time for payment of the ICMS debit balance related to its direct sale operations, arising from the investments planned for the project under tax incentive, to 72 (seventy-two) months, as established in Class I of table I enclosed with the DESENVOLVE Regulation;
- Granting of term of 12 (twelve) years for using the benefits, as from publication of the granting Resolution in the DOE.

In the relation to the extension of time for payment of 72 (seventy-two) months, in case of prepayment of the portion enjoying the benefit, the subsidiary will have the benefit of 90% (ninety percent) discount on the amount entitled to payment deferral, having to pay the remaining 10% (ten percent) of ICMS.

The amount of 90%(ninety percent) discount on the amount entitled to payment deferral is recorded in P&L, in tax incentive account in the group of other operating revenue, as mentioned in Note 25.

4. Significant accounting practices (Continued)

s) Cash and cash equivalents

Cash and cash equivalents include cash balance and short-term investments that may be redeemed within up to three months as from the investment date, without penalties for the Company and with low risk of change in their market value.

t) Foreign exchange drafts

Exchange drafts refer to advances on foreign exchange contracts ("ACC") or export prepayments. They are recorded at amortized cost and measured at the exchange rate of balance sheet date. This heading includes advanced amounts and that still do not have applied exchange bills and amount with exchange bills already issued and delivered to the counterparty. The amounts are only written off from liabilities when customer makes the payment and settles the exchange bill.

u) New accounting pronouncements reviewed in 2013

In 2013, the Brazilian FASB (CPC) issued a set of amendments to its standards, for the purpose of eliminating inconsistencies and clarifying any doubts about them. These include Accounting Pronouncements CPC 36 (R3) Consolidated Financial Statements, CPC 19 (R1) Joint Arrangements, CPC 33 (R1) Employee Benefits, CPC 46 Fair Value Measurement and amendments to CPC 26 (R1) Presentation of Financial Statements. In addition, application of CPC 45 Disclosure of Interests in Other Entities was communicated. The adoption of the amendments neither changed the Company's accounting practices nor did it impact the Company's performance or financial position.

v) Advance on receivables

This account records receivables from subsidiaries transferred to third parties.

5. Determination of fair value

Several of the Company's policies and disclosures require that fair values be measured, for both financial and nonfinancial assets and liabilities. The fair values have been determined for measurement and/or disclosure purposes based on the methods described below. When applicable, additional information on the assumptions adopted for measuring the fair values is disclosed in the specific note to that asset or liability.

5. Determination of fair value (Continued)

(i) *Trade accounts receivable and other receivables*

The fair value of accounts receivable and other receivables is estimated as the present value of future cash flows, discounted using the market interest rate on the reporting date.

(ii) *Derivatives*

The fair value of future foreign exchange contracts is based on the listed market price, when available. If a listed market price is not available, the fair value is estimated discounting the difference between the contractual forward price and the current forward price for the remaining period of the contract using a risk free interest rate (based on public securities). The fair value of interest rate swap contracts is based on brokers' quotations. These quotations are tested for reasonableness by means of discounted estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument calculated at the measurement date. The fair values reflect the credit risk of the instrument and include adjustments to consider the credit risk of the Company and counterparties when appropriate.

(iii) *Non-derivative financial liabilities*

The fair value, which is determined for disclosure purposes, is calculated based on the present value of the principal and future cash flows, discounted using the market interest rate determined at the reporting date of the financial statements. For liability components of convertible debt instruments, the market interest rate is determined by reference to similar liabilities that do not have conversion options. For finance leases, the interest rate is determined by reference to similar leasing contracts.

6. Financial risk management

The Company is exposed to the following risks from the use of financial instruments: credit risk, liquidity risk, market risk and operational risk.

This note presents information on the Company's exposure to each of the aforementioned risks, the objectives of the Company, its policies and processes for measuring and managing risk, and management of the Company's capital. Additional quantitative disclosures, including sensitivity analyses, are disclosed in Note 21.

6. Financial risk management (Continued)

(i) Risk management structure

The risk management policies are established to identify and analyze the risks faced by the Company, to define appropriate risk limits and controls and to monitor risks and adherence to limits. The risk management systems and policies are revised frequently to reflect any changes in market conditions and the Company's activities. The Company, based on its rules, training procedures and management, aims to develop a disciplined and constructive control environment, where all of the employees understand their roles and obligations.

Management accompanies compliance with the Company's risk management procedures and policies and revises the adequacy of the risk management structure in relation to the risks faced by the Company.

(ii) Credit risk

Credit risk is the risk of financial losses for the Company in the event a customer or counterparty to a financial instrument fails to comply with its contractual obligations, and refers mainly to trade accounts receivable and investment securities. In relation to financial institutions, the Company and its subsidiaries only carry out operations with financial institutions considered by management as involving low risk.

(iii) Trade accounts receivable and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each client. The Company and its subsidiaries adopt the practice to analyze the financial situation of its counterparties, and also define credit limits and permanently accompany outstanding balances. The Company's sales income is not concentrated with a single client, and there is no concentration of credit risk.
The Company established a credit policy where the credit worthiness of every new client is analyzed individually before the Company's standard payment and delivery terms and conditions are offered. This analysis includes external evaluations, when available, and in some cases references from banking institutions. Purchase limits are established for each client, which represent the maximum amount available without prior approval being required, with these limits revised quarterly. Clients that fail to comply with the credit limit established can only operate with the Company based on advance payments. For public bodies Company management individually evaluates the ability to pay and the bid requirements for making the sales. The Company does not have customers that individually represent more than 5% of sales.

6. Financial risk management (Continued)

(iii) Trade accounts receivable and other receivables (Continued)

For purposes of monitoring credit risk from customers, the customers are grouped based on their credit characteristics, including whether they are individuals or corporate entities, retailers or public entities, their geographical location, industry and the existence of any prior financial difficulties.

The Company establishes a provision for impairment losses which represents its estimate of losses incurred from trade accounts receivable, other receivables and investments.

(iv) Liquidity risk

Liquidity risk is the risk that the Company will face difficulties in fulfilling its obligations associated with its financial liabilities which are liquidated with cash payments or with other financial assets. The Company's approach for liquidity management is to guarantee, as far as possible, that it always has sufficient liquidity to fulfill its obligations that fall due, under normal and stress conditions, without causing unacceptable losses or risks that would adversely affect the Company's reputation.

Typically, the Company ensures that it has sufficient cash to meet its expected operating expenses for approximately 90 days, including fulfilling financial obligations; this does not include the potential impact from extreme circumstances that cannot be reasonably forecast, such as natural disasters. In addition, the Company has approved credit lines, but not yet contracted, from the largest banks that operate in Brazil, for approximately R$ 350.000 million, at market rates and terms.

Subsidiary Taurus Holdings, Inc. has a credit line of USD 75 million and, at December 31, 2013, it had used USD 45.0 million.

(v) Market risk

Market risk is the risk that variation in market prices, such as foreign exchange rates and interest rates, will affect the Company's results. The objective of market risk management is to manage and control exposures to market risks, within acceptable parameters and, at the same time, optimize return.

The Company uses derivative financial instruments and also fulfills its financial obligations to manage market risks. All of these operations are undertaken within the guidelines established by Management.

6. Financial risk management (Continued)

(vi) Currency risk

The Company is subject to foreign currency risk from sales, purchases and loans denominated in a currency different from the respective functional currencies of the Company's entities, which in the majority of cases is the Real (R$), but also the US dollar (USD). The main currency in which these transactions are denominated is the Real (R$).

In general, the Company aims to protect its expected exposure to foreign currencies in relation to sales forecast for the next months. The Company uses futures contracts to obtain protection against exchange risk, the majority of which mature in less than one year from the date of the financial statements. When necessary, the futures contracts are renewed when they mature.

In relation to other monetary assets and liabilities denominated in foreign currencies, the Company aims to ensure that its net exposure is maintained at an acceptable level, buying and selling foreign currency at spot interest rates, when necessary, to deal with short term instabilities.

(vii) Interest rate risk

The Company adopts the policy of maintaining a certain composition in internal and external interest rates on loans, thus keeping 30% of debt in US dollar and 70% in Brazilian reais.

(viii) Operational risk

Operational risk is the risk of direct or indirect losses arising from a variety of causes related to proceedings, personnel, technology and infrastructure and external factors, except credit, market and liquidity risks, as those due to legal and regulatory requirements and generally accepted standards for business conduct. Operational risks arise from all of the Company's operations.

The Company's objective is to administer operational risk to avoid financial losses occurring and damage to its reputation, and to ensure efficient costs and to avoid control procedures that restrict initiative and creativity.

(In thousands of reais, unless otherwise stated)

6. Financial risk management (Continued)

(viii) Operational risk(Continued)

Top management is assigned the responsibility to develop and implement controls to deal with operational risks within each business unit. This responsibility is supported by the Company's general standards developed to administer operational risks in the following areas: Requirements for adequate segregation of duties, including independent authorization of operations; requirements to reconcile and monitor operations; Compliance with regulatory and legal requirements; Documentation of controls and procedures; Requirements for the periodic evaluation of operational risks faced and adequate controls and procedures to deal with the risks identified; Requirements to report operating losses and the corrective actions proposed; development of contingency plans; professional training and development; ethical and commercial standards; mitigating risks, including insurance when effective.

Compliance with the Company's rules is supported by a program involving the periodic analyses of the responsibilities of internal audit. The results of the internal audit analyses are discussed with management from the related business unit, and a summary is sent to the Company's top management.

(ix) Capital management

Management's policy is to maintain a solid capital base to maintain investor, creditor and market confidence and ensure the future development of the business. Management monitors the returns on capital, which the Company defines as results from operating activities divided by total equity, excluding non-redeemable preferred shares and non-controlling interests.

The Company's consolidated net debt to equity at year end is as follows:

	2013	2012
Total liabilities	**1,038,101**	912,524
Less: Cash and cash equivalents	**(281,119)**	(180,781)
Net debt (A)	**756,982**	731,743
Total equity (B)	**145,993**	201,780
Net debt to equity ratio at December 31, 2013 and December 31, 2012 (A/B)	**5.19**	3.63

There were no changes in the Company's approach to managing capital during the period. Neither the Company nor its subsidiaries or associated companies are subject to capital requirements imposed externally. The entity manages its capital requirements in an aggregated manner.

7. Operating segments

The Company has four reportable segments, as described below, which are its strategic business units. The strategic business units offer different products and services and are administered separately, since they require different technologies and marketing strategies. For each one of the strategic business units, management analyzes the internal reports at least every quarter. The following summary describes the operations of each one of the Company's reportable segments:

Weapons – the weapons production process, since it refers mainly to a metallurgical industry, is based on the following basic stages: forging (based on flat sheets), machining (based on flat steel sheets and milling, drilling, lathes, broaching machines, etc.), MIM – *Metal Injection Molding*, assembly (manual), finishing (basically polishing), surface thermal treatment and final assembly (necessary adjustments); these operations are undertaken by Forjas Taurus S.A. and Taurus Holdings, Inc. and its subsidiaries.

Helmets – the helmet production process is based on the following stages: Injection (based on ABS – *Acrylonitrile Butadigne Styrene*), painting and finishing (based on injected parts, using manual and automated painting processes), sewing (based on cloth, sponge and polycarbonate sheets, using cutting and sewing machines) and final assembly; these operations are undertaken by Taurus Blindagens Ltda., Taurus Blindagens Nordeste Ltda. and Taurus Helmets Industria Plástica Ltda.

Machinery – this refers to developing, manufacturing and selling operating machinery and related components; these operations used to be undertaken by Taurus Máquinas-Ferramenta Ltda. and its subsidiary SM Metalurgia Ltda. These operations were disposed of in June 2012 through sale of SM Metalurgia Ltda. Taurus Máquinas still presents results due to sale of residual inventories, technical assistance expenses and financial expenses.

Others – the result of the forging segment (Polimetal Metalurgia e Plásticos Ltda.); bulletproof vests and plastic products (Taurus Blindagens Ltda.). These also include other operations such as the manufacture and sale of glasses, anti-riot shields and providing services. None of these operating segments reached any of the quantitative limits for determining reportable segments at December 31, 2013 and 2012.

7. Operating segments (Continued)

Information on the results of each reportable segment is included below. Performance is evaluated based on the profit of the segment before income tax and social contribution, as included in the internal management reports which are analyzed by Company management. The segment's profit is used to evaluate performance, since Management understands that this information is more relevant in evaluating the results of certain segments in relation to other entities that operate in these industries. The pricing of transactions between segments is determined based on market terms.

(In thousands of reais, unless otherwise stated)

7. Operating segments (Continued)

The reconciliation of income, profits and losses, assets, liabilities and other material items for reportable segments is presented below:

	Weapons		Helmets		Machinery (discontinued)		Other		Total	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
External income	**621,190**	516,471	**127,565**	121,508	**3,874**	19,551	**54,711**	52,848	**807,340**	710,378
Inter-segment income	**-**	-	**494**	3,047	**-**	-	**82,819**	108,886	**83,313**	111,933
Cost of sales	**(426,209)**	(317,532)	**(81,972)**	(73,995)	**(3,631)**	(27,654)	**(53,807)**	(25,917)	**(565,619)**	(445,098)
Gross profit (loss)	**194,981**	198,939	**46,087**	50,560	**243**	(8,103)	**83,723**	135,817	**325,034**	377,213
Selling expenses	**(90,205)**	(64,548)	**(20,133)**	(17,914)	**(10,784)**	(8,533)	**(5,144)**	(4,139)	**(126,266)**	(95,134)
General and administrative expenses	**(62,102)**	(52,100)	**(3,132)**	(2,596)	**(3,690)**	(2,668)	**(4,751)**	(2,075)	**(73,675)**	(59,439)
Depreciation and amortization	**(4,026)**	(4,133)	**(185)**	(214)	**-**	-	**(1,425)**	(1,470)	**(5,636)**	(5,817)
Other operating income (expenses), net	**(4,681)**	(7,824)	**1,440**	1,694	**(11,710)**	(130,575)	**(3,815)**	(16,799)	**(18,766)**	(153,504)
Equity pickup	**-**	-	**-**	-	**-**	-	**(1,349)**	875	**(1,349)**	875
	(161,014)	(128,605)	**(22,010)**	(19,030)	**(26,184)**	(141,776)	**(16,484)**	(23,608)	**(225,692)**	(313,019)
Operating profit (loss)	**33,967**	70,334	**24,077**	31,530	**(25,941)**	(149,879)	**67,239**	112,209	**99,342**	64,194
Financial income	**86,029**	78,343	**6,961**	6,102	**4,780**	4,005	**4,366**	3,660	**102,136**	92,110
Financial expenses	**(150,869)**	(121,782)	**(6,623)**	(3,469)	**(5,451)**	(7,893)	**(12,788)**	(7,391)	**(175,731)**	(140,535)
Financial income (expenses), net	**(64,840)**	(43,439)	**338**	2,633	**(671)**	(3,888)	**(8,422)**	(3,731)	**(73,595)**	(48,425)
Profit (loss) per reportable segment before income and social contribution taxes	**(30,873)**	26,895	**24,415**	34,163	**(26,612)**	(153,767)	**58,817**	108,478	**25,747**	15,769
Elimination of inter-segment income	**-**	-	**(494)**	(3,047)	**-**	-	**(82,819)**	(108,886)	**(83,313)**	(111,933)
Income before income and social contribution taxes	**(30,873)**	26,895	**23,921**	31,116	**(26,612)**	(153,767)	**(24,002)**	(408)	**(57,566)**	(96,164)
Income and social contribution taxes	**(18,775)**	(6,971)	**(3,634)**	(6,530)	**(651)**	836	**316**	(8,381)	**(22,744)**	(21,046)
Net income (loss) for the year	**(49,648)**	19,924	**20,287**	24,586	**(27,263)**	(152,931)	**(23,686)**	(8,789)	**(80,310)**	(117,210)
Assets of reportable segments	**761,299**	668,116	**162,901**	213,900	**5,135**	40,463	**254,759**	191,825	**1,184,094**	1,114,304
Liabilities of reportable segments	**788,295**	664,803	**60,661**	75,605	**43,359**	69,835	**145,786**	102,281	**1,038,101**	912,524

(In thousands of reais, unless otherwise stated)

7. Operating segments (Continued)

Reconciliation of income and profit from reportable segments

	2013	2012
Income		
Total income from reportable segments	**807,340**	710,378
Elimination of discontinued operations*	**-**	(9,407)
Consolidated income	**807,340**	700,971
Profit (loss) before income and social contribution taxes		
Profit (loss) before income and social contribution taxes of reportable segments	**(57,566)**	(96,164)
Elimination of discontinued operations*	**-**	135,778
Profit (loss) before income and social contribution taxes	**(57,566)**	39,614

**Includes residual operations occurred after the date of sale of the operations*.

Geographic segments

For purposes of presenting information for geographic segments, segment income is based on the geographic location of client.

	Weapons	
	2013	2012
Domestic market		
Southeast	**21,165**	32,962
South	**23,378**	19,741
Northeast	**18,747**	33,738
North	**6,086**	6,178
Mid-West	**10,173**	14,696
	79,549	107,315
Foreign market		
USA	**511,482**	360,783
Argentina	**434**	2,085
Philippines	**1,304**	3,132
Thailand	**488**	923
Pakistan	**1,749**	3,192
Haiti	**4,050**	5,523
Chile	**1,060**	11,328
Honduras	**-**	3,548
Australia	**1,714**	2,009
Colombia	**3,689**	-
Other countries	**15,671**	16,633
	541,641	409,156
	621,190	516,471

(In thousands of reais, unless otherwise stated)

7. Operating segments (Continued)

Geographic segments (Continued)

	Helmets	
	2013	**2012**
Domestic market		
Southeast	**31,919**	37,000
South	**6,211**	4,440
Northeast	**39,634**	33,924
North	**28,702**	25,864
Mid-West	**20,681**	19,507
	127,147	120,735
Foreign market		
Bolivia	**29**	26
Colombia	**-**	4
Paraguay	**364**	685
Peru	**25**	-
Uruguay	**-**	58
	418	773
	127,565	121,508

	Machinery (discontinued)	
	2013	**2012**
Domestic market		
Southeast	**2,235**	9,308
South	**1,639**	10,232
North	**-**	-
	3,874	19,540
Foreign market		
USA	**-**	11
	-	11
	3,874	19,551

The sales made by the Group's other segments are concentrated on the domestic market and are spread throughout Brazil.

Sales made by the Company and its subsidiaries are not subject to restrictions and there is no significant concentration that implies significant dependence on government bodies or any other single client.

There are no significant non-cash items, excepting depreciation and amortization, to be reported in the information per segment.

(In thousands of reais, unless otherwise stated)

8. Assets and liabilities held for sale and discontinued operations

a) Disposal of asset TMFL – Taurus Máquinas-Ferramenta Ltda.

In September 2011, management decided to dispose of subsidiary Taurus Máquinas-Ferramenta Ltda. As from said date, the investment in subsidiary Taurus Máquinas was recognized by the equity method and reclassified to assets held for sale in the individual financial statements. The assets and liabilities related to this subsidiary were reclassified in the consolidated financial statements as "held for sale". Its results started to be separately disclosed in a specific line in the income statement. Provision for impairment of assets was recorded for assets of which the book value was in excess of fair value, less expenses to sell. The table below sets out the balance of transactions classified as discontinued operations until the disposal of the machinery activities by the Group.

	2013	2012
Loss for the period from discontinued operations		
Revenues	-	19,733
Expenses	-	(154,724)
Loss for the period from discontinued operations	-	(134,991)

Forjas Taurus S.A. concluded the sale of the operating activities of Taurus Máquinas-Ferramenta Ltda. ("TMFL") to Renill Participações Ltda. ("RPL"), according to the Agreement for Purchase and Sale of Units of Interest and Other Covenants entered into by the parties on June 21, 2012.

The selling company was Taurus Máquinas-Ferramenta Ltda.("TMFL"), with the endorsement of Wotan Máquinas Ltda. and Taurus Investimentos Imobiliários Ltda.("TIIL"), through setting up of a company denominated SM Metalurgia Ltda.("SML") whose subscribed capital amounted to R$ 115,349, representing the final amount of the disposal, with payment using the properties, machinery and inventories.

With payment of the debt, of capitalization and of payment in kind, of Wotan Máquinas Ltda. and Taurus Investimentos Imobiliários Ltda., Taurus Máquinas-Ferramenta Ltda. started to hold all the units of interest of SM Metalurgia Ltda., there remaining the commitment of Renill Participações Ltda. of acquiring all the units of interest for R$ 115,350.

8. Assets and liabilities held for sale and discontinued operations (Continued)

a) Disposal of asset TMFL – Taurus Máquinas-Ferramenta Ltda. --(Continued)

Renegotiation

On August 12, 2013, Company management received from Renill Participações Ltda.(“RPL”) a request of renegotiation of the conditions in the Contract for Purchase and Sale of Units of Interest and Other Covenants, related to disposal of subsidiary SM Metalurgia Ltda. (“SML”).

On September 12, 2013, the Company disclosed a Material News Release communicating that it concluded the review of the Contract conditions, related to disposal of subsidiary SML, through execution of an amendment to Contract after evaluation of the terms originally agreed-upon.

The Parties renegotiated the sales price and payment conditions, adjusting the overall value of the Contract related to disposal of subsidiary SML to R$ 57,520, payable as follows:

(a) 1st installment, in the amount of R$ 1,960, duly restated by Long-Term Interest Rate (TJLP) and increased by interest of 1.8% p.a., shall be paid by RPL, through SML, with the supply of parts used in the rendering of warranty services for machines manufactured by TMFL, as well as supply of parts and components to any company of the Taurus Group;

(b) 2 installments in the amount of R$ 2,055 each, duly restated by TJLP and increased by interest of 1.8% p.a., one maturing on 06/30/2014 and another on 12/30/2014; and

(c) balance in 14 twice-annual installments, maturing as from 06/30/2015,duly restated by TJLP and increased by interest of 1.8% p.a., in the amount of R$3,675 each.

Restatement by TJLP and interest of 1.8% p.a. shall be applied since the date of execution of the Contract for Purchase and Sale of Units of Interest and Other Covenants namely June 2012.

The Company recorded an additional provision for loss at December 31, 2013 in the amount of R$62,991 due to the following: i) it believes that there has been deterioration of the credit conditions; ii) it has not yet concluded full formalization of guarantees of the operation; iii) since buyer is a limited liability company there is no updated information available to evaluate its current financial situation.

(In thousands of reais, unless otherwise stated)

8. Assets and liabilities held for sale and discontinued operations (Continued)

a) Disposal of asset TMFL – Taurus Máquinas-Ferramenta Ltda. --(Continued)

At December 31, 2013 and 2012, the balance receivable for sale of the operations of TMFL was recorded as follows:

	2013	2012
Sale amount	**115,350**	115,350
Contractual monetary restatement	**6,052**	3,224
Price adjustment	**(57,830)**	(57,830)
Balance receivable	**63,572**	60,744
Additional provision for loss	**(62,991)**	(60,744)
Total *	**581**	-

(*) Amount recorded in other accounts receivable in current assets.

b) Project for Production Decommissioning and of Rendering of Forging Services to Third Parties

At the end of 2013, Company management, aligned with the structural changes in the strategies of focusing on higher value added segments, decided to decommission the production line and forging services to third parties of subsidiary Polimetal. The machines and equipment were made available for sale and recorded in a specific account in the financial statements. The balance at December 31, 2013 totals R$ 5,588, represented by the lower of book and fair value less costs to sell. Revenues from forging services to third parties represent less than 5% of Company sales. The other industrial activities of Polimetal continue being normally carried out.

9. Cash and cash equivalents

	Consolidated		Company	
	2013	2012	2013	2012
Cash balance	**1,226**	2,070	**1,165**	2,013
Demand deposits	**205,438**	26,874	**2,937**	2,667
Short-term investments	**74,455**	151,837	**23,772**	96,880
Cash and cash equivalents	**281,119**	180,781	**27,874**	101,560

Short-term investments are remunerated at rates that vary between 98% and 104% of CDI in 2013 (98% to 103% of CDI in 2012) and are made with top line banks.

(In thousands of reais, unless otherwise stated)

10. Trade accounts receivable

	Consolidated		Company	
	2013	**2012**	**2013**	**2012**
Customers – domestic	**75,930**	80,844	**17,534**	27,695
Customers – domestic related parties	**-**	-	**3,088**	3,216
Customers - foreign	**103,884**	87,396	**6,406**	16,255
Customers – foreign related parties	**-**	-	**148,215**	13,379
	179,814	168,240	**175,243**	60,545
Allowance for doubtful accounts-domestic	**(14,853)**	(14,794)	**(3,589)**	(2,736)
Allowance for doubtful accounts-foreign	**(3,301)**	(4,599)	**(6)**	(6)
	(18,154)	(19,393)	**(3,595)**	(2,742)
Total	**161,660**	148,847	**171,648**	57,803

The Company's exposure to credit and currency risk as well as to impairment of trade accounts and other accounts receivable, including accounts receivable aging, are disclosed in Note 21. Changes in the allowance for doubtful accounts are as follows:

	Consolidated	**Company**
Balance at December 31, 2011	(6,419)	(2,669)
Additions	(14,894)	(75)
Reversal of the allowance for doubtful accounts	1,920	2
Balance at December 31, 2012	**(19,393)**	**(2,742)**
Additions	**(3,822)**	**(1,603)**
Reversal of the allowance for doubtful accounts	**5,061**	**750**
Balance at December 31, 2013	**(18,154)**	**(3,595)**

11. Inventories

	Consolidated		Company	
	2013	**2012**	**2013**	**2012**
Finished products	**121,861**	156,197	**35,946**	51,108
Work in process	**47,412**	56,054	**25,980**	31,424
Raw materials	**42,166**	48,257	**13,575**	14,503
Ancillary and maintenance materials	**7,350**	9,793	**5,201**	7,338
Provision for inventory losses	**(520)**	(8,774)	**-**	(422)
	218,269	261,527	**80,702**	103,951

Changes in the provision for inventory losses are as follows:

	Consolidated	**Company**
Balance at December 31, 2012	**(8,774)**	**(422)**
Additions	**(520)**	**-**
Reversal	**1,214**	**422**
Realization	**7,560**	**-**
Balance at December 31, 2013	**(520)**	-

(In thousands of reais, unless otherwise stated)

12. Taxes recoverable

	Consolidated		Company	
	2013	2012	**2013**	2012
ICMS	**6,742**	7,904	**1,260**	2,068
IPI	**1,242**	7,748	**328**	6,273
PIS	**3,910**	3,359	**3,636**	2,719
COFINS	**19,075**	15,621	**17,536**	12,683
Income and social contribution taxes	**6,995**	9,721	**3,294**	7,469
Total	**37,964**	44,353	**26,054**	31,212
Current	**35,785**	39,428	**25,195**	29,567
Noncurrent	**2,179**	4,925	**859**	1,645

State VAT (ICMS)

The balance consists of credits calculated from trade operations and purchases of fixed asset items generated at the Company's and its subsidiaries' production and commercial units.

PIS and COFINS

The balance consists of credits originated in non-cumulative PIS and COFINS levy, calculated mainly on the purchases of fixed asset items. The balance also comprises PIS and COFINS credits arising from the Reintegra tax incentive – Law No. 12546/2011.

Federal VAT (IPI)

The balance refers mainly to amounts originating in trade operations.

Income and social contribution taxes

These refer to withholding tax on short-term investments and prepayments of income and social contribution taxes realizable through offset against federal taxes and contributions payable.

13. Deferred tax assets and liabilities

The recorded recoverable amount refers to deferred income tax asset and liability that the entity has the right to offset and intends to do on a net basis.

(In thousands of reais, unless otherwise stated)

13. Deferred tax assets and liabilities (Continued)

Deferred tax assets and liabilities were calculated as follows:

	Consolidated	
	2013	**2012**
On temporary asset differences and income and social contribution tax losses		
Provision for sales commissions	**586**	1,061
Present value adjustment	**432**	311
Provision for labor claims	**2,094**	874
Provision for losses on insurance claims	**782**	782
Allowance for doubtful accounts	**2,677**	2,152
Provision for product warranty	**2,775**	361
Provision for contingencies	**842**	-
Adjustment of deferred revenues	**1,183**	-
Derivative financial instruments	**3,338**	2,965
Income and social contribution tax losses	**42,665**	42,735
Inventories – unrealized profits	**5,433**	8,816
Other items	**2,111**	137
	64,918	60,194
On temporary liability differences		
Equity valuation adjustment	**(3,097)**	(2,918)
Depreciation base difference	**(7,772)**	(6,757)
Goodwill allocation	**(6,058)**	-
Financial charges	**(1,155)**	(915)
Derivative financial instruments	**(15,344)**	(11,332)
	(33,426)	(21,922)
Total asset (liability) balance, net	**31,492**	38,272
Classified in noncurrent assets	**44,364**	44,049
Classified in noncurrent liabilities	**(12,872)**	(5,777)

	Company	
	2013	**2012**
On temporary asset differences and income and social contribution tax losses		
Provision for sales commissions	**547**	790
Present value adjustment	**342**	804
Provision for labor claims	**1,390**	603
Provision for losses on insurance claims	**782**	782
Allowance for doubtful accounts	**598**	459
Provision for product warranty	**1,217**	-
Derivative financial instruments	**3,064**	2,544
Income and social contribution tax losses	**7,000**	7,000
Other items	**1,183**	137
	16,123	13,119
On temporary liability differences		
Equity valuation adjustment	**(1,454)**	(1,743)
Depreciation base difference	**(1,663)**	(1,640)
Financial charges	**(1,128)**	(890)
Derivative financial instruments	**(15,334)**	(11,194)
	(19,579)	(15,467)
Total asset (liability) balance, net	**(3,456)**	(2,348)
Classified in noncurrent liabilities	**(3,456)**	(2,348)

Changes in deferred taxes:

	Consolidated	**Company**
Opening balance of deferred taxes	38,272	(2,348)
Posted to P&L (Note 27)	(1,326)	(610)
Reversed from equity (Note 21.iv)	(498)	(498)
Allocated to consolidation goodwill	(5,366)	-
Effect from exchange variation	410	-
Closing balance of deferred taxes	31,492	(3,456)

(In thousands of reais, unless otherwise stated)

13. Deferred tax assets and liabilities (Continued)

As part of the corporate restructuring occurred on July 4, 2011, for using the market economic and strategic benefits for new segments, Company management considered existence of accumulated income and social contribution tax losses recorded by subsidiary Polimetal Metalurgia e Plásticos Ltda. for recording deferred tax asset. The recording was made when it became probable that there will be sufficient taxable income in the future to offset such losses. The evaluation of existence of future taxable income was based on the operating activity to be performed by the subsidiary in the new "Polimetal" segment, which started to account for a significant portion of the Group's operations.

The subsidiary posted income and social contribution tax losses in 2013 and 2012. The studies of future results evidence that there will be future taxable income for use of such credits, consequently, the Company recorded deferred asset until the realizable amount according to its study of future taxable income.

The projections indicate that the balance of tax credits recorded by Forjas Taurus S.A. and the subsidiary Polimetal Metalurgia e Plásticos Ltda. will be absorbed by taxable income estimated for the next 10 years, as set out below:

	Consolidated		Company	
Year	**Total**	**% interest**	**Total**	**% interest**
2014	2,138	5.00%	-	-
2015	2,981	6.98%	-	-
2016	3,545	8.30%	-	-
2017	5,408	12.65%	1,415	20.21%
2018	7,850	18.36%	3,356	47.94%
2019	7,563	17.70%	2,229	31.85%
2020	6,686	15.65%	-	-
2021	6,494	15.36%	-	-
Total	42,665	100.00%	7,000	100.00%

The amount of income and social contribution tax losses on which deferred taxes are not recorded totaled, R$296,978 - Consolidated (R$215,835 at December 31, 2012) and R$45,708 – Company (R$13,989 at December 31, 2012).

The main balances of income and social contribution tax losses refer to subsidiary Taurus Máquinas-Ferramenta Ltda. The tax credits arising from income and social contribution tax losses not recognized by this subsidiary totaled R$ 76,988 (R$ 68,553 in 2012). Income and social contribution taxes on the balance of income and social contribution tax losses will be recognized as there is evidence that realization thereof is probable in the foreseeable future.

14. Advance on real estate credits

On August 11, 2008, subsidiary Taurus Investimentos Imobiliários Ltda. agreed several contracts with CIBRASEC – Companhia Brasileira de Securitização, aimed at promoting the securitization of real estate receivables, arising from hire contracts agreed for a period of 7 (seven) years with the Company and its subsidiaries, for the amount of approximately R$ 51,000, net of R$ 2,272 related to the commission for structuring the operation.

To represent the real estate credits arising from the aforementioned hire contracts, the Company issued Real Estate Credit Notes – CCI, and assigned them, onerously, to CIBRASEC – Companhia Brasileira de Securitização, which used them as the basis for issuing two series of Certificates of Real Estate Receivables – CRI. The terms and maturity dates for these certificates are fixed monthly, with the first falling due on September 15, 2008 and the last on July 15, 2015. At December 31, 2013, the total restated balance was R$ 19,606 and is fully classified in current liabilities due to the noncompliance with the covenants. At December 31, 2012, the balance was R$ 28,711, also classified in current liabilities. The amount reclassified to current liabilities for noncompliance with covenants totals R$8,548 in 2013 (R$19,606 in 2012).

(In thousands of reais, unless otherwise stated)

15. Investments

	Taurus Blindagens Ltda.	Taurus Blindagens Nordeste Ltda.	Taurus Holdings, Inc.	Taurus Security Ltda. (1)	Taurus Investimentos Imobiliários Ltda.	Polimetal Metalurgia e Plásticos Ltda.	Taurus Máquinas-Ferramenta Ltda.	Famastil Taurus Ferramentas S.A. (2)	Company 2013	Company 2012
Current assets	65,358	22,047	419,424	60	6,196	85,278	6,085	80,111		
Noncurrent assets	90,057	17,395	71,745	241	64,383	233,300	362	34,793		
Current liabilities	19,019	8,163	201,214	3	30,043	89,406	20,568	45,155		
Noncurrent liabilities	18,308	9,702	96,956	547	12,377	42,005	43,556	35,522		
Capital	80,209	9,400	714	100	39,917	210,000	233,000	20,000		
Equity	121,666	21,715	192,999	(249)	28,159	224,765	(57,677)	34,226		
Net revenue	78,498	23,787	511,482	-	11,122	106,338	3,874	102,685		
Net income (loss) for the year	18,255	4,510	27,158	-	(5,497)	(20,232)	(27,356)	(3,742)		
Number of shares/units of interest	648	1	302,505	100,000	21,414,136	209,999,999	124,368,143	-		
Direct ownership interest (%)	0,01%	0,10%	100%	100%	75,24%	100%	53,38%	-		
Opening balances	1	17	132,564	-	-	161,572	-	2,215	**296,369**	321,852
Capital payment (4)	**-**	**-**	**-**	**-**	**1,686**	**-**	**124,368**	**-**	**126,054**	73,414
Equity pickup – continuing operations (3)	**-**	**5**	**30,256**	**-**	**(4,182)**	**(22,405)**	**(4,162)**	**-**	**(488)**	25,787
Equity pickup – discontinued operations (3)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	(134,991)
Equity pickup – prior year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	(2)
Capital transactions	**-**	**-**	**-**	**-**	**52,272**	**98,719**	**(150,991)**	**-**	**-**	-
Loss on investments	**-**	**-**	**-**	**-**	**(106)**	**-**	**-**	**-**	**(106)**	(450)
Exchange variation on investments	**-**	**-**	**23,879**	**-**	**-**	**-**	**-**	**-**	**23,879**	11,527
Dividends received	**-**	**-**	**-**	**-**	**-**	**(17,000)**	**-**	**-**	**(17,000)**	(29,975)
Reclassified to provision for capital deficiency (1)	**-**	**-**	**-**	**-**	**(29,206)**	**-**	**30,785**	**-**	**1,579**	29,207
Closing balances (3)	**1**	**22**	**186,699**	**-**	**20,464**	**220,886**	**-**	**2,215**	**430,287**	296,369

(1) Capital deficiency of the subsidiary Taurus Security Ltda. in the amount of R$ 249 and of subsidiary Taurus Máquinas-Ferramenta Ltda. in the amount of R$30,785 is recorded in “Other accounts payable” in current liabilities.

(2) On December 20, 2011, the investment in subsidiary Famastil Taurus Ferramentas S.A. was transferred to 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 the investment in Famastil Taurus Ferramentas S.A. which remains with Forjas Taurus S.A.

(3) For purposes of determining the investment amounts, equity and net income of each investee is adjusted by unrealized profits in transactions among the companies.

(4) Capital increase in subsidiary Taurus Investimentos Imobiliários Ltda. amounting to R$ 1,686 was made in cash. Payment of capital of subsidiary Taurus Máquinas-Ferramenta Ltda. in the amount of R$124,368 was made through capitalization of intercompany loan.

(In thousands of reais, unless otherwise stated)

15. Investments (Continued)

The consolidated financial statements of Taurus Holdings, Inc., an overseas subsidiary, reported total assets of R$ 491,169 in 2013 (R$ 301,453 in 2012) and current and noncurrent liabilities of R$ 298,170 in 2013 (R$ 159,490 in 2012). Taurus Holdings, Inc., located in the State of Florida, United States, is the parent company of Taurus International Manufacturing Inc., Braztech International L.C. and other subsidiaries also located in North America, operating mainly in the resale of weapons imported from Forjas Taurus S.A., aimed at the wholesale market. Consolidated net revenue of Taurus Holdings Inc. reported in 2013 was equivalent to R$ 511,482 (R$ 363,473 in 2012) and net income equivalent to R$ 27,158 in 2013 (R$ 13,856 in 2012).

	Consolidated
	Famastil Taurus Ferramentas S.A.
Current assets	80,111
Noncurrent assets	34,792
Current liabilities	45,155
Noncurrent liabilities	35,522
Capital	20,000
equity	34,226
Net revenue	102,685
Loss for the year	(3,854)
Number of shares/units of interest	7,000,000
Direct ownership interest (%)	35%
Opening balances (1)	15,543
Equity pickup	**(1,349)**
Closing balances (1)	**14,194**

(1) Includes goodwill paid on the acquisition of investment of R$2,215.

(In thousands of reais, unless otherwise stated)

16. Property, plant and equipment

	Land, buildings and premises	Machinery and equipment	Casts and tooling	Furniture and computers	Vehicles	PP&E in progress	Advances to suppliers	Consolidated Total
Cost or deemed cost								
Balance at December 31, 2012	108,297	184,560	44,194	23,499	3,964	25,753	7,288	397,555
Additions	1,041	3,614	140	1,084	90	21,431	(1,129)	26,271
Disposals	(360)	(3,576)	(283)	(7,489)	(759)	(262)	(110)	(12,839)
Transfers of assets under construction	1,086	13,281	4,114	931	-	(19,412)	-	-
Effect from exchange variation	4,846	3,315	-	498	17	-	-	8,676
PPA Heritage allocation	-	350	-	-	-	-	-	350
Transfer to assets held for sale	-	(9,957)	-	-	-	-	-	(9,957)
Transfers from other groups	-	(863)	-	-	-	963	-	100
Balance at December 31, 2013	**114,910**	**190,724**	**48,165**	**18,523**	**3,312**	**28,473**	**6,049**	**410,156**
Depreciation								
Balance at December 31, 2012	11,281	70,442	22,700	12,677	1,970	-	-	119,070
Depreciation in the year	3,500	18,297	6,677	3,003	740	-	-	32,217
Disposals	(142)	(2,983)	(267)	(4,459)	(315)	-	-	(8,166)
PPA Heritage allocation	-	143	-	-	-	-	-	143
Transfer to assets held for sale	-	(4,369)	-	-	-	-	-	(4,369)
Effect from exchange variation	726	1,644	-	394	13	-	-	2,777
Balance at December 31, 2013	**15,365**	**83,174**	**29,110**	**11,615**	**2,408**	**-**	**-**	**141,672**
Book value								
At December 31, 2012	97,016	114,118	21,494	10,822	1,994	25,753	7,288	278,485
At December 31, 2013	**99,545**	**107,550**	**19,055**	**6,908**	**904**	**28,473**	**6,049**	**268,484**

(In thousands of reais, unless otherwise stated)

16. Property, plant and equipment (Continued)

								Company
	Land, buildings and premises	**Machinery and equipment**	**Casts and tooling**	**Furniture and computers**	**Vehicles**	**PP&E in progress**	**Advances to suppliers**	**Total**
Cost or deemed cost								
Balance at December 31, 2012	2,426	58,825	22,070	7,267	2,499	6,980	374	100,441
Additions	-	137	44	179	90	7,141	(368)	7,223
Disposals	-	(1,327)	(17)	(63)	(732)	-	-	(2,139)
Transfers of assets under construction	714	5,342	2,128	738	-	(8,922)	-	-
Balance at December 31, 2013	**3,140**	**62,977**	**24,225**	**8,121**	**1,857**	**5,199**	**6**	**105,525**
Depreciation								
Balance at December 31, 2012	459	22,313	10,468	3,749	1,118	-	-	38,107
Depreciation in the period	275	5,784	3,635	971	454	-	-	11,119
Disposals	-	(698)	(3)	(53)	(326)	-	-	(1,080)
Balance at December 31, 2013	**734**	**27,399**	**14,100**	**4,667**	**1,246**	**-**	**-**	**48,146**
Book value								
At December 31, 2012	1,967	36,512	11,602	3,518	1,381	6,980	374	62,334
At December 31, 2013	**2,406**	**35,578**	**10,125**	**3,454**	**611**	**5,199**	**6**	**57,379**

<u>Property, plant and equipment</u>

The balance of assets under construction of R$5,199 – Company and R$ 28,473 – Consolidated in 2013 (R$ 6,980 and R$25,753 in 2012, respectively) refers to machinery and equipment still in the phase of being implemented and construction in progress. These assets are expected to become operational in 2014.

(In thousands of reais, unless otherwise stated)

16. Property, plant and equipment (Continued)

Guarantee

Loans raised by the Company from financial institutions are guaranteed by its assets. Although a significant portion of fixed assets is used to guarantee loans and financings, historically the Company has settled its liabilities within the established contractual terms thus it was never necessary to enforce such guarantees. In 2013, guarantees provided by the Company amounted to R$82,090 (R$62,709 in 2012).

Assets held for sale

As described in Note 8.b, the unit of production and rendering of forging services to third parties of subsidiary Polimental was decommissioned. Machinery and equipment related to this line were made available for sale, and the net book value as of the decommissioning date was R$ 6,451. Fair value of these assets less costs to sell totaled R$ 5,588. The subsidiary recorded a loss on the designation of assets held for sale of R$ 863, which was posted to P&L and the balance of R$ 5,588 was transferred to assets held for sale account.

17. Intangible assets

						Consolidated
	Goodwill	Trademarks and patents	Development of products	Systems implementation	Other intangible assets	Total
Cost						
Balance at December 31, 2012	48,682	3,981	11,697	2,946	737	68,043
Acquisitions	-	-	1,717	255	4	1,976
PPA Heritage allocation	(14,502)	6,046	-	-	8,106	(350)
Income tax on PPA allocation	5,366	-	-	-	-	5,366
Write-offs	-	-	(1,323)	(657)	-	(1,980)
Effect from exchange variation	3,470	-	354	-	-	3,824
Balance at December 31, 2013	**43,016**	**10,027**	**12,445**	**2,544**	**8,847**	**76,879**
Balance at December 31, 2012	-	91	4,984	1,700	87	6,862
Amortization for the period	-	94	630	483	87	1,294
Write-offs	-	-	-	(511)	-	(511)
Amortization of allocated PPA Heritage	-	-	-	-	1,653	1,653
Balance at December 31, 2013	**-**	**185**	**5,614**	**1,672**	**1,827**	**9,298**
Book value						
At December 31, 2012	48,682	3,890	6,713	1,246	650	61,181
At December 31, 2013	**43,016**	**9,842**	**6,831**	**872**	**7,020**	**67,581**

(In thousands of reais, unless otherwise stated)

17. Intangible assets (Continued)

				Company
	Trademarks and patents	**Development of products**	**Systems implementation**	**Total**
Cost				
Balance at December 31, 2012	238	9,010	814	10,062
Additions	-	375	241	616
Balance at December 31, 2013	**238**	**9,385**	**1,055**	**10,678**
Balance at December 31, 2012	-	4,984	246	5,230
Amortization for the period	-	630	176	806
Balance at December 31, 2013	**-**	**5,614**	**422**	**6,036**
Book value				
At December 31, 2012	238	4,026	568	4,832
At December 31, 2013	**238**	**3,771**	**633**	**4,642**

Impairment testing of cash generating units that include goodwill

For the purpose of impairment testing, goodwill has been allocated to the Group's operating divisions.

Cash generating unit	**2013**	**2012**
Forjas Taurus S.A.	21,194	21,194
Taurus Holdings, Inc.	10,121	18,949
Taurus Blindagens Ltda.	6,823	6,823
Taurus Helmets Indústria Plástica Ltda.	1,045	1,045
Famastil Taurus Ferramentas S.A.	544	544
Polimetal Metalurgia e Plásticos Ltda.	127	127
Total	**39,854**	48,682

The impairment testing of the aforementioned CGUs is performed annually based on the fair value less selling expenses, which is estimated based on discounted cash flows. Management estimates quarterly if there are changes in assumptions that could indicate the need of setting up a provision for impairment. In 2013 no such indication was identified.

Main assumptions used in the forecast of discounted cash flows

The main assumptions used to calculate the recoverable value are the discount rate for cash flows and growth rates. The assumptions used are presented below:

Cash generating unit	**Discount rate WAAC**	**Growth rate**
	2013	**2013**
Forjas Taurus S.A.	14.26%	9.41%
Taurus Holdings, Inc.	14.26%	7.51%
Taurus Blindagens Ltda.	14.26%	9.82%
Taurus Helmets Indústria Plástica Ltda.	14.26%	6.22%
Famastil Taurus Ferramentas S.A.	14.26%	6.88%
Polimetal Metalurgia e Plásticos Ltda.	14.26%	16.03%

(In thousands of reais, unless otherwise stated)

17. Intangible assets (Continued)

Discount rate

The discount rate for all of the CGUs is represented by a pre-tax rate based on 20-year fixed income US Treasury Bonds (*T-Bond*), adjusted for a risk premium that reflects the risk from investments in equity securities and the systematic risk of the Unit in question. Based on management's experience with assets from this CGU, the weighted average cost of capital was estimated for the industry in which this CGU operates, which was calculated based on a possible debt/equity ratio of 20.41% and a market interest rate of 7.92%.

Growth rate and perpetuity

The forecasts are consistent with the Business Plan prepared by management from Companhia Taurus. It is expected that forecast growth in sales will be in line with the curve observed in previous years and in line with the country's economic growth. After the projection period, growth and a constant percentage for economic growth (growth in perpetuity) were considered.

In perpetuity calculation, a nominal growth rate of 5.35% was adopted, in line with expected long-term inflation projected by BACEN and macroeconomic indicators published in the Focus report of BACEN and in the Country Forecast of the Economist Intelligence Unit (EIU).

Sensitivity analysis and assumptions

The estimated recoverable value for the CGUs is higher than the carrying value for the goodwill. The Company is subject to changes in market conditions that are beyond management control and that could lead to book value in excess of recoverable value, thus indicating the need of setting up provision for impairment. The following table presents the amounts for which individual alterations to the basic assumptions could result in the recoverable value being equal to the carrying value:

Cash generating unit	Discount rate WAAC	Growth rate
Forjas Taurus S.A.	31.75%	3.72%
Taurus Holdings, Inc.	38.65%	1.33%
Taurus Blindagens Ltda.	36.12%	3.66%
Taurus Helmets Indústria Plástica Ltda.	49.17%	0.60%
Famastil Taurus Ferramentas S.A.	21.75%	6.27%
Polimetal Metalurgia e Plásticos Ltda.	23.42%	13.24%

The amounts used for the main assumptions represent management's best estimates for the future of the operating segment where each of CGUs operates, based on internal sources (historic data) and external sources. For the purpose of the impairment testing, the goodwill was allocated to the Group's operating divisions, which represent the lowest level within the Group, in which the goodwill is monitored for the purposes of internal management, which is never above the Group's operating segments.

(In thousands of reais, unless otherwise stated)

18. Loans and financing

	Consolidated		Company	
	2013	**2012**	**2013**	**2012**
Current liabilities				
Guaranteed bank loans				
Working capital	**133,257**	113,887	**133,257**	108,477
Discount of receivables	**85**	1,556	**-**	-
FINAME	**3,249**	6,091	**1,686**	3,497
FINEP	**9,946**	10,350	**1,919**	2,307
BNDES	**5**	-	**5**	-
FNE	**1,457**	1,423	**-**	-
BNDES Revitaliza	**-**	578	**-**	-
BNDES Progeren	**30,136**	4,902	**-**	-
Working capital USD	**176,931**	165,573	**161,001**	164,286
Financing for acquisition of fixed assets	**196**	361	**196**	361
Investment in USD	**1,104**	575	**-**	-
FINIMP	**32,164**	17,259	**26,339**	15,185
	388,530	322,555	**324,403**	294,113
Noncurrent liabilities				
Guaranteed bank loans				
Working capital	**52,500**	52,501	**52,500**	52,501
FINAME	**6,504**	6,731	**2,427**	3,736
FINEP	**28,401**	35,932	**-**	1,916
BNDES	**5,206**	-	**5,205**	-
FNE	**7,004**	8,405	**-**	-
BNDES Revitaliza	**-**	2,276	**-**	-
BNDES Progeren	**34,658**	27,981	**-**	-
Working capital USD	**121,801**	106,428	**49,688**	30,653
Financing for acquisition of fixed assets	**-**	164	**-**	164
Investment in USD	**16,141**	14,634	**-**	-
FINIMP	**936**	433	**605**	-
	273,151	255,485	**110,425**	88,970
	661,681	578,040	**434,828**	383,083

(In thousands of reais, unless otherwise stated)

18. Loans and financing (Continued)

Terms and schedule for debt amortization

The terms and conditions for loans outstanding were as follows:

							Consolidated
					2013		2012
	Currency	Nominal interest rate	Year of maturity	Face value	Book value	Face value	Book value
Guaranteed bank loans							
Working capital	R$	CDI + 2.25 to 3.00% p.a.	2018	162,000	**185,757**	169,010	166.389
Discount of receivables	R$	15.36% p.a.	2014	-	**85**	-	1.556
FINAME	R$	TJLP + 4.40 to 5.40% p.a.	2014	3,625	**96**	18,323	2.783
FINAME	R$	2.50 to 8.70% p.a.	2021	15,479	**9,657**	14,927	10.039
FINEP	R$	TJLP + 0.16 p.a.	2014	11,645	**1,919**	11,645	4.223
FINEP	R$	4.00 to 5.25% p.a.	2020	58,672	**36,428**	56,337	42.058
BNDES	R$	3.50% p.a.	2020	5,205	**5,210**	-	-
BNDES Revitaliza	R$	9% p.a.	2017	-	**-**	2,845	2.854
BNDES Progeren	R$	TJLP + 4.00 to 4.50% p.a.	2016	63,977	**64,796**	31,977	32.883
FNE	R$	9.50% p.a.	2019	9,806	**8,461**	9,806	9.828
Working capital	USD	*Libor* + 1.55 to 5.60% p.a.	2017	30,000	**149,530**	60,000	135.553
Working capital	USD	3.32 to 5.20% p.a.	2016	63,849	**127,389**	68,849	136.448
Working capital	USD	80 to 90% of CDI	2016	29,135	**21,812**	-	-
Financing for acquisition of fixed	USD	*Libor* + 3.0% p.a.	2014	824	**196**	824	525
Investments	USD	5.33% p.a.	2017	-	**12,889**	6,035	11.672
Investments	USD	*Libor* + 2.25% p.a.	2017	-	**3,886**	1,500	3.537
FINIMP	USD	*Libor* + 2.23 to 4.41% p.a.	2016	13,937	**33,100**	8,571	17.692
Dell financing	USD	Cost 0%	2016	-	**470**	-	-
Total liabilities subject to interest					**661,681**		578,040

							Company
					2013		2012
	Currency	Nominal interest rate	Year of maturity	Face value	Book value	Face value	Book value
Guaranteed bank loans							
Working capital	R$	CDI + 2.25 to 3.91%	2018	162,000	**185,757**	167,010	160.978
FINAME	R$	TJLP + 4.40% p.a.	2014	1,117	**42**	8,629	1.050
FINAME	R$	2.50 to 5.50% p.a.	2021	8,798	**4,071**	10,401	6.183
FINEP	R$	TJLP + 0.16% p.a.	2014	11,645	**1,918**	11,645	4.223
BNDES	R$	3.50% p.a.	2020	5,205	**5,210**	-	-
Working capital	USD	*Libor* + 3.41 to 5.60%	2017	30,000	**64,077**	30,000	62.035
Working capital	USD	3.40 to 3.91% p.a.	2016	63,849	**124,801**	63,849	132.904
Working capital	USD	85 to 90% of CDI	2016	29,135	**21,812**	-	-
Financing for acquisition of fixed	USD	*Libor* + 3.0% p.a.	2014	824	**196**	824	525
FINIMP	USD	*Libor* + 2.23 to 4.41%	2016	11,578	**26,944**	7,354	15.185
Total liabilities subject to interest					**434,828**		383,083

(In thousands of reais, unless otherwise stated)

18. Loans and financing (Continued)

Maturity dates of noncurrent liabilities:

	Consolidated		Company	
Year of maturity	**2013**	**2012**	**2013**	**2012**
2014	**-**	76,710	**-**	47,614
2015	**100,576**	40,304	**57,871**	14,588
2016	**43,643**	25,894	**23,258**	13,020
2017	**100,411**	94,745	**20,607**	13,013
After 2018	**28,521**	17,832	**8,689**	735
	273,151	255,485	**110,425**	88,970

The loans and financing are guaranteed by promissory notes, chattel mortgages for machinery and equipment and real estate mortgages. The sureties granted by the parent company and the sureties granted by the Company to its subsidiaries are reported in Note 22 – Related parties.

The loan and financing contracts agreed between the Company and its subsidiaries include covenants that limit certain corporate alterations, as under: change in direct or indirect controlling interest in the Company, reduction of capital of the Company and/or its subsidiary, distribution of dividends, payment of interest on equity or any other payments to shareholders of the Company and/or its controlling company in case of delay to fulfill any obligation, reduction of Company capital. In addition to these points, they require maintenance of certain financial ratios: indebtedness (net financial debt/EBITDA) lower than 3.5x; interest coverage index (EBITDA/net financial expenses) equal to or higher than 2.75x. If such restrictions are not met, creditors may claim accelerated maturity. All the above ratios are calculated quarterly based on the last twelve months. At December 31, 2013 these ratios were not met, as such the amount of R$82,431 was reclassified to current liabilities.

(In thousands of reais, unless otherwise stated)

19. Debentures

The Company agreed a private instrument for the public registration of the 1st and 2nd issue of debentures, non-convertible into shares on June 08, 2010 and September 06, 2011, for the total nominal value of R$ 103,000 and R$ 50,000, respectively.

The issues were made in a single series, corresponding to 10,300 debentures for the 1st issue and 200 debentures for the 2nd issue, distributed on the secondary market through the National Debenture system, with restrictions on the placing allocated exclusively to qualified investors.

For the 1st issue, the unit nominal value will be paid in 7 twice-annual installments, with a grace period of 12 months, beginning on April 15, 2011. For the 2nd issue, the unit nominal value will be paid in 13 quarterly installments, with a grace period of 2 years, beginning on August 23, 2013. Interest is charged on the amount, calculated based on the compound capitalization system, equivalent to the accumulated variation in the average daily rates for DI – Interbank deposits, plus interest as detailed below:

						2013
	Index	**Current**	**Noncurrent**	**Transaction costs incurred**	**Transaction costs appropriated**	**Transaction costs to appropriate**
Debentures						
1st issue	DI rate + 4.1%	**15.008**	**-**	**1.424**	**1.335**	**89**
2nd issue	DI rate + 2.8%	**42.557**	**-**	**856**	**598**	**258**
		57.565	**-**	**2.280**	**1.933**	**347**

						2012
	Index	**Current**	**Noncurrent**	**Transaction costs incurred**	**Transaction costs appropriated**	**Transaction costs to appropriate**
Debentures						
1st issue	DI rate + 4.1%	44,762	-	1,160	1,065	95
2nd issue	DI rate + 2.8%	49,936	-	809	271	538
		94,698	-	1,969	1,336	633

Effective interest rates of the 1st and 2nd issues are of 12.78% and 12.23%, respectively. Measurement of the effective rate was based on contractual index rate in force on the reporting date. The debentures are guaranteed by the subsidiaries Forjas Taurus S.A. in Brazil, constituted in the form of bonds granted jointly.

19. Debentures (Continued)

The instrument provides for accelerated maturity of all obligations subject matter of the deed in certain circumstances, which include: change in the direct or indirect control of the Company, capital reduction in the Company and/or its parent company, dividend distribution, payment of interest on equity or other payments made to shareholders by the Company and/or its parent in the event of delays with any of its obligations, decrease in the Company's capital and/or that of Polimetal (1), making by the Company or by the guarantors of any type of sale or transfer of assets that has an impact equal to or higher than 15% of the Company's consolidated assets or equal to or higher than 20% of consolidated gross revenue of the Company (2), undertaking, by the Company or its subsidiaries, of financing, advance or loan operations, in the position of creditors, with any of its direct or indirect controlling companies, except for the exclusive purpose of refinancing obligations agreed prior to the issuing of the debentures, the granting, by the Company or its subsidiaries, of bonds or any type of guarantee for the financial operations of direct or indirect controlling companies for amounts in excess of those existing at the date of issuing the debentures, maintaining minimum financial ratios (net debt/EBITDA) equal to or less than 3.25x (1st issue) and 3x (2nd issue) and EBITDA/net financial expenses equal to or higher than 2.75x (1st issue), where: net debt is equal to total debts (including sureties and guarantees) less cash, EBITDA is equal to profit before taxes, interest, depreciation and amortization in the previous 12 months and net financial expenses refer to total financial income less financial expenses for the previous 12 months, adjusted for non-recurring items.

(1) The occurrence of such events may be approved by the titleholders of at least 2/3rd of the outstanding debentures, without the obligations maturing in advance.

(2) The occurrence of such events may be approved by the titleholders of at least 75% of the outstanding debentures, without the obligations maturing in advance.

Management from the Company and its subsidiaries monitors these indices on a systematic and constant basis, to ensure that the terms are met. At December 31, 2013 and 2012, the Company did not meet the minimum financial ratios and thus transferred the amount of R$26,923 to current liabilities due to the contractually provided for clauses.

(In thousands of reais, unless otherwise stated)

20. Provision for civil, labor and tax contingencies

The Company, based on the opinion of its legal advisors and the analysis of judicial proceedings pending judgment, set up a provision for contingencies for an amount considered sufficient to cover estimated losses on proceedings pending judgment involving probable unfavorable outcome. The amounts of the provision are recorded in the group of other accounts payable. Breakdown of contingencies is as under:

	Consolidated			
			2013	**2012**
	Provision	**Judicial deposit (1)**	**Net**	**Net**
Labor	**7,061**	**2,882**	**4,179**	2,223
Tax				
Federal	**4,557**	**458**	**4,099**	(423)
State	**388**	**726**	**(338)**	1,646
	12,006	**4,066**	**7,940**	3,446
Classified in current liabilities	**6,897**			
Classified in noncurrent liabilities	**5,109**			

	Company			
			2013	**2012**
	Provision	**Judicial deposit (1)**	**Net**	**Net**
Labor	**3,135**	**1,305**	**1,830**	2,201
Tax				
Federal	**-**	**423**	**(423)**	(423)
State	**388**	**726**	**(338)**	(338)
	3,523	**2,454**	**1,069**	1,440
Classified in current liabilities	**3,135**			
Classified in noncurrent liabilities	**388**			

(1) Recorded in other accounts receivable under noncurrent assets.

(In thousands of reais, unless otherwise stated)

20. Provision for civil, labor and tax contingencies (Continued)

Changes in provisions are as follows:

			Consolidated
	Civil and labor	Tax	Total
Balance at December 31, 2012	4,689	2,469	7,158
Provisions made in the year	2,706	2,476	5,182
Provisions used in the year	(334)	-	(334)
Balance at December 31, 2013	**7,061**	**4,945**	**12,006**

			Company
	Civil and labor	Tax	Total
Balance at December 31, 2012	**3,469**	**388**	**3,857**
Provisions used in the year	(334)	-	(334)
Balance at December 31, 2013	**3,135**	**388**	**3,523**

The Company and its subsidiaries have other proceedings that have been assessed by the legal advisors as involving possible or remote unfavorable outcome, for the consolidated amount of approximately R$ 21,840 - Company and R$65,368 – Consolidated (R$ 10,915 and R$44,287, respectively at December 31, 2012) for which no provision has been registered, given that accounting practices adopted in Brazil do not require this. The main individual case refers to the proceeding filed by Hunter Douglas NV against Wotan Máquinas Ltda. related to collection of amount resulting from intercompany loan to finance exports entered into by the parties in 2001. Subsidiary Taurus Máquinas-Ferramenta Ltda. is defendant in the proceeding due to the rent of an industrial unit by Wotan Máquinas Ltda. in 2004. The case amount was estimated at R$ 20,000 and the chances of an unfavorable outcome are assessed by the Company's legal advisors as possible.

The Company filed several proceedings for the recognition of several tax credits, of which the amounts will be recognized based on the realization thereof.

21. Financial instruments

i) <u>Derivatives</u>

The Company and its subsidiaries Taurus Blindagens Ltda., Taurus Helmets Indústria Plástica Ltda. and Taurus Máquinas-Ferramenta Ltda., undertake operations with derivative financial instruments. Administration of these instruments is by means of operating strategies and internal controls aimed at ensuring liquidity, profitability and security. The contracting of financial instruments for hedging purposes is made based on a periodic analysis of the exposure to risk that management intends to cover (currency, interest rate, etc.). The control policy consists of permanently accompanying the terms contracted compared to the existing market terms.

We summarize below our positions with derivative instruments:

	Consolidated		Company	
	2013	**2012**	**2013**	**2012**
Derivative financial instruments assets	**45,212**	33,513	**45,096**	32,925
Derivative financial instruments liabilities	**(9,595)**	(7,750)	**(9,010)**	(6,576)
	35,617	25,763	**36,086**	26,349

All of the operations involving financial instruments are recognized in the Company's financial statements, as presented in the table below, which details the derivatives outstanding, organized by maturity date, counterparty, notional value and fair values:

i

			2013		2012	
Instrument	**Counterparty**	**Contract currency with respect to notional value**	**Notional – in thousands**	**Fair value**	**Notional – in thousands**	**Fair value**
Swap Fixed x Libor						
Taurus Holdings, Inc.	TD Bank	US dollars - USD	**5,711**	**(585)**	5,711	(1,174)
Swap Fixed x CDI						
Forjas Taurus S.A.	Banco Itaú BBA	Reais – BRL	**37,356**	**440**	37,356	1,917
Taurus Blindagens Ltda.	Banco Itaú BBA	Reais – BRL	**9,652**	**80**	9,652	405
Taurus Helmets Ltda.	Banco Itaú BBA	Reais – BRL	**4,355**	**36**	4,355	183
***Swap Interest + E.V.* USD x CDI + R$**						
Forjas Taurus S.A.	Banco Itaú BBA	Reais – BRL	**100,000**	**40,964**	100,000	31,008
Forjas Taurus S.A.	Banco Citibank	Reais – BRL	**30,391**	**3,692**	30,391	(150)
Forjas Taurus S.A.	Banco Pine	Reais – BRL	**40,000**	**(7,617)**	-	-
Non-deliverable forward (exports)						
Forjas Taurus S.A.	Bes Investimentos	US dollars - USD	**-**	**-**	16,000	(3,350)
Forjas Taurus S.A.	Banco Itaú BBA	US dollars - USD	**-**	**-**	4,700	(3,076)
Forjas Taurus S.A.	Bes Investimentos	US dollars - USD	**20,000**	**(1,393)**	-	-
				35,617		25,763

21. Financial instruments (Continued)

i) Derivatives (Continued)

The fair value does not represent the obligation for immediate disbursement or receiving of cash, given that this effect will only occur on the contractual dates or maturity dates of each operation, when the results are determined, depending on the case and the market conditions on these dates. It should be noted that all of the contracts outstanding at December 31, 2013 refer to operations on the over the counter market, registered with the CETIP, without any type of guarantee margin or accelerated maturity clause forced by Mark to Market (MtM) variations.

We set out below descriptions of each of the derivatives in force and the hedging instruments.

Non-deliverable forward (exports)

In accordance with the Company's export policies, derivative financial instruments were taken out to hedge a percentage of export revenue highly susceptive to variations in exchange rate to the US dollar.

Swap Libor + E.V. USD x CDI + R$

The Company has conventional swap positions *Libor* 6m x CDI for the purpose of fixing the flow for debt payments tied to a post fixed rate, to a post fixed rate on the domestic market.

Swap Fixed x CDI

The Company has conventional fixed rate swap positions related to the Certificates of Real Estate credits - CRI (Note 14) aimed at linking the interest rate exposure to a post fixed rate on the domestic market.

Swap Interest + E.V. USD x CDI + R$

The Company has conventional swap positions for Interbank Deposits (DI) *versus* US dollar, for the purpose of linking the debt in Reais, tied to the DI, to a debt fixed in dollars. Within this context, the Company has conventional swap positions in dollars *versus* DI, for the purpose of linking the debt in dollars to a debt in Reais tied to the DI. These *swaps* are tied to debts with respect to values, terms and cash flows.

(In thousands of reais, unless otherwise stated)

21. Financial instruments (Continued)

ii) Risks

a) *Credit risk*

Exposure to credit risk

The carrying values of financial assets represent the maximum credit exposure. The maximum exposure to credit risk at the reporting date for the financial statements was as follows:

	Consolidated	
	Book value	
	2013	2012
Financial assets held to maturity		
Trade accounts receivable	**179,814**	168,240
Other loans and receivables	**20,691**	27,950
Cash and cash equivalents	**281,119**	180,781
Foreign exchange forward and interest rate swap contracts used for asset hedging	**45,212**	33,513
Total	**526,836**	410,484

	Company	
	Book value	
	2013	2012
Financial assets held to maturity		
Trade accounts receivable	**175,243**	60,545
Other loans and receivables	**16,905**	18,889
Cash and cash equivalents	**27,874**	101,560
Foreign exchange forward and interest rate swap contracts used for asset hedging	**45,096**	32,925
Total	**265,118**	213,919

Exposure to credit risk

The maximum exposure to credit risk for trade accounts receivable at the reporting date by geographic region is as follows:

	Consolidated		Company	
	Book value		Book value	
	2013	2012	2013	2012
Domestic-trade accounts receivable	**84,788**	80,844	**20,622**	30,911
United States – trade accounts receivable	**79,346**	69,765	**142,465**	13,379
Other	**15,680**	17,631	**12,156**	16,255
Total	**179,814**	168,240	**175,243**	60,545

The maximum exposure to credit risk for loans and receivables at the reporting date by type of counterparty was as follows:

	Consolidated		Company	
	Book value		Book value	
	2013	2012	2013	2012
Customers – public bodies	**33,745**	26,924	**27,971**	19,919
Customers - distributors	**135,153**	99,058	**146,276**	21,117
End customers	**10,916**	42,258	**996**	19,509
Total	**179,814**	168,240	**175,243**	60,545

(In thousands of reais, unless otherwise stated)

21. Financial instruments (Continued)

Impairment losses

The maturity of loans and receivables granted at the balance sheet date was:

				Consolidated
	Gross	Gross	*Impairment*	*Impairment*
	2013	2012	2013	2012
Falling due	**158,818**	140,422	**-**	-
Overdue between 0-30 days	**990**	1,142	**-**	-
Overdue between 31-360 days[1]	**2,813**	4,546	**(1,883)**	(410)
Overdue for more than one year	**17,193**	22,130	**(16,271)**	(18,983)
Total	**179,814**	168,240	**(18,154)**	(19,393)

(1) *A significant portion of overdue amounts refers to sales to public bodies with average payment delay of up to 90 days, considered usual by Company management for public sector customers.*

				Company
	Gross	Gross	*Impairment*	*Impairment*
	2013	2012	2013	2012
Falling due	**169,540**	49,591	**-**	-
Overdue between 0-30 days	**569**	4,644	**-**	-
Overdue between 31-360 days[1]	**1,603**	3,294	**(399)**	(410)
Overdue for more than one year	**3,531**	3,016	**(3,196)**	(2,332)
Total	**175,243**	60,545	**(3,595)**	(2,742)

(1) *A significant portion of overdue amounts refers to sales to public bodies with average payment delay of up to 90 days, considered usual by Company management for public sector customers.*

Based on historic default rates, the Company believes that no provision for impairment losses is necessary in relation to trade accounts receivable not overdue or overdue by up to 30 days; a significant part of the balance, which includes the amount due by the Company's most important clients, refers to clients that have a good history of payment with the Company.

The other amounts receivable refer to sundry receivables maturing within up to one year and with low credit risk.

a) *Liquidity risk*

Presented below are the contractual maturities of financial liabilities, including payments of estimated interest, excluding the impact of currency negotiation agreements at the net position. The position considers short-term portions due to noncompliance with covenants.

(In thousands of reais, unless otherwise stated)

21. Financial instruments (Continued)

ii) Risks (Continued)

b) *Liquidity risk* (Continued)

	Consolidated 2013					
	Book value	Contractual cash flow	Up to 1 year	1-2 years	2-5 years	Over 5 years
Non-derivative financial liabilities						
Trade accounts payable	32,978	32,978	32,978	-	-	-
Guaranteed bank loans	661,681	744,177	416,440	117,318	186,083	24,336
Debt securities issued	57,565	64,997	64,997	-	-	-
Certificates of real estate receivables	19,606	22,516	22,516	-	-	-
Advance on receivables	115,972	115,972	115,972	-	-	-
Derivative financial instruments						
Derivative instruments (assets)	(45,212)	(45,212)	(45,212)	-	-	-
Derivative instruments (liabilities)	9,595	9,595	9,595	-	-	-
	852,185	945,023	617,286	117,318	186,083	24,336

	Consolidated 2012					
	Book value	Contractual cash flow	Up to 1 year	1-2 years	2-5 years	Over 5 years
Non-derivative financial liabilities						
Trade accounts payable	34,958	34,958	34,958	-	-	-
Guaranteed bank loans	578,040	629,667	330,372	88,471	210,369	455
Debt securities issued	94,698	99,459	99,459	-	-	-
Certificates of real estate receivables	28,711	35,690	35,690	-	-	-
Foreign exchange drafts	5,128	5,188	5,188	-	-	-
Advance on receivables	26,375	26,375	26,375	-	-	-
Derivative financial instruments						
Derivative instruments (assets)	(33,513)	(33,513)	(33,513)	-	-	-
Derivative instruments (liabilities)	7,750	7,750	7,750	-	-	-
	742,147	805,574	506,279	88,471	210,369	455

	Company 2013					
	Book value	Contractual cash flow	Up to 1 year	1-2 years	2-5 years	Over 5 years
Non-derivative financial liabilities						
Trade accounts payable	63,487	63,487	63,487	-	-	-
Guaranteed bank loans	434,828	486,876	348,332	67,598	67,935	3,011
Debt securities issued	57,565	64,997	64,997	-	-	-
Advance on receivables	71,040	71,040	71,040	-	-	-
Derivative financial instruments						
Derivative instruments (assets)	(45,096)	(45,096)	(45,096)			
Derivative instruments (liabilities)	9,010	9,010	9,010			
	590,834	650,314	511,770	67,598	67,935	3,011

21. Financial instruments (Continued)

(In thousands of reais, unless otherwise stated)

ii) Risks (Continued)

b) *Liquidity risk* (Continued)

	Company					
	2012					
	Book value	**Contractual cash flow**	**Up to 1 year**	**1-2 years**	**2-5 years**	**Over 5 years**
Non-derivative financial liabilities						
Trade accounts payable	40,742	40,742	40,742	-	-	-
Guaranteed bank loans	383,083	408,347	302,514	56,086	49,476	271
Debt securities issued	94,698	99,459	99,459	-	-	-
Foreign exchange drafts	5,128	-	-	-	-	-
Derivative financial instruments						
Derivative instruments (assets)	(32,925)	(32,925)	(32,925)	-	-	-
Derivative instruments (liabilities)	6,576	6,576	6,576	-	-	-
	497,302	522,199	416,366	56,086	49,476	271

Management does not anticipate that cash flows, included in the maturity analyses, will occur at significantly earlier dates or for significantly different amounts.

(In thousands of reais, unless otherwise stated)

21. Financial instruments (Continued)

ii) Risks (Continued)

c) *Currency risk*

The Company's exposure to currency risk was as follows (in nominal values):

	Consolidated	
	USD 000	
	2013	**2012**
Trade accounts receivable	**45,914**	42,768
Foreign exchange drafts	**-**	(2,509)
Guaranteed bank loans	**(149,096)**	(149,463)
Foreign suppliers	**(5,723)**	(6,170)
Net balance sheet exposure	**(108,905)**	(115,374)

The exposure to consolidated currency risk includes the guaranteed bank loans from Taurus Holdings, Inc. for the amount of USD 45,381 at December 31, 2013 (USD 45,153 at December 31, 2012).

	Company	
	USD 000	
	2013	**2012**
Trade accounts receivable	**4,302**	7,954
Accounts receivable from foreign related parties	**63,269**	6,547
Foreign exchange drafts	**-**	(2,509)
Guaranteed bank loans	**(101,524)**	(103,082)
Foreign suppliers	**(738)**	(957)
Net balance sheet exposure	**(34,691)**	(92,047)

The following exchange rates were used during the year ended December 31, 2013 and 2012:

	Average rate		Spot rate	
	2013	**2012**	**2013**	**2012**
R$/USD	**2.1741**	1.9588	**2.3426**	2.0435

(In thousands of reais, unless otherwise stated)

21. Financial instruments (Continued)

ii) Risks (Continued)

c) *Currency risk* (Continued)

Sensitivity analysis

The devaluation of the Real to the US dollar, at December 31, 2013 decreased equity and net income as reported below. This analysis is based on the expected exchange rate of year end, which is of R$2.40 (probable scenario), based on the Focus report of January 03, 2014, issued by the Central Bank of Brazil. The analysis considered that all the other variables, particularly interest rates, would remain constant.

	Consolidated		Company	
	Equity -	Net income for the year	Equity -	Net income for the year
December 31, 2013				
R$/USD (forecast rate 2.40)	**(6,251)**	**(6,251)**	**(1,991)**	**(1,991)**
R$/USD (25% - forecast rate 3.00)	**(71,594)**	**(71,594)**	**(22,806)**	**(22,806)**
R$/USD (50% - forecast rate 3.60)	**(136,937)**	**(136,937)**	**(43,620)**	**(43,620)**

d) *Interest rate risk*

Sensitivity analysis of the fair value for fixed rate instruments

The Company did not register any financial asset or liability with fixed interest rate at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect P&L.

(In thousands of reais, unless otherwise stated)

21. Financial instruments (Continued)

ii) Risks (Continued)

d) *Interest rate risk* (Continued)

Sensitivity analysis of cash flows for variable rate instruments

The balances of instruments exposed to interest rate variation are as follows:

	Consolidated	
	Book value	
	2013	2012
Fixed rate instruments		
Financial liabilities	**127,012**	133,281
Variable rate instruments		
Financial assets	**119,667**	185,350
Financial liabilities	**621,435**	579,871

	Company	
	Book value	
	2013	2012
Fixed rate instruments		
Financial liabilities	**35,220**	21,917
Variable rate instruments		
Financial assets	**68,868**	129,805
Financial liabilities	**466,183**	467,566

A variation of 10 percentage points in interest rates, on the reporting date of the financial statements, would increase (reduce) equity and net income for the year on the balance for interest not liquidated, by the amounts presented below. The analysis considers that all variables, particularly foreign currency, would remain stable. The analysis was made considering the same base for December 31, 2013 and December 31, 2012.

(In thousands of reais, unless otherwise stated)

21. Financial instruments (Continued)

ii) Risks (Continued)

d) *Interest rate risk* (Continued)

Sensitivity analysis of cash flows for variable rate instruments (Continued)

	Consolidated	
	Equity and net income for the year	
	2013	**2012**
Change in interest rate on financing	**(2,741)**	(2,418)
Change in interest rate on short-term investments	**363**	523

	Company	
	Equity and net income for the year	
	2013	**2012**
Change in interest rate on financing	**(2,082)**	(1,380)
Change in interest rate on short-term investments	**116**	334

iii) Fair value *versus* book value

The fair values of financial assets and liabilities, together with the carrying values reported in the balance sheets, are as follows:

	Consolidated			
		2013		**2012**
	Book value	**Fair value**	**Book value**	**Fair value**
Assets stated at fair value				
Forward exchange contracts and interest rate swap contracts used for hedge operations	**45,212**	**45,212**	33,513	33,513
Assets stated at amortized cost				
Cash and cash equivalents	**281,119**	**281,119**	180,781	180,781
Trade accounts receivable	**161,660**	**161,660**	148,847	148,847
Securities receivable	**580**	**580**	-	-
	443,359	**443,359**	329,628	329,628
Liabilities stated at fair value				
Forward exchange contracts and interest rate swap contracts used for hedge operations	**9,595**	**9,595**	7,750	7,750
Liabilities stated at amortized cost				
Guaranteed bank loans	**661,681**	**621,487**	578,040	562,443
Issue of debt securities	**57,565**	**59,212**	94,698	96,195
Foreign exchange drafts	**-**	**-**	5,128	5,018
Suppliers and other accounts payable	**148,950**	**148,950**	61,333	61,333
Advance on real estate credits	**19,606**	**20,512**	28,711	29,823
	887,802	**850,161**	767,910	754,812

(In thousands of reais, unless otherwise stated)

21. Financial instruments (Continued)

iii) Fair value versus book value

				Company
		2013		2012
	Book value	Fair value	Book value	Fair value
Assets stated at fair value				
Forward exchange contracts and interest rate swap contracts used for hedge operations	**45,096**	**45,096**	32,925	32,925
Assets stated at amortized cost				
Cash and cash equivalents	**27,874**	**27,874**	101,560	101,560
Trade accounts receivable and other receivables	**175,243**	**175,243**	57,803	57,803
	203,117	**203,117**	159,363	159,363
Liabilities stated at fair value				
Forward exchange contracts and interest rate swap contracts used for hedge operations	**9,010**	**9,010**	6,576	6,576
Liabilities stated at amortized cost				
Guaranteed bank loans	**434,828**	**423,207**	383,083	382,531
Issue of debt securities	**57,565**	**59,212**	94,698	96,195
Foreign exchange drafts	**-**	**-**	5,128	5,018
Suppliers and other accounts payable	**134,527**	**134,527**	40,742	40,742
	626,920	**616,946**	523,651	524,486

The fair value, which is determined for disclosure purposes, is calculated based on the present value of the principal and future cash flows, discounted using the market interest rate determined at the reporting date of the financial statements. The interest rates used to discount the estimated cash flows, when applicable, are based on forecast rates for the interbank certificates of deposits (CDI) at the balance sheet date. A significant portion of loans is contracted at variable rates. Observable rates in recent operations are similar to the contractual rates.

The effects from gains and losses related to derivative financial instruments, not classified as hedge accounting, are disclosed in the note on financial income (expense), in a specific line. The Company did not post gains or losses with non-derivative instruments since they are measured at amortized cost.

21. Financial instruments (Continued)

iii) Fair value *versus* book value

In accordance with the hierarchical classification criteria for determining fair value, where: level 1 corresponds to quoted prices (unadjusted) on active markets for identical assets and liabilities, level 2 corresponds to *inputs*, except quoted prices included in level 1, that are observable for the asset or liability, directly (prices) or indirectly (derived from prices) and level 3 refers to assumptions, for the asset or liability, that are not based on observable market data (*inputs* non observable), the Company classified in its accounting registers the fair value of its financial instruments as being level 2.

iv) *Hedge Accounting*

Non-deliverable forward (NDF), options (*Zero Cost Collar*) and prepayment operations are fixed in order to provide hedge against exposure of future sales in dollars. There are also Finimp operations in order to provide hedge against exposure of future sales in dollars. The Company applied hedge policy to these transactions in June 2012, and discontinued application thereof in December 2012.

Other operations with derivatives, although also representing hedge instruments, are not recorded under the hedge accounting method and, therefore, their effects are recorded in P&L for the year, in financial income/ expense accounts.

(In thousands of reais, unless otherwise stated)

21. Financial instruments (Continued)

iv) *Hedge Accounting* (Continued)

We set out below detailed maturities of derivative operations and deferred exchange variation, under the hedge accounting method: The items hedged by these instruments have similar terms and amounts.

Maturity	Currency	NDF contracts	Options Zero Cost Collar	Export prepayment (PPE)	FINIMP	Total
03/ 31/2013	USD	**3,900**	-	**-**	**1,387**	**5,287**
06/ 30/2014	USD	**800**	-	**-**	**3,000**	**3,800**
12/ 31/2014	USD	**-**	-	**-**	**-**	**-**
12/ 31/2015	USD	**-**	-	**833**	**-**	**833**
03/ 31/2016	USD	**-**	-	**833**	**-**	**833**
03/ 31/2017	USD	**-**	-	**834**	**-**	**834**
Total	**USD**	**4,700**	**-**	**2,500**	**4,387**	**11,587**

Fair value of consolidated gains and losses for the period is set out below, grouped by the main risk categories:

		Gains and losses posted to P&L					
		Allocated to gross revenue in		Allocated to financial income		Gains and losses recorded in equity	
Description	**Currency**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
NDF contracts	**R$**	**-**	(693)	**(557)**	(2,689)	**-**	(557)
Options Zero Cost Collar	**R$**	**-**	(223)	**-**	-	**-**	-
Export prepayment (PPE)	**R$**	**-**	-	**(554)**	-	**-**	(554)
FINIMP	**R$**	**-**	-	**(352)**	(354)	**-**	(352)
Total	**R$**	**-**	(916)	**(1,463)**	(3,043)	**-**	(1,463)

The effects of loss related to cash flow hedge at December 31, 2012, in the amount of R$1,463, were allocated to equity, deducting the effects from income and social contribution taxes of R$ 498.

(In thousands of reais, unless otherwise stated)

22. Related parties

	Outstanding balances of subsidiaries with the Company					Effect from result of operations of subsidiaries with the Company	
	Current assets	Noncurrent assets (receivables from related parties)	Total assets	Current liabilities (*)	Total liabilities	Revenue	Expenses
December 31, 2012							
Taurus Blindagens Ltda.	-	-	-	2,594	2,594	-	2,124
Taurus Holdings,Inc. (Note 10)	13,379	-	13,379	699	699	244,809	3,997
Taurus Security Ltda.	-	547	547	-	-	-	-
Taurus Investimentos Imobiliários Ltda. (**)	5,811	-	5,811	-	-	-	4,694
Taurus Máquinas-Ferramenta Ltda.	-	114,033	114,033	-	-	-	-
Polimetal Metalurgia e Plásticos Ltda. (***)	8,102	-	8,102	24,156	24,156	7,921	103,726
	27,292	**114,580**	**141,872**	**27,449**	**27,449**	**252,730**	**114,541**
December 31, 2013							
Taurus Blindagens Ltda.	-	-	-	-	-	-	12
Taurus Holdings,Inc. (Note 10)	148,215	-	148,215	15,635	15,635	248,265	4,542
Taurus Security Ltda.	-	547	547	-	-	-	-
Taurus Investimentos Imobiliários Ltda. (**)	5,811	-	5,811	-	-	-	4,914
Taurus Máquinas-Ferramenta Ltda.	196	20,568	20,764	-	-	-	-
Polimetal Metalurgia e Plásticos Ltda. (***)	6,494	-	6,494	50,798	50,798	3,558	78,064
	160,716	**21,115**	**181,831**	**66,433**	**66,433**	**251,823**	**87,532**

(*) Recorded as accounts payable
(**) Disposal of fixed assets by the Company to subsidiary.
(***) Amount recorded in trade accounts and other accounts receivable in current assets.

The operations involving the Company and subsidiary Taurus Holding, Inc. refer to weapon sales to be traded by the subsidiary in the US market.

The operations involving the Company and subsidiary Polimetal Metalurgia e Plásticos Ltda. refer to products in process since the subsidiary performs a part of the production process of the weapons segment.

(In thousands of reais, unless otherwise stated)

22. Related parties (Continued)

The transactions with related parties are carried out under the price and terms agreed by the parties.

Subsidiary Taurus Máquinas-Ferramentas Ltda. has intercompany loan payable to the controlling company Forjas Taurus S.A. in the amount of R$ 20,568 at December 31, 2013 (R$ 114,033 at December 31, 2012). Part of the balance of intercompany loan was used by the controlling company to increase capital of Taurus Máquinas-Ferramenta in November 2013. Subsidiary Taurus Security Ltda. has intercompany loan with the controlling company Forjas Taurus S.A. in the amount of R$ 547 in 2013 (R$ 547 in 2012). The loans are not subject to monetary restatement or interest.

Remuneration of key management personnel

At December 31, 2013, remuneration paid to key management personnel amounted to R$ 20,682 (R$ 19,810 at December 31, 2012), and includes salaries, fees and benefits.

Remuneration of key management personnel includes:

	Consolidated		**Company**	
	2013	**2012**	**2013**	**2012**
Remuneration and benefits of statutory directors and board members	**10,296**	10,268	**10,296**	10,268
Remuneration of key personnel	**10,386**	9,542	**5,373**	4,643
Total	**20,682**	19,810	**15,669**	14,911

The Company does not have remuneration benefit policies for key management personnel characterized as: post-employment benefits, benefits from rescission of employment contract, share based remuneration or other long term benefits.

22. Related parties (Continued)

Operations of directors and key management personnel

The directors and key management personnel directly control 45.02% of the Company's voting capital.

Some of the key management personnel hold units of interest in other entities, resulting in them having control or significant influence over the financial or operating policies of these companies. There were no transactions between the Company and these parties in the years ended December 31, 2013 and 2012, excepting salaries.

Sureties between related parties

The loans and financing are guaranteed by promissory notes, chattel mortgages for machinery and equipment and real estate mortgages. The sureties granted by the Company to its subsidiaries are presented below:

	2013	**2012**
Polimetal Metalurgia e Plásticos Ltda.	**16,246**	-
Taurus Máquinas-Ferramenta Ltda.	**-**	5,410
Taurus Holdings, Inc.	**106,309**	92,271
	122,555	97,681

23. Equity (Company)

a) Capital

Capital at December 31, 2013 amounted to R$257,797 (R$257,797 in 2012).

Preferred shares

Preferred shares are non-voting shares and are not entitled to differentiated dividends but have preference in the return of capital.

Authorized shares (in thousands of shares)

	2013	**2012**
Common shares	51,851	51,851
Preferred shares	103,702	103,702
	155,553	155,553

23. Equity (Company) (Continued)

Shares issued and fully paid up

	Common		Preferred	
	Quantity In thousands	R$ 000	Quantity In thousands	R$ 000
At December 31, 2012				
ON - R$ 3.25 - PN - R$ 2.90*	47,138	153,199	94,275	273,398
At December 31, 2013				
ON - R$ 2.66 - PN - R$ 2.28*	**47,138**	**125,387**	**94,275**	**214,947**

* Quotation for last transaction of shares on the date stated, multiplied by total shares existing on this date.

b) Treasury shares

Treasury shares refer to repurchased capital. The amount of remuneration paid includes directly attributable costs, net of any tax effects. When treasury shares are sold or subsequently re-issued, the amount received is recognized as an increase in equity, and the resulting excess or deficit are transferred to/from retained earnings/accumulated losses. The Company posted loss for 2013 and 2012, consequently does not have sufficient income reserve balance to keep treasury shares. Company management is structuring a plan to regularize its treasury shares.

c) Reserves

Legal reserve

The legal reserve is set up at 5% of net income each year, calculated under the terms of article 193 of Law No. 6404/76, until its balance reaches the limit of 20% of the amount of capital.

Statutory reserve and profit retention

Reserve for investments – constituted to cover investments to be made in subsequent years, based on the capital budget.

Equity valuation adjustments

The reserve for equity valuation adjustments includes adjustments from adopting deemed cost for fixed assets at the transition date to IFRS. The amounts registered in equity valuation adjustments are reclassified partially or fully to profit or loss for the year, when the assets to which they refer are sold.

(In thousands of reais, unless otherwise stated)

23. Equity (Company) (Continued)

c) Reserves (Continued)

Cumulative translation adjustments

Cumulative translation adjustments include all of the foreign currency differences arising from translation of the financial statements of foreign operations.

d) Earnings (loss) per share

Basic earnings per share were calculated based on profit for the period attributable to controlling and non-controlling shareholders of the Company up to December 31, 2013, and the respective average number of common outstanding shares in this period, compared to the period ended December 31, 2012, as presented below:

	2013	**2012**
Net income for the period from continuing operations	**(80,310)**	17,781
Net income (loss) from discontinued operations	**-**	(134,991)
Net income (loss) attributable to shareholders	**(80,310)**	(117,210)
At beginning of year	**141,412,617**	141,412,617
Capital increase and increase in the number of shares – weighted average	**-**	-
Effect from purchase of own shares- weighted average	**-**	-
Effect from share split – weighted average	**-**	-
Weighted average number of shares	**141,412,617**	141,412,617
Basic and diluted earnings (loss) per share – in R$	**(0.5679)**	(0.8288)
Basic and diluted earnings (loss) per share –from continuing operations-R$	**(0.5679)**	0.1257

Basic earnings per share are calculated based on net income for the period attributable to Company shareholders divided by the weighted average of outstanding in the period. In 2013, the Company's basic and diluted earnings per share have the same amount since there are no financial instruments convertible into shares and its common shares are not entitled to differentiated participation in profits.

(In thousands of reais, unless otherwise stated)

24. Net operating revenue

	Consolidated		Company	
	2013	**2012**	**2013**	**2012**
Product sales	**935,446**	834,842	**435,163**	437,127
Services rendered	**138**	896	**100**	183
Total gross revenue	**935,584**	835,738	**435,263**	437,310
Sales tax	**(115,747)**	(120,017)	**(33,326)**	(48,466)
Sales returns and rebates	**(12,497)**	(14,750)	**(17,837)**	(5,700)
Total net operating revenue	**807,340**	700,971	**384,100**	383,144

25. Other operating income (expenses), net

	Consolidated		Company	
	2013	**2012**	**2013**	**2012**
Other operating expenses				
Research and development	**(1,009)**	(2,992)	**(1,009)**	(2,986)
Cost of fixed assets sold	**(5,110)**	(3,086)	**(1,191)**	(2,538)
Amortization of intangible assets	**(986)**	(709)	**(803)**	(674)
Employee profit sharing	**(1,189)**	(3,990)	**(374)**	(2,170)
Idle capacity	**(820)**	(1,337)	**-**	-
Provision for impairment of property, plant and equipment	**-**	(13,522)	**-**	-
Impairment of assets	**(864)**	(2,047)	**-**	-
Tax assessment	**-**	(5,831)	**-**	-
Provision for loss on Renill notes	**(3,539)**	-	**-**	-
Provision for inventory losses	**(3,097)**	-	**-**	-
Provision for loss of TMFL	**(2,299)**	-	**-**	-
Other	**(11,893)**	(7,770)	**(4,778)**	(3,298)
	(30,806)	(41,284)	**(8,155)**	(11,666)
Other operating income				
Tax incentives	**2,419**	2,887	**-**	-
Other operating income	**8,270**	5,100	**2,717**	2,497
	10,689	7,987	**2,717**	2,497
Other operating income (expenses), net	**(20,117)**	(33,297)	**(5,438)**	(9,169)

26. Financial income and expenses

	Consolidated		Company	
	2013	**2012**	**2013**	**2012**
Financial expenses				
Interest	**(59,817)**	(51,678)	**(44,626)**	(39,560)
Exchange variation	**(70,496)**	(52,520)	**(67,604)**	(51,832)
Tax on Financial Transactions - IOF	**(931)**	(431)	**(83)**	(27)
Swap on financial operations	**(34,004)**	(23,575)	**(32,851)**	(23,446)
Other expenses	**(10,483)**	(6,693)	**(3,627)**	(4,260)
	(175,731)	(134,897)	**(148,791)**	(119,125)
Financial income				
Interest	**9,343**	14,571	**4,688**	6,146
Exchange variation	**38,342**	34,914	**35,963**	33,851
Swap on financial operations	**43,560**	38,073	**42,985**	37,840
Other revenues	**10,891**	2,790	**2,388**	501
	102,136	90,348	**86,024**	78,338
Financial income (expenses), net	**(73,595)**	(44,549)	**(62,767)**	(40,787)

(In thousands of reais, unless otherwise stated)

27. Income and social contribution tax expense

The reconciliation of the expense calculated using the combined tax rates and the income and social contribution tax expense posted to P&L is demonstrated below:

	Consolidated		Company	
	2013	**2012**	**2013**	**2012**
Income/loss before income and social contribution taxes	**(57,566)**	(95,377)	**(79,700)**	(116,542)
Combined tax rate	**34%**	34%	**34%**	34%
Income and social contribution taxes:				
At combined tax rate	**19,572**	32,428	**27,098**	39,624
Permanent additions:				
Non-deductible expenses	**(338)**	(421)	**(336)**	(420)
Permanent exclusions:				
Tax exempt income – equity pickup	**(459)**	298	**166**	(37,129)
Other – Law No. 11196/05	**176**	300	**-**	-
Interest on equity	**-**	1,416	**-**	1,416
Unrecognized tax loss	**(27,664)**	(34,936)	**(10,785)**	(4,260)
Transfer price adjustments	**(10,836)**	-	**(10,836)**	-
Non-deductible provisions	**(5,745)**	(20,653)	**(4,638)**	-
Other items (*)	**2,550**	(265)	**(1,279)**	101
Income and social contribution taxes in the P&L for the year	**(22,744)**	(21,833)	**(610)**	(668)
Income and social contribution taxes in the P&L for the year:				
Current	**(21,418)**	(23,110)	**-**	-
Deferred (Note 13)	**(1,326)**	1,277	**(610)**	(668)
	(22,744)	(21,833)	**(610)**	(668)
Effective rate	**-39.51%**	-22.89%	**-0.77%**	-0.57%

(*) Considers the effects from different rates of subsidiaries taxed based on profit computed as a percentage of gross revenue (“*lucro presumido”)*.

<u>Provisional Executive Order No. 627/2013</u>

Revenue Procedure No. 1397 (IN 1397) was published on September 17, 2013 and Provisional Executive Order No. 627 (MP 627) was published on November 12, 2013 that: (i) revokes the Transition Tax Regime (RTT) as from 2015, introducing a new tax regime; (ii) amends Decree Law No. 1598/77 related to calculation of corporate income tax and legislation on social contribution tax on net profit. The new tax regime provided for by MP 627 is effective 2014, if the entity exercises this option. Among the provisions of MP 627 we highlight some on the treatment of profit sharing and dividends, calculation base of interest on equity and criterion for equity pickup calculation during RTT effect.

(In thousands of reais, unless otherwise stated)

27. Income and social contribution tax expense (Continued)

Provisional Executive Order No. 627/2013 (Continued)

The Company prepared a study of potential effects from application of MP 627 and IN 1.397 and concluded that they do not generate relevant effects on its operations and its financial statements for the year ended December 31, 2013, based on management's best construction of the current text of the MP. The possible conversion of MP 627 into law may make our conclusion to change. The Company is awaiting the amendments to MP 627 to opt or not for its early adoption in 2014.

28. Insurance coverage

The Company adopts the policy to take out insurance coverage for assets subject to risks for amounts considered sufficient by Company management to cover adventitious damages, considering the nature of its activities. Insurance coverage is determined by Company management for an amount considered sufficient to cover adventitious damages.

At December 31, 2013, the Company's insurance coverage was as follows:

		2013
	Consolidated	**Company**
Property damage	260,710	82,358
Civil liability	43,139	8,000
Loss of profits	5,841	-

(In thousands of reais, unless otherwise stated)

29. Expenses by nature

The Company opted for presenting consolidated income statement by function. As required by IFRS, the Company sets out below a detailed consolidated income statement by nature:

	Consolidated		Company	
	2013	**2012**	**2013**	**2012**
Expenses by function				
Cost of goods sold	**(565,619)**	(434,237)	**(311,813)**	(275,683)
Selling expenses	**(126,341)**	(89,419)	**(47,399)**	(32,249)
General and administrative expenses	**(77,885)**	(60,730)	**(35,895)**	(32,594)
Other operating income (expenses) (Note 25)	**(30,806)**	(41,284)	**(8,155)**	(11,666)
	(800,651)	(625,670)	**(403,262)**	(352,192)
Expenses by nature				
Depreciation and amortization	**(35,307)**	(31,241)	**(11,925)**	(11,810)
Personnel expenses	**(152,632)**	(144,686)	**(125,611)**	(115,274)
Raw materials and use and consumption materials	**(430,844)**	(337,089)	**(197,647)**	(165,197)
Freight	**(21,834)**	(13,600)	**(8,742)**	(10,850)
Commissions	**(27,478)**	(19,778)	**(6,357)**	(10,243)
Outsourced services	**(18,757)**	(15,378)	**(9,536)**	(11,317)
Advertising and promotion	**(14,741)**	(11,559)	**(1,894)**	(2,447)
Research and development	**(1,009)**	(2,992)	**(1,009)**	(2,986)
Amortization of intangible assets	**(986)**	(709)	**(803)**	(674)
Provision for loss on Renill notes	**(3,539)**	-	**-**	-
Product warranty expenses	**(32,273)**	(6,448)	**(19,541)**	(1,745)
Idle capacity	**(820)**	(1,337)	**-**	-
Provision for impairment of property, plant and equipment	**-**	(13,522)	**-**	-
Other expenses	**(60,431)**	(27,331)	**(20,197)**	(19,649)
	(800,651)	(625,670)	**(403,262)**	(352,192)

30. Business combination

Acquisition of Heritage Manufacturing, Inc.

On May 2, 2012, the subsidiary Taurus Holdings, Inc. acquired for USD10 million the controlling interest in Heritage Manufacturing, Inc., based in Opa Locka, Florida, company engaged in manufacturing of Single Action revolvers. With this transaction the Company intended to supplement its portfolio of products in the US market. The consideration was fully paid in cash, without assuming any liability in connection with the transaction, also there is no contingent consideration.

We set out below a summary of goodwill computation, considering the fair value of Heritage at May 2, 2012. Fair value was determined by a specialized company.

	R$ 000
Property, plant and equipment	1,660
Intangible assets	14,152
Other assets	4,647
Deferred taxes	(5,366)
Liabilities	(1,746)
Total net identifiable assets	13,347
(-) Amount of consideration	(19,256)
Goodwill paid	(5,909)

In 2012, Heritage contributed to consolidated figures with revenues of R$ 14,994 and pretax income of R$ 5,211. If the business combination had occurred at the beginning of the year, revenue of Heritage would have contributed to consolidated revenues with approximately R$ 23,446, and net income from operations would have increased by approximately R$ 8,151.

The costs related to the acquisitions were recognized in P&L under Administrative expenses.

Acquisition of Steelinject – Injeção de Aços Ltda.

Company acquired on January 1, 2012 for R$ 14,000, generating goodwill of R$ 126, of which the allocation process was concluded in December 2012.
Since the acquisition date, Steelinject – Injeção de Aços Ltda. contributed to the consolidated figures for 2012 with revenues of R$9,094 and pretax income of R$1,232.
This company was merged into subsidiary Polimetal Metalurgia e Plásticos Ltda. in July 2013.