Contents

Company information / Breakdown of Capital

Quantity of shares (Units)	Current quarter 06/30/2018
Paid-in capital	
Common	46,445,314
Preferred	18,242,898
Total	64,688,212
Treasury	
Common	0
Preferred	0
Total	0

Individual financial statements / Balance sheet - Assets

(In thousands of reais)

Code of account	Account description	Current quarter 06/30/2018	Prior year 12/31/2017
1	Total Assets	733,804	702,900
1.01	Current assets	242,578	219,153
1.01.01	Cash and cash equivalents	1,355	2,543
1.01.01.01	Cash and banks	429	2,199
1.01.01.02	Interbank funds applied	926	344
1.01.02	Interest earning bank deposits	2,085	1,777
1.01.03	Accounts receivable	87,459	69,008
1.01.03.01	Trade accounts receivable	87,459	69,008
1.01.04	Inventories	104,098	95,155
1.01.06	Recoverable taxes	21,761	25,693
1.01.06.01	Current taxes recoverable	21,761	25,693
1.01.07	Prepaid expenses	1,259	2,224
1.01.08	Other Current assets	24,561	22,753
1.01.08.03	Other	24,561	22,753
1.01.08.03.01	Related parties - Financial loan	20,066	19,367
1.01.08.03.02	Other accounts receivable	4,495	3,386
1.02	Non-current assets	491,226	483,747
1.02.01	Long term assets	25,130	24,411
1.02.01.03	Interest earning bank deposits measured at amortized cost	616	753
1.02.01.09	Related party credits	15,476	14,044
1.02.01.09.04	Other related party credits	15,476	14,044
1.02.01.10	Other non-current assets	9,038	9,614
1.02.01.10.03	Recoverable tax	139	195
1.02.01.10.04	Other	8,899	9,419
1.02.02	Investments	426,773	417,623
1.02.02.01	Equity interest	426,773	417,623
1.02.02.01.02	Interest in subsidiaries	426,583	417,433
1.02.02.01.04	Other investments	190	190
1.02.03	Property, plant and equipment	34,046	36,172
1.02.03.01	Fixed assets in operation	31,431	33,103
1.02.03.03	Constructions in progress	2,615	3,069
1.02.04	Intangible assets	5,277	5,541
1.02.04.01	Intangible assets	5,277	5,541

Individual financial statements - Balance sheet - Liabilities

(In thousands of reais)

Code of account	Account description	Current quarter 06/30/2018	Prior year 12/31/2017
2	Total liabilities	733,804	702,900
2.01	Current liabilities	1,085,843	968,986
2.01.01	Social and labor obligations	13,154	17,418
2.01.01.01	Social charges	5,057	8,443
2.01.01.02	Labor obligations	8,097	8,975
2.01.02	Suppliers	140,683	134,832
2.01.02.01	Domestic suppliers	123,779	123,097
2.01.02.02	Foreign suppliers	16,904	11,735
2.01.03	Tax liabilities	13,727	17,944
2.01.03.01	Federal tax liabilities	6,813	8,669
2.01.03.01.01	Income tax and social contribution payable	653	0
2.01.03.01.02	Other Taxes	6,160	8,669
2.01.03.02	State tax liabilities	6,897	9,255
2.01.03.03	Municipal tax liabilities	17	20
2.01.04	Loans and financing	656,940	529,187
2.01.04.01	Loans and financing	575,872	453,416
2.01.04.01.01	In domestic currency	10,978	3,264
2.01.04.01.02	In foreign currency	564,894	450,152
2.01.04.02	Debentures	81,068	75,771
2.01.05	Other liabilities	224,960	223,652
2.01.05.02	Other	224,960	223,652
2.01.05.02.01	Dividends and interest on own capital	3	3
2.01.05.02.04	Financial loan	41,744	38,097
2.01.05.02.05	Foreign exchange withdrawals	15,590	24,193
2.01.05.02.07	Advance from receivables	466	1,535
2.01.05.02.08	Advances from clients	90,441	79,467
2.01.05.02.09	Other liabilities	76,716	80,357
2.01.06	Provisions	36,379	45,953
2.01.06.01	Tax, social security, labor and civil provisions	29,615	39,189
2.01.06.01.01	Tax provisions	27,689	27,689
2.01.06.01.02	Social security and labor provisions	992	11,500
2.01.06.01.04	Civil provisions	934	0
2.01.06.02	Other Provisions	6,764	6,764
2.01.06.02.01	Provision for guarantees	6,764	6,764
2.02	Non-current liabilities	158,088	179,147
2.02.01	Loans and financing	39,760	47,103
2.02.01.01	Loans and financing	39,760	47,103
2.02.01.01.01	In domestic currency	3,024	4,147
2.02.01.01.02	In foreign currency	36,736	42,956
2.02.02	Other liabilities	71,977	92,992
2.02.02.01	Liabilities from Related parties	50,645	52,418
2.02.02.01.02	Debits with subsidiaries	6,211	5,329
2.02.02.01.04	Debts with other related parties	44,434	47,089
2.02.02.02	Other	21,332	40,574
2.02.02.02.03	Taxes payable	1,004	2,986
2.02.02.02.04	Provision for unsecured liability	15,635	34,722

Individual financial statements - Balance sheet - Liabilities

(In thousands of reais)

Code of account	Account description	Current quarter 06/30/2018	Prior year 12/31/2017
2.02.02.02.05	Other liabilities	2,772	2,866
2.02.02.02.06	Suppliers	1,921	0
2.02.03	Deferred taxes	2,356	6,079
2.02.03.01	Deferred income tax and social contribution	2,356	6,079
2.02.04	Provisions	43,995	32,973
2.02.04.01	Tax, social security, labor and civil provisions	43,995	32,973
2.02.04.01.02	Social security and labor provisions	33,857	31,810
2.02.04.01.04	Civil provisions	10,138	1,163
2.03	Shareholders' equity	-510,127	-445,233
2.03.01	Realized capital	404,489	404,489
2.03.02	Capital reserves	-40,996	-40,996
2.03.02.09	Capital transactions	-40,996	-40,996
2.03.05	Retained Earnings/Losses	-1,046,238	-952,635
2.03.06	Equity valuation adjustments	47,623	48,240
2.03.07	Accumulated translation adjustments	124,995	95,669

Individual financial statements / Statement of income

(In thousands of reais)

Code of account	Account description	Current quarter 04/01/2018–06/30/2018	Accumulated of the current year 01/01/2018–06/30/2018	Same quarter of the prior year 04/01/2017–06/30/2017	Accumulated of the prior year 01/01/2017–06/30/2017
3.01	Revenue from sales of goods and/or services	149,851	302,257	160,689	290,213
3.02	Cost of goods and/or services sold	-100,974	-208,488	-125,924	-226,853
3.03	Gross income	48,877	93,769	34,765	63,360
3.04	Operating expenses/revenue	-27,303	-45,668	-31,835	-60,815
3.04.01	Sales expenses	-11,178	-20,636	-10,276	-19,704
3.04.02	General and administrative expenses	-10,795	-25,851	-21,359	-37,953
3.04.04	Other operating income	4,120	5,170	643	2,082
3.04.05	Other operating expenses	-1,203	-3,263	-1,387	-2,985
3.04.06	Equity in net income of subsidiaries	-8,247	-1,088	544	-2,255
3.05	Income (loss) before financial income and taxes	21,574	48,101	2,930	2,545
3.06	Financial income (loss)	-114,969	-140,032	-60,419	-66,487
3.06.01	Financial income	15,966	17,511	618	18,880
3.06.02	Financial expenses	-130,935	-157,543	-61,037	-85,367
3.07	Income (loss) before income tax	-93,395	-91,931	-57,489	-63,942
3.08	Income tax and social contribution	-382	-653	32,037	32,037
3.08.01	Current	-382	-653	0	0
3.08.02	Deferred assets	0	0	32,037	32,037
3.09	Net income (loss) from continued operations	-93,777	-92,584	-25,452	-31,905
3.11	Income/loss for the period	-93,777	-92,584	-25,452	-31,905
3.99	Earnings per share - (Reais / Share)				
3.99.01	Basic earnings per share				
3.99.01.01	Common shares	1.44968	1.43122	-0.39346	-0.49321
3.99.01.02	Preferred shares	1.44968	1.43122	-0.39346	-0.49321
3.99.02	Diluted earnings per share				
3.99.02.01	Common shares	1.44968	1.43122	-0.39346	-0.49321
3.99.02.02	Preferred shares	1.44968	1.43122	-0.39346	-0.49321

Individual financial statements / Statement of comprehensive income

(In thousands of reais)

Code of account	Account description	Current quarter 04/01/2018–06/30/2018	Accumulated of the current year 01/01/2018–06/30/2018	Same quarter of the prior year 04/01/2017–06/30/2017	Accumulated of the prior year 01/01/2017–06/30/2017
4.01	Net income for the period	-93,777	-92,584	-25,452	-31,905
4.02	Other comprehensive income	28,459	29,325	10,185	3,242
4.02.01	Translation adjustments in the period	28,459	29,325	10,185	3,242
4.03	Comprehensive income for the period	-65,318	-63,259	-15,267	-28,663

Individual financial statements / Statement of cash flows - Indirect method

(In thousands of reais)

Code of account	Account description	Accumulated of the current year 01/01/2018–06/30/2018	Accumulated of the prior year 01/01/2017–06/30/2017
6.01	Net cash from operational activities	14,920	20,548
6.01.01	Cash generated in operations	33,872	-1,196
6.01.01.01	Net income (loss) for the year before income tax and social contribution	-91,931	-63,942
6.01.01.02	Depreciation and amortization	3,738	3,760
6.01.01.03	Cost of permanent asset written-off	120	172
6.01.01.04	Allowance for doubtful accounts	681	896
6.01.01.05	Equity in net income of subsidiaries	1,088	2,255
6.01.01.08	Provision for interest on loans and financing	28,076	33,697
6.01.01.10	Provision for inventory loss	-5,015	14,126
6.01.01.11	Provision for contingencies	1,768	9,004
6.01.01.12	Provision for guarantees	0	1,642
6.01.01.13	Exchange rate change on loans and others	95,347	9,520
6.01.01.15	Provision for freight and commissions	0	-12,326
6.01.02	Changes in assets and liabilities	-18,952	21,744
6.01.02.01	Increase (Decrease) in trade accounts receivable	-25,603	-9,904
6.01.02.02	(Decrease) Increase in inventories	-3,928	-18,958
6.01.02.03	(Decrease) Increase in other accounts receivable	-8,926	-35,246
6.01.02.04	(Decrease) increase in suppliers	9,702	46,358
6.01.02.05	(Decrease) Increase in accounts payable and provisions	9,803	39,494
6.02	Net cash used in investment activities	-3,071	-3,614
6.02.01	Receivables with related companies	-1,432	-2,557
6.02.03	In investments	0	1,288
6.02.04	In property, plant and equipment	-1,434	-2,794
6.02.05	In intangible assets	-34	-63
6.02.06	Interest earnings bank deposits	-171	512
6.03	Net cash from financing activities	-13,037	-17,700
6.03.02	Borrowings	10,226	0
6.03.03	Payments of loans	-15,291	-34,193
6.03.05	Capital increase	0	10,512
6.03.06	Payment of Interest on loans	-5,317	-7,298
6.03.09	Debts with related companies	-2,655	15,135
6.03.10	Advance for future capital increase	0	-164
6.03.11	Other	0	-1,692
6.05	Increase (decrease) in cash and cash equivalents	-1,188	-766
6.05.01	Opening balance of cash and cash equivalents	2,543	1,313
6.05.02	Closing balance of cash and cash equivalents	1,355	547

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

(In thousands of reais)

Code of account	Account description	Paid-up capital	Capital reserves, options granted and treasury shares	Profit reserves	Retained earnings (losses)	Other comprehensive income	Shareholders' equity
5.01	Opening balances	404,489	-40,996	0	-952,635	143,909	-445,233
5.02	Prior-year adjustments	0	0	0	-1,635	0	-1,635
5.02.01	Initial adoption of IFRS 9	0	0	0	-1,635	0	-1,635
5.03	Adjusted opening balances	404,489	-40,996	0	-954,270	143,909	-446,868
5.05	Total comprehensive income	0	0	0	-91,968	28,709	-63,259
5.05.01	Net income for the period	0	0	0	-92,584	0	-92,584
5.05.02	Other comprehensive income	0	0	0	616	28,709	29,325
5.05.02.04	Translation adjustments in the period	0	0	0	0	29,325	29,325
5.05.02.06	Realization of equity valuation adjustments	0	0	0	616	-616	0
5.07	Closing balances	404,489	-40,996	0	-1,046,238	172,618	-510,127

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

(In thousands of reais)

Code of account	Account description	Paid-up capital	Capital reserves, options granted and treasury shares	Profit reserves	Retained earnings (losses)	Other comprehensive income	Shareholders' equity
5.01	Opening balances	394,141	-40,996	0	-668,102	143,056	-171,901
5.03	Adjusted opening balances	394,141	-40,996	0	-668,102	143,056	-171,901
5.04	Capital transactions with partners	10,348	0	0	0	0	10,348
5.04.01	Capital increases	10,348	0	0	0	0	10,348
5.05	Total comprehensive income	0	0	0	-31,122	2,459	-28,663
5.05.01	Net income for the period	0	0	0	-31,905	0	-31,905
5.05.02	Other comprehensive income	0	0	0	783	2,459	3,242
5.05.02.04	Translation adjustments in the period	0	0	0	0	3,242	3,242
5.05.02.06	Realization of equity valuation adjustments	0	0	0	783	-783	0
5.07	Closing balances	404,489	-40,996	0	-699,224	145,515	-190,216

Individual financial statements/ Statement of added value

(In thousands of reais)

Code of account	Account description	Accumulated of the current year 01/01/2018–06/30/2018	Accumulated of the prior year 01/01/2017–06/30/2017
7.01	Income	367,332	327,885
7.01.01	Sale of merchandise, products and services	359,952	325,504
7.01.02	Other income	6,699	1,616
7.01.04	Formation/reversal of allowance for doubtful accounts	681	765
7.02	Inputs acquired from third parties	-214,288	-244,201
7.02.01	Cost of products, merchandise and services sold	-190,170	-240,120
7.02.02	Materials, Energy, Third-party services and other	-24,118	-4,081
7.03	Gross added value	153,044	83,684
7.04	Retentions	-3,737	-3,761
7.04.01	Depreciation, amortization and depletion	-3,737	-3,761
7.05	Net added value produced	149,307	79,923
7.06	Added value received as transfer	16,423	16,625
7.06.01	Equity in net income of subsidiaries	-1,088	-2,255
7.06.02	Financial income	17,511	18,880
7.07	Total added value payable	165,730	96,548
7.08	Distribution of added value	165,730	96,548
7.08.01	Personnel	33,222	33,584
7.08.01.01	Direct remuneration	28,309	26,433
7.08.01.02	Benefits	3,384	5,251
7.08.01.03	Severance Pay Fund (FGTS)	1,529	1,900
7.08.02	Taxes, duties and contributions	67,301	9,369
7.08.02.01	Federal	48,908	-2,409
7.08.02.02	State	18,372	11,739
7.08.02.03	Municipal	21	39
7.08.03	Third-party capital remuneration	157,791	85,500
7.08.03.01	Interest	157,692	85,367
7.08.03.02	Rentals	99	133
7.08.04	Remuneration of own capital	-92,584	-31,905
7.08.04.03	Retained earnings / Loss for the period	-92,584	-31,905

Consolidated financial statements or Balance sheet – Assets

(In thousands of reais)

Code of account	Account description	Accumulated of the current year 01/01/2018–06/30/2018	Accumulated of the prior year 01/01/2017–06/30/2017
1	Assets Total	817,482	768,958
1.01	Current assets	534,876	451,459
1.01.01	Cash and cash equivalents	6,789	6,679
1.01.01.01	Cash and banks	5,842	6,294
1.01.01.02	Interbank funds applied	947	385
1.01.02	Interest earning bank deposits	2,085	1,777
1.01.03	Accounts receivable	121,109	122,611
1.01.03.01	Trade accounts receivable	121,109	122,611
1.01.04	Inventories	225,758	211,885
1.01.06	Recoverable taxes	39,863	44,458
1.01.06.01	Current taxes recoverable	39,863	44,458
1.01.07	Prepaid expenses	8,330	6,674
1.01.08	Other Current assets	130,942	57,375
1.01.08.01	Non-current assets held for sale	123,900	51,390
1.01.08.03	Other	7,042	5,985
1.01.08.03.01	Other accounts receivable	7,042	5,985
1.02	Non-current assets	282,606	317,499
1.02.01	Long term assets	13,605	21,455
1.02.01.03	Interest earning bank deposits measured at amortized cost	897	1,008
1.02.01.07	Deferred taxes	0	3,465
1.02.01.07.01	Deferred income tax and social contribution	0	3,465
1.02.01.10	Other non-current assets	12,708	16,982
1.02.01.10.03	Recoverable taxes	281	493
1.02.01.10.04	Other	12,427	16,489
1.02.02	Investments	192	349
1.02.02.01	Ownership interest	192	349
1.02.02.01.05	Other investments	192	349
1.02.03	Property, plant and equipment	194,885	222,686
1.02.03.01	Fixed assets in operation	191,184	218,440
1.02.03.03	Constructions in progress	3,701	4,246
1.02.04	Intangible assets	73,924	73,009
1.02.04.01	Intangible assets	73,924	73,009

Consolidated financial statements / Balance sheet - Liabilities

(In thousands of reais)

Code of account	Account description	Current quarter 06/30/2018	Prior year 12/31/2017
2	Total liabilities	817,482	768,958
2.01	Current liabilities	1,087,337	965,691
2.01.01	Social and labor obligations	31,418	41,926
2.01.01.01	Social charges	12,376	20,458
2.01.01.02	Labor obligations	19,042	21,468
2.01.02	Suppliers	95,633	99,954
2.01.02.01	Domestic suppliers	61,456	60,366
2.01.02.02	Foreign suppliers	34,177	39,588
2.01.03	Tax liabilities	38,065	40,031
2.01.03.01	Federal tax liabilities	30,147	26,211
2.01.03.01.01	Income tax and social contribution payable	5,628	3,836
2.01.03.01.02	Other Taxes	24,519	22,375
2.01.03.02	State tax liabilities	7,904	13,798
2.01.03.03	Municipal tax liabilities	14	22
2.01.04	Loans and financing	659,286	534,713
2.01.04.01	Loans and financing	578,218	458,942
2.01.04.01.01	In domestic currency	10,979	7,644
2.01.04.01.02	In foreign currency	567,239	451,298
2.01.04.02	Debentures	81,068	75,771
2.01.05	Other liabilities	209,359	181,795
2.01.05.02	Other	209,359	181,795
2.01.05.02.01	Dividends and interest on own capital	3	3
2.01.05.02.04	Derivative financial instruments	54	242
2.01.05.02.05	Foreign exchange withdrawals	15,590	24,193
2.01.05.02.08	Advance from receivables	466	15,422
2.01.05.02.09	Advances from clients	66,958	49,983
2.01.05.02.10	Liabilities from non-current assets held for sale	39,222	0
2.01.05.02.11	Other liabilities	87,066	91,952
2.01.06	Provisions	53,576	67,272
2.01.06.01	Tax, social security, labor and civil provisions	40,982	55,298
2.01.06.01.01	Tax provisions	27,689	28,008
2.01.06.01.02	Social security and labor provisions	5,762	21,486
2.01.06.01.04	Civil provisions	7,531	5,804
2.01.06.02	Other Provisions	12,594	11,974
2.01.06.02.01	Provision for guarantees	12,594	11,974
2.02	Non-current liabilities	240,272	248,500
2.02.01	Loans and financing	139,628	157,970
2.02.01.01	Loans and financing	139,628	157,970
2.02.01.01.01	In domestic currency	3,024	8,420
2.02.01.01.02	In foreign currency	136,604	149,550
2.02.02	Other liabilities	6,982	7,614
2.02.02.02	Other	6,982	7,614
2.02.02.02.04	Taxes payable	1,063	4,748
2.02.02.02.05	Other liabilities	2,775	2,866
2.02.02.02.06	Suppliers	3,144	0
2.02.03	Deferred taxes	28,497	30,937

Consolidated financial statements / Balance sheet - Liabilities

(In thousands of reais)

Code of account	Account description	Current quarter 06/30/2018	Prior year 12/31/2017
2.02.03.01	Deferred income tax and social contribution	28,497	30,937
2.02.04	Provisions	65,165	51,979
2.02.04.01	Tax, social security, labor and civil provisions	59,633	47,233
2.02.04.01.02	Social security and labor provisions	49,495	43,175
2.02.04.01.04	Civil provisions	10,138	4,058
2.02.04.02	Other Provisions	5,532	4,746
2.02.04.02.01	Provision for guarantees	5,532	4,746
2.03	Consolidated shareholders' equity	-510,127	-445,233
2.03.01	Realized capital	404,489	404,489
2.03.02	Capital reserves	-40,996	-40,996
2.03.02.09	Capital transactions	-40,996	-40,996
2.03.05	Retained Earnings/Losses	-1,046,238	-952,635
2.03.06	Equity valuation adjustments	47,623	48,240
2.03.07	Accumulated translation adjustments	124,995	95,669

Consolidated financial statements / Statement of income

(In thousands of reais)

Code of Account	Account description	Current quarter 04/01/2018–06/30/2018	Accumulated of the current year 01/01/2018–06/30/2018	Same quarter of the prior year 04/01/2017–06/30/2017	Accumulated of the prior year 01/01/2017–06/30/2017
3.01	Revenue from sales of goods and/or services	200,200	431,243	158,160	350,884
3.02	Cost of goods and/or services sold	-121,467	-272,798	-117,998	-258,140
3.03	Gross income	78,733	158,445	40,162	92,744
3.04	Operating expenses/revenue	-51,573	-102,174	-54,924	-108,998
3.04.01	Sales expenses	-25,365	-48,539	-22,741	-46,891
3.04.02	General and administrative expenses	-30,013	-60,777	-33,401	-63,736
3.04.04	Other operating income	4,862	16,024	4,237	8,369
3.04.05	Other operating expenses	-1,057	-8,882	-3,019	-6,740
3.05	Income (loss) before financial income and taxes	27,160	56,271	-14,762	-16,254
3.06	Financial income (loss)	-118,587	-144,761	-59,764	-67,192
3.06.01	Financial income	16,413	18,626	1,101	20,177
3.06.02	Financial expenses	-135,000	-163,387	-60,865	-87,369
3.07	Income (loss) before income tax	-91,427	-88,490	-74,526	-83,446
3.08	Income tax and social contribution	421	-1,536	51,104	53,148
3.08.01	Current	-257	-2,341	3,808	5,442
3.08.02	Deferred assets	678	805	47,296	47,706
3.09	Net income (loss) from continued operations	-91,006	-90,026	-23,422	-30,298
3.10	Net income (loss) from discontinued operations	-2,771	-2,558	-2,030	-1,607
3.10.01	Net income (loss) of discontinued operations	-2,771	-2,558	-2,030	-1,607
3.11	Income/loss for the period	-93,777	-92,584	-25,452	-31,905
3.11.01	Attributed to the Parent company's partners	-93,777	-92,584	-25,452	-31,905
3.99	Earnings per share - (Reais / Share)				
3.99.01	Basic earnings per share				
3.99.01.01	Common shares	-1.44968	-1.43122	-0.49321	-0.39346
3.99.01.02	Preferred shares	-1.44968	-1.43122	-0.49321	-0.39346
3.99.02	Diluted earnings per share				
3.99.02.01	Common shares	1.44968	-1.43122	-0.49321	-0.39346
3.99.02.02	Preferred shares	1.44968	-1.43122	-0.49321	-0.39346

Consolidated financial statements / Statement of comprehensive income

(In thousands of reais)

Code of account	Account description	Current quarter 04/01/2018–06/30/2018	Accumulated of the current year 01/01/2018–06/30/2018	Same quarter of the prior year 04/01/2017–06/30/2017	Accumulated of the prior year 01/01/2017–06/30/2017
4.01	Consolidated net income for the period	-93,777	-92,584	-25,452	-31,905
4.02	Other comprehensive income	28,459	29,325	10,185	3,242
4.02.01	Translation adjustments in the period	28,459	29,325	10,185	3,242
4.03	Consolidated comprehensive income for the period	-65,318	-63,259	-15,267	-28,663
4.03.01	Attributed to the Parent company's partners	-65,318	-63,259	-15,267	-28,663

Consolidated financial statements / Statement of cash flows - Indirect method

(In thousands of reais)

Code of account	Account description	Accumulated of the current year 01/01/2018–06/30/2018	Accumulated of the prior year 01/01/2017–06/30/2017
6.01	Net cash from operational activities	44,999	6,545
6.01.01	Cash generated in operations	77,513	3,655
6.01.01.01	Net income (loss) before income tax and social contribution	-88,490	-83,446
6.01.01.02	Depreciation and amortization	16,657	16,436
6.01.01.03	Cost of permanent assets written-off	6,158	4,453
6.01.01.06	Provision for Derivative financial instruments	-188	0
6.01.01.07	Allowance for doubtful accounts	138	1,696
6.01.01.10	Provision for interest on loans and financing	30,207	34,150
6.01.01.14	Provision for freight and commissions	0	-12,326
6.01.01.16	Provision for inventory loss	-5,190	14,126
6.01.01.17	Provision for guarantees	1,406	1,792
6.01.01.18	Net cash from discontinued operations	-2,307	11,991
6.01.01.19	Provision for contingencies	2,838	5,568
6.01.01.20	Exchange rate change on loans and others	116,284	9,215
6.01.02	Changes in assets and liabilities	-31,834	2,890
6.01.02.01	(Increase) decrease in trade accounts receivable	-21,208	13,558
6.01.02.02	(Increase) decrease in inventories	-26,054	-43,695
6.01.02.03	(Increase) decrease in other accounts receivable	-1,810	-46,350
6.01.02.04	Increase (decrease) in suppliers	9,036	27,378
6.01.02.05	Increase (Decrease) in accounts payable and provisions	8,202	51,999
6.01.03	Other	-680	0
6.01.03.02	Payment of IRPJ (Corporate Income Tax) and CSLL (Social contribution tax)	-680	0
6.02	Net cash used in investment activities	-7,530	-19,402
6.02.04	In property, plant and equipment	-5,651	-15,202
6.02.05	In intangible assets	-164	25
6.02.06	Interest earning bank deposits	-197	-1,206
6.02.07	Net cash from discontinued investment activities	-1,518	-3,019
6.03	Net cash from financing activities	-37,359	-2,359
6.03.02	Borrowings	10,226	36,342
6.03.03	Payment of loans	-34,962	-50,251
6.03.05	Capital increase	0	10,348
6.03.10	Payment of Interest on loans	-5,328	-7,298
6.03.13	Net cash from discontinued financing activities	-7,295	8,500
6.05	Increase (decrease) in cash and cash equivalents	110	-15,216
6.05.01	Opening balance of cash and cash equivalents	6,679	26,708
6.05.02	Closing balance of cash and cash equivalents	6,789	11,492

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

(In thousands of reais)

Code of account	Account description	Paid-up capital	Capital reserves, options granted and treasury shares	Profit reserves	Retained earnings (losses)	Other comprehensive income	Shareholders' equity	Non-controlling interest	Consolidated shareholders' equity
5.01	Opening balances	404,489	-40,996	0	-952,635	143,909	-445,233	0	-445,233
5.02	Prior-year adjustments	0	0	0	-1,635	0	-1,635	0	-1,635
5.03	Adjusted opening balances	404,489	-40,996	0	-954,270	143,909	-446,868	0	-446,868
5.05	Total comprehensive income	0	0	0	-91,968	28,709	-63,259	0	-63,259
5.05.01	Net income for the period	0	0	0	-92,584	0	-92,584	0	-92,584
5.05.02	Other comprehensive income	0	0	0	616	28,709	29,325	0	29,325
5.05.02.04	Translation adjustments in the period	0	0	0	0	29,325	29,325	0	29,325
5.05.02.06	Realization of equity valuation adjustments	0	0	0	616	-616	0	0	0
5.07	Closing balances	404,489	-40,996	0	-1,046,238	172,618	-510,127	0	-510,127

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

(In thousands of reais)

Code of account	Account description	Paid-up capital	Capital reserves, options granted and treasury shares	Profit reserves	Retained earnings (losses)	Other comprehensive income	Shareholders' equity	Non-controlling interest	Consolidated shareholders' equity
5.01	Opening balances	394,141	-40,996	0	-668,102	143,056	-171,901	0	-171,901
5.03	Adjusted opening balances	394,141	-40,996	0	-668,102	143,056	-171,901	0	-171,901
5.04	Capital transactions with partners	10,348	0	0	0	0	10,348	0	10,348
5.04.01	Capital increases	10,348	0	0	0	0	10,348	0	10,348
5.05	Total comprehensive income	0	0	0	-31,122	2,459	-28,663	0	-28,663
5.05.01	Net income for the period	0	0	0	-31,905	0	-31,905	0	-31,905
5.05.02	Other comprehensive income	0	0	0	783	2,459	3,242	0	3,242
5.05.02.04	Translation adjustments in the period	0	0	0	0	3,242	3,242	0	3,242
5.05.02.06	Realization of equity valuation adjustments	0	0	0	783	-783	0	0	0
5.07	Closing balances	404,489	-40,996	0	-699,224	145,515	-190,216	0	-190,216

Performance comment

Consolidated financial statements/ Statement of added value

(In thousands of reais)

Code of account	Account description	Accumulated of the current year 01/01/2018–06/30/2018	Accumulated of the prior year 01/01/2017–06/30/2017
7.01	Income	538,500	449,094
7.01.01	Sale of merchandise, products and services	518,859	418,921
7.01.02	Other income	19,503	27,404
7.01.04	Formation/reversal of allowance for doubtful accounts	138	2,769
7.02	Inputs acquired from third parties	-318,729	-312,817
7.02.01	Cost of products, merchandise and services sold	-270,287	-251,379
7.02.02	Materials, Energy, Third-party services and other	-48,442	-61,438
7.03	Gross added value	219,771	136,277
7.04	Retentions	-16,657	-17,729
7.04.01	Depreciation, amortization and depletion	-16,657	-17,729
7.05	Net added value produced	203,114	118,548
7.06	Added value received as transfer	18,626	20,180
7.06.02	Financial income	18,626	20,180
7.07	Total added value payable	221,740	138,728
7.08	Distribution of added value	221,740	138,728
7.08.01	Personnel	81,023	89,543
7.08.01.01	Direct remuneration	69,286	73,841
7.08.01.02	Benefits	8,169	11,269
7.08.01.03	Severance Pay Fund (FGTS)	3,568	4,433
7.08.02	Taxes, duties and contributions	73,523	954
7.08.02.01	Federal	54,276	-12,117
7.08.02.02	State	19,065	12,912
7.08.02.03	Municipal	182	159
7.08.03	Third-party capital remuneration	159,778	80,136
7.08.03.01	Interest	159,422	79,729
7.08.03.02	Rentals	356	407
7.08.05	Other	-92,584	-31,905
7.08.05.01	Retained losses, net of realization of equity valuation adjustments - Continued Operation	-90,026	-30,298
7.08.05.02	Retained losses, net of realization of equity valuation adjustments - Discontinued Operation	-2,558	-1,607

Performance comment

TAURUS™ 2Q18

COMPROMISSO COM A EXCELÊNCIA
[COMMITMENT WITH EXCELLENCE]

PRESS RELEASE

Performance comment

São Leopoldo, August 14, 2018 - Forjas Taurus S.A., listed in Level 2 for B3 Corporate Governance (Symbols: **FJTA3, FJTA4),** one of the world's largest manufacturers of light firearms and domestic leader in motorcycle helmets, as well as acting in area involving M.I.M. *(Metal Injection Molding),* announces the income (loss) for the **second quarter of 2018 (2Q18).**

1. Highlights of the Second Quarter of 2018 ("2Q18")

Quotes - Closing date 06/29/2018

FJTA3 R$ 1.80
FJTA4 R$ 2.11

Number of shares

FJTA3 46,445,314
FJTA4 18,242,898

Market value

R$ 122.1 million

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- ✓ **Consolidated net revenue for the 2Q18 amounted to R$ 200.2 million, an increase of 26.6 % in relation to the 2Q17,** when compared to the **1S18,** with the same period of the prior year an increase of 22.9% is noted, mainly due to the improved performance in the firearms segment, in foreign and Brazilian markets, as well as the appreciation of the US dollar in relation to real.

- ✓ **Consolidated gross margin reported an increase of 4.8 p.p. in the 2Q18 in comparison to the 1Q18, reaching 39.3%,** impacted by the improvement in the company's costs, process initiated by the new management, which results in an increase in profitability of 13.9% when comparing the 2Q18 X 2Q17.

- ✓ **Positive EBITDA in the 2Q18, recording R$ 35.9 million in the period, in the semester the amount represented R$ 73.1 million,** compared to a negative EBTIDA of R$ - 5.4 million in the 1S17, being generated by the Company's firearms operations.

- ✓ **Helmet Operation:** Since 1Q18, the helmet operation, due to the Company's commitment to the disposal thereof, became part of the Discontinued Operations line, thus no longer integrating the Company's consolidated financial information.

Performance comment

2. Economic and financial performance - consolidated

The following table shows the Company's consolidated financial performance in 2Q18 compared with the performance of 1Q18 and 2Q17 periods, with the helmet operation in the line of Net Income from Discontinued Operations, in light of Management's commitment to dispose of this operation. Accordingly, the comparison with periods of 2017 will be made on a Pro-Forma basis, in order to maintain comparability with the current period.

Consolidated Financial and Economic Summary

Indicators	2Q18	2Q17 Pro-Forma	1Q18	1S18	1S17 Pro-Forma	Change 2Q18/2Q17 PF	2Q18/1Q18	2S18/1S17 PF
Net revenue	**200.2**	**158.2**	**231.0**	**431.2**	**350.9**	**26.6%**	**-13.3%**	**22.9%**
Domestic market	13.2	17.3	55.2	68.4	43.4	-23.7%	-76.1%	57.6%
Foreign market	187.0	140.9	175.8	362.8	307.5	32.7%	6.4%	18.0%
CPV	121.5	118.0	151.3	272.8	258.1	3.0%	-19.7%	5.7%
Gross income	78.7	40.2	79.7	158.4	92.7	95.8%	-1.3%	70.9%
Gross margin - %	**39.3%**	**25.4%**	**34.5%**	**36.7%**	**26.4%**	**13.9 p.p.**	**4.8 p.p.**	**10.3 p.p.**
Operating expenses - SG&A	-51.6	-54.1	-50.5	-102.1	-110.6	-4.6%	2.2%	-7.7%
Operating income (EBIT)	27.1	-13.9	29.2	56.3	-17.9	-295.0%	-7.2%	-414.5%
EBIT margin %	**13.5%**	**-8.8%**	**12.6%**	**13.1%**	**-5.1%**	**22.3 p.p.**	**0.9 p.p.**	**18.2 p.p.**
Net financial income (loss)	-118.6	-59.8	-26.2	-144.8	-67.2	98.3%	352.7%	115.5%
Depreciation and amortization	8.7	8.5	8.0	16.7	17.7	2.7%	8.7%	-5.6%
Net income (loss) from continued operations	-91.1	-22.6	1.0	-90.1	-82.6	303.1%	-	9.1%
Net Margin Cont. Oper. - %	**-45.5%**	**-14.3%**	**0.4%**	**-20.9%**	**-23.5%**	**2.2 p.p.**	**-45.9 p.p.**	**2.6 p.p.**
Net income (loss) from discontinued operations	-2.8	-2.9	0.2	-2.6	-2.4	-3.2%	-	-
Consolidated income / loss	-93.8	-25.5	1.2	-92.6	-29.5	268.4%	-	-
Consolidated Net Margin - %	**-46.8%**	**-3.3%**	**0.5%**	**-21.5%**	**-8.1%**	**-43.5 p.p.**	**-47.4 p.p.**	**-13.4 p.p.**
EBITDA	35.9	-5.4	37.2	73.1	-0.2	-761.3%	-3.5%	-
EBITDA Margin – %	**17.9%**	**-3.4%**	**16.1%**	**17.0%**	**0.4%**	**21.4 p.p.**	**1.8 p.p.**	**16.6 p.p.**
Total assets	934.7	934.7	777.5	934.7	934.7	0.0%	20.2%	0.0%
Unsecured liability	-510.1	-190.2	-444.8	-510.1	-190.2	168.2%	14.7%	168.2%

1 - Non-accounting measurement calculated in accordance with CVM Instruction 527.
2 - Non-accounting measurement prepared by the Company.
Note: The EBITDA (Income before interest, taxes, depreciation and amortization) is not a measurement used in the accounting practices, and neither represents the cash flow for the reported periods, and should not be considered as alternative to cash flow as liquidity indicator. The Company reports the adjusted EBITDA to provide additional information on cash generation in the period.

Reconciliation of consolidated EBTIDA	2Q18	2Q17 Pro-Forma	1Q18	1S18	1S17 Pro-Forma
EBTIDA- CVM Instruction[1]	35.9	-5.4	37.2	73.1	-0.2
Depreciation and amortization	8.7	8.5	8.0	16.7	17.7
Net income before financial income (loss) and	27.2	-13.9	29.2	56.4	-17.8

1 - Non-accounting measurement calculated in accordance with CVM Instruction 527.
2 - Accounting Measurement disclosed in Consolidated Statements of Income

Performance comment

Net revenue

In 2Q18, the Company's consolidated net revenue totaled R$ 200.2 million, an increase of 26.6% in relation to 2Q17 mainly due to the sale to foreign market where the launching of new products represented a significant portion of such increase. When we compare the net revenue for the 1S18 with the 1S17, sales increased 22.9%, with positive outstanding performance in the domestic market. This increase shows the restoration of the brand's credibility in the domestic market with the resumption of purchases from institutions, particularly the police, which confirms the strong reliance on the new products launched by Taurus. In the foreign market, it is worth emphasizing the appreciation of the US dollar in relation to the Reais by 16.5% in the period.

It is also worth noting sales of new products, which have already shown material representativeness in the Company's income this quarter, especially the T4 Carbine, new G2c and Spectrum Pistol, the latter exclusively produced in United States.

In the US, the firearms market remained very competitive, with purchase intention rates showing reduction in the compared periods; however, the Company showed better results in that market in the 1S18 in relation to the 1S17. As a result, US sales increased by 9.4% in the first six months of 2018 compared to the same period in 2017, showing an strength of the new products launched in this market.

Information per business segment

The following table shows consolidated net revenue and gross margin per segment.

Quarterly Comparison - Current vs. Previous Quarter

	Net revenue					Gross margin		
	2Q18	Int. %	1Q18	Int. %	Change	2Q18	1Q18	Change
Firearms	197.8	90%	227.2	90%	-12.9%	38.5%	33.8%	4.7 p.p.
Other	2.5	1%	3.8	2%	-35.2%	101.5%	73.7%	27.9 p.p.

Quarterly Comparison - Current vs. Previous Quarter

	Net revenue					Gross margin		
	2Q18	Int. %	2Q17	Int. %	Change	2Q18	2Q17	Change
Firearms	197.8	90%	154.6	85%	27.9%	38.5%	24.6%	13.9 p.p.
Other	2.5	1%	4.0	2%	-38.5%	101.5%	62.5%	39.0 p.p.

Semi-annual comparison

	Net revenue					Gross margin		
	1S18	Int. %	1S17	Int. %	Change	1S18	1S17	Change
Firearms	425.0	90%	340.2	86%	24.9%	36.0%	26.2%	9.8 p.p.
Other	6.3	1%	10.7	3%	-41.5%	84.6%	30.8%	53.8 p.p.

Performance comment

I. Firearms

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

NET REVENUE In millions of R$	2Q18	2Q17	1Q18	1S18	1S17	Change 2Q18/2Q17	Change 2Q18/1Q18	Change 1S18/1S17
Firearms	**197.8**	**154.6**	**227.2**	**425.0**	**340.2**	**27.9%**	**-12.9%**	**24.9%**
Brazil	**32.5**	**15.0**	**32.2**	**64.7**	**34.5**	**116.7%**	**0.9%**	**87.5%**
Exports	**165.3**	**139.6**	**195.0**	**360.3**	**305.7**	**18.4%**	**-15.2%**	**17.9%**
United States	154.2	131.2	167.8	322.0	294.2	17.5%	-8.1%	9.4%
Other countries	11.1	8.4	27.2	38.3	11.5	32.1%	-59.2%	233.0%

Net sales of firearms amounted to R$ 197.8 million in 2Q18, 27.9% higher than in the same period of prior year of last year, 2Q17. It is mainly due to the sales efforts in the domestic and foreign markets, with increase of 116.7% and 18.4%, respectively. Such increase is the result of a Company's diversification of the portfolio, as well as the appropriate return of institutional purchases and increase in the individual sales segment, which includes police officers in general, magistrates, and HSCs (hunters, shooters and collectors), who purchase a firearm for private use. Following a trend set in the 1Q18. The figures show the restoration of the company's credibility and perception of the quality of the products manufactured by the company.

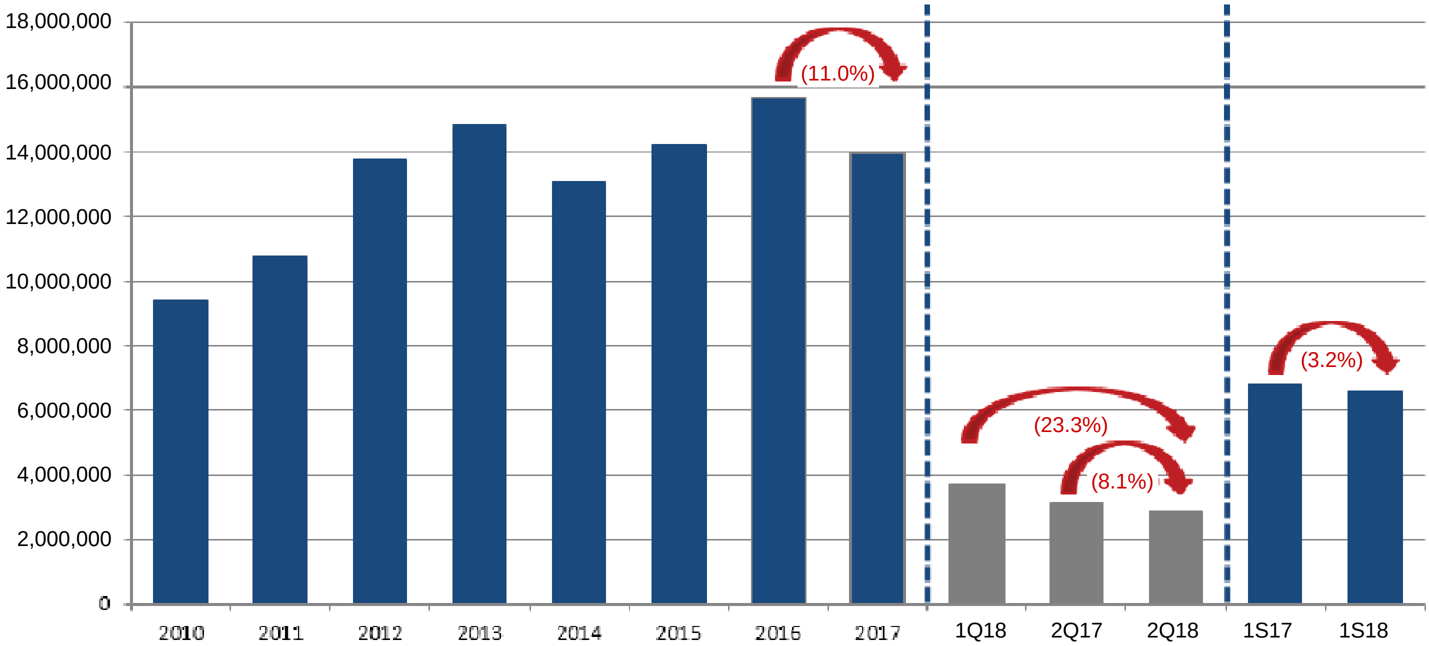
In the US, the Company has worked towards improving operations, when comparing the 1S18 in relation to 1S17, it is noted an improvement in net revenue by 9.4% in the period, leveraged by the new products sold in the US market. Highlighting the Spectrum Pistol and the new G2C Pistol.

Also noteworthy is the US market performance as measured by the Adjusted NICS (National Instant Criminal Background Check System) indicator, below, which allows one to determine intentions for firearm purchases in the US. This indicator showed a decrease in the compared period. In the comparison of the 1S18 with the 1S17, it was noted a slowdown in the drop between the indicated period; however, the Company's sales in the US reported a growth of 9.4%, when we compare to the same period. This result takes on special importance, in that the US market went through a period of normalization of demand in 2017 with the election of Donald Trump, a matter discussed in previous releases.

Performance comment

Adjusted NICS - *National Instant Background Check System*

Number of inquiries



Sales to other countries recorded a significant a 233.0% growth in 1S18 compared to the same period of 2017, totaling R$ 38.3 million, representing an strengthening of the Company in other markets and strategy to diversify the Company's portfolio.

In the 2Q18, the gross margin of firearms stood at 39.3%, and 13.9 p.p. above that reported in the 2Q17, a result of the cost reduction processes initiated in the 1Q18 that has been consolidating and producing consistent results during the year 2018.

This result demonstrates new Management's efforts to seek greater efficiency in the Company's cost framework vis-á-vis the increase in profitability.

II. Other

Starting in January/18, this segment is composed exclusively of parts made via Metal Injection Molding (MIM).

						Change		
NET REVENUE In millions of R$	**2Q18**	**2Q17**	**1Q18**	**1S18**	**1S17**	**2Q18/2Q17**	**2Q18/1Q18**	**1S18/1S17**
Other	**2.5**	**4.0**	**3.8**	**6.2**	**10.5**	**-37.5%**	**-34.2%**	**-41.0%**
Brazil	**2.5**	**2.7**	**2.5**	**6.2**	**8.8**	**-7.4%**	**0.0%**	**-29.5%**
Exports	**-**	**1.3**	**1.3**	**-**	**1.7**	**-**	**-**	**-23.5%**

This segment presented R$ 2.5 million in net sales in 2Q18, a 37.5% decline in relation to 2Q17. This segment has little representation in the Company's income, and presents specific demands. It is worth mentioning that the plastics operation was discontinued in January 2018, causing this segment to operate exclusively with operations of parts made via Metal Injection Molding (MIM) since that time.

Performance comment

Operating expenses

In 2Q18, operating expenses were R$ 51.6 million, 4.6% lower than in 2Q17 Pro-Forma. Regarding net revenue, operating expenses in 2Q18 represented 25.8%, 8.4 p.p. lower than in 2Q17 Pro-forma. This result demonstrates Management's efforts to resize the Company's expense framework and the constant focus on the increase in profitability.

OPERATING EXPENSES (SG&A)
In millions of R$

	2Q18	2Q17 PRO-FORMA	1Q18	1S18	1S17 PRO-FORMA	2Q18 x 2Q17	2Q18 v 1Q18	1S18 x 1S17 PF
Operating expenses	51.6	54.1	50.5	102.1	110.6	-4.6%	2.2%	-7.7%
Net revenue	200.2	158.2	231.0	431.2	350.9	26.6%	-13.3%	22.9%
% Operating expenses	25.8%	34.2%	21.9%	23.7%	31.5%	-8.4 p.p.	17.8%	-7.8 p.p.

EBITDA

The Company's cash generation measured by EBITDA in 2Q18 was R$ 35.9 million and in the first six months of the year recorded R$ 73.1 million, having been generated strictly by the Company's regular firearms operation. It is worth emphasizing that this result was the best for the first semester since 2009. The margin was 17.9% in the 2Q18, showing an evolution of 1.8 p.p. in relation to the 1Q18.

CONSOLIDATED EBITDA
In millions of R$

	2Q18	2Q17 PRO-FORMA	1Q18	1S18	1S17 PRO-FORMA	2Q18 x 2Q17	2Q18 v 1Q18	1S18 x 1S17 PF
= Income from continued operations	(93.8)	(25.5)	1.2	(92.6)	(29.5)	267.8%	-	213.9%
(+)IR/CSLL	2.4	(48.2)	1.8	4.2	(55.2)	-105.0%	33.3%	-
(+) Net financial income.	118.6	59.8	26.2	144.8	67.2	98.3%	352.7%	115.5%
(+) Depreciation/amortization	8.7	8.5	8.0	16.7	17.7	2.4%	8.7%	-5.6%
= EBITDA	**35.9**	**(5.4)**	**37.2**	**73.1**	**0.2**	**-**	**-**	-
EBITDA margin	**17.9%**	**3.4%**	**16.1%**	**17.0%**	**0.4%**	**21.4 p.p.**	**1.8 p.p.**	**16.6 p.p.**

Performance comment

Income (loss) Consolidated

In the 2Q18, the Company recorded loss of R$ 91.0 million, against a profit of R$ 1.0 million in the 1Q18, this result was strongly impacted by the Net financial income (loss), mainly due to the appreciation of the US dollar in relation to the real.

3. Financial position

In Jun/18, the Company reported gross indebtedness of R$ 815.5 million 11.0% above the result for Jun/17, and when compared to Mar/18, it showed an increase of 15.6%. The Company's cash and cash equivalents and interest earning bank deposits in Jun/18 amounted to R$ 9.8 million, reporting results below those at the periods Jun/17 and Mar/18, 38.4% and 64.6%, respectively. Taurus's short-term maturities totaled R$ 675.9 million in Jun/2018, and long-term maturities totaled R$ 139.6 million in the period. The Company's short-term maturity dates were renegotiated, extending the debt profile, establishing new grace period, for further information, please see item 6 Subsequent Event. Below is a breakdown of Taurus's indebtedness in Jun/18.

Indebtedness
In millions of R$

INDEBTEDNESS		Jun 2018	Jun 2017	Mar 2018	Jun 2018 x Jun 2017	Jun 2018 x Mar 2018
Short term	Loans and financing	578.2	80.4	470.1	619.2%	23.0%
	Debentures	81.1	12.5	77.9	548.8%	4.1%
	Advance from receivables	0.5	11.9	1.5	-95.8%	-66.7%
	Foreign exchange withdrawals	15.6	21.8	25.5	-28.4%	-38.8%
	Financial instruments	0.5	0.4	0.1	25.0%	400.0%
	TOTAL SHORT-TERM	**675.9**	**127.0**	**575.1**	**432.2%**	**17.5%**
Long term	Loans and financing	139.6	544.8	130.6	-74.4%	6.9%
	Debentures	0.0	63.0	0.0	-	-
	TOTAL LONG-TERM	**139.6**	**607.8**	**130.6**	**-77.0%**	**6.9%**
TOTAL DEBT		**815.5**	**734.8**	**705.7**	**11.0%**	**15.6%**
Cash and cash equivalents and interest earning bank deposits		9.8	15.9	27.7	-38.4%	-64.6%
Net indebtedness		**805.7**	**718.9**	**678.0**	**12.1%**	**18.8%**

Performance comment

4. Capital market and corporate governance

Forjas Taurus S.A. is a publicly-held Brazilian company, listed at B3 S.A. - Brasil, Bolsa, Balcão (Symbols: FJTA3, FJTA4) for more than 30 years, and since July/2011 has been ranked Level 2 in Corporate Governance. Below shows the evolution of share value and the market value of Taurus. In the end of 2Q18 the Company's preferred shares had an appreciation of 22.7% as compared to 2Q17. As for common shares, 7.1% had an appreciation over the same period. As a result, the Company's market value, recorded a growth of 11.6% in 2Q18, compared to 2Q17, reaching R$ 122.1 million. In 2Q18, when compared to the 1Q18, preferred and common shares devaluated -13.0% and -3.7%, respectively. Likewise, the Company's market value recorded a decrease of -10.3%, lower than the IBOVESPA index, which in the same period showed a decrease of -14.8%.

PERFORMANCE OF SHARES AND MARKET VALUE

				Change	
Share quotation Closure	**2Q18**	**2Q17**	**1Q18**	**2Q18x2Q17**	**2Q18x1Q18**
ON - FJTA3	R$ 1.80	R$ 1.68	R$ 2.07	7.1%	-13.0%
Preferred shares - FJTA4	R$ 2.11	R$ 1.72	R$ 2.19	22.7%	-3.7%
IBOVESPA	72,763	62,900	85,366	15.7%	-14.8%

Market value In millions of R$	**2Q18**	**2Q17**	**1Q18**	**2Q18x2Q17**	**2Q18x1Q18**
ON - FJTA3	R$ 83.6	R$ 78.0	R$ 96.1	7.1%	-13.0%
Preferred shares - FJTA4	R$ 38.5	R$ 31.4	R$ 40.0	22.7%	-3.7%
TOTAL	R$ 122.1	R$ 109.4	R$ 136.1	11.6%	-10.3%

5. Discontinued operation

Helmets

In March 2018, Company Management assumed the commitment to dispose of the helmets operation. To carry out this process, a specialized consulting firm was engaged. Due to the decision to discontinue the investment, it was classified as "held for sale" and accounted for in accordance with technical pronouncement CPC 31 and IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations; this reclassification has a merely accounting character. The helmet segment continues to operate normally. It is worth remembering that this operation is in guarantee to the renegotiation of debt with the banking syndicate, so the proceeds from this disposal will be used exclusively for the amortization of debts with financial institutions.
The segment of helmets is the second largest in the company, with the production units of Taurus Blindagens Ltda., in Mandirituba/PR, and Taurus Blindagens Nordeste Ltda., in Simoes Filho/BA. Below is the comment on performance for this segment in 2Q18.

Performance comment

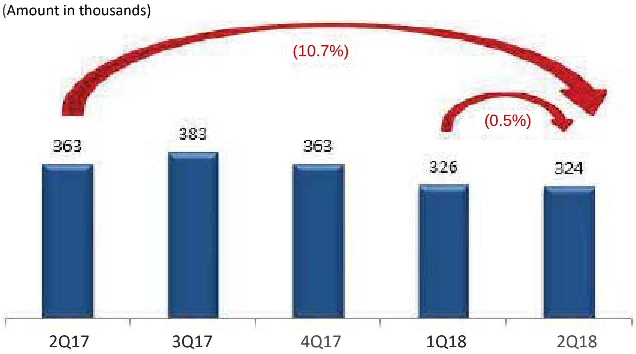
NET REVENUE In millions of R$	2Q18	2Q17	1Q18	1S18	1S17	Change 2Q18/2Q17	Change 2Q18/1Q18	Change 1S18/1S17
Helmets	**20.6**	**22.9**	**20.9**	**41.5**	**43.1**	**-10.0%**	**-1.4%**	**-3.7%**
Brazil	**20.6**	**22.9**	**20.8**	**41.4**	**43.1**	**-10.0%**	**-1.0%**	**-3.9%**

Helmet sales, in the quarter, reached R$ 20.6 million, practically in line with the 1Q18, showing a decrease of 1.4%, when compared to the 2Q17, it showed a decrease of 10.0%. This result reflects the projected reduction of the Gross Domestic Product (GDP) for the year 2018.

Sales of helmets in 1S18 reached R$ 41.5 million, 3.7% lower than the sales recorded in 1S17. Considering that this segment has strong correlation with the economy's performance, this decrease reflects the worsening of the expectation of the recovery of growth of the country's domestic economy.

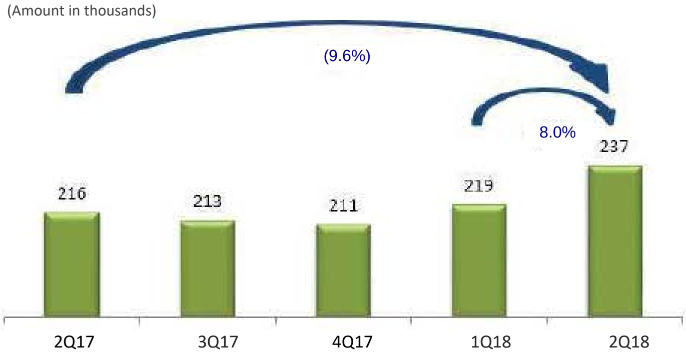
In the graph below, comparing the evolution of the Company's physical sales of helmets with the physical sales of motorcycles in Brazil, in the period of 2Q18 compared to 2Q17, we notice a decrease of 10.7% in the Company's physical sales of helmets, and an increase of 9.6% in sales of motorcycles in the period. In comparison with 2Q18 and 1Q18, physical sales of helmets in the quarter presented a stability with a slight fall by 0.5%, while motorcycle sales advanced by 8.0% in the same period.

The evolution of Physical Sales of Taurus Helmets
(Amount in thousands)



Source: Company's information

Growth of Physical Sales of Motorcycles in Brazil
(Amount in thousands)



Source; *Fenabrave*

Performance comment

Quarterly Comparison - Current vs. Previous Quarter

	Net revenue					Gross margin		
	2Q18	Int.%	1Q18	Int.%	Change	2Q18	1Q18	Change
Helmets	20.7	9%	20.8	8%	-0.6%	32.9%	35.6%	-2.7 p.p.

Quarterly Comparison - Current vs. Previous Quarter

	Net revenue					Gross margin		
	2Q18	Int.%	2Q17	Int.%	Change	2Q18	2Q17	Change
Helmets	20.7	9%	22.9	13%	-9.7%	32.9%	28.8%	4.1 p.p.

Semi-annual comparison

	Net revenue					Gross margin		
	1S18	Int.%	1S17	Int.%	Change	1S18	1S17	Change
Helmets	41.5	9%	43.0	12%	-3.6%	34.2%	29.5%	4.7 p.p.

6. Subsequent event -

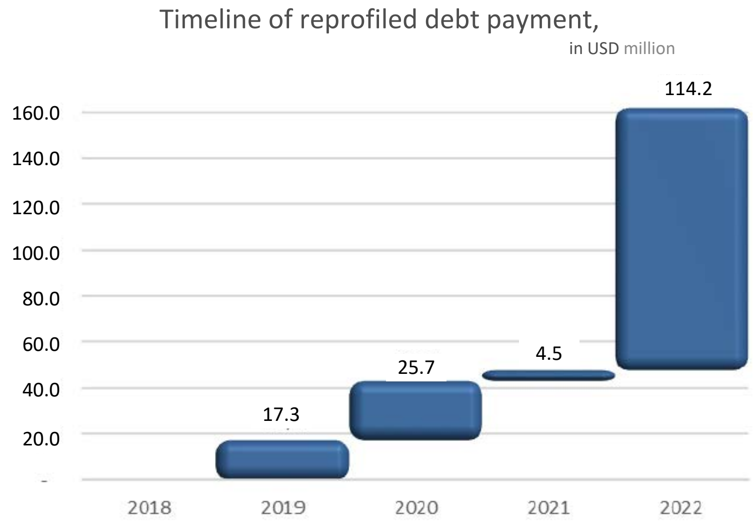
On July 18, 2018, the Company published a Material Fact informing about the process of formalization and signature of funding contracts aimed at debt payment and/or reprofiling with certain Financial Institutions, as well as of its 3W debenture public offering ("Creditors" and "Transaction").

The terms of the Operation include the extension of the maturity term of debts with Creditors in the approximate amount of US$ 161.8 million. The Transaction’s total period is five (5) years, with grace period for principal and interest payments in the year 2018. The amortization of principal and interests will be performed in monthly payments, beginning on January 21, 2019.

The operations was formed following the real guarantees: (i) conditional sale of the totality of shares of Taurus Blindagens Ltda. and Taurus Blindagens Nordeste Ltda. ("Conditional Sale"); (ii) 2nd degree mortgage of two properties located in Mandirituba, PR, and two properties located in Porto Alegre, RS, and 1st degree mortgage of one property located in São Leopoldo, RS ("Mortgage"); and (iii) lien of the credit receivables arising from all funds from the occasional sale of the shares that are the subject of the Lien and Mortgage, as well as the rights inherent in the ownership of the Company’s restricted account to be opened with the purpose of receiving funds.

The conclusion of this Operation represents an important step in the process of restructuring of Company’s indebtedness, reduction of financial costs, creating new conditions for the Company to concentrate efforts in its operating and financial development and strengthening.

Performance comment



Notes to the financial statements

1. Operations

Forjas Taurus S.A. (“Company”) headquartered in São Leopoldo/RS, a Brazilian publicly-held company for more than 30 years, and since 2011, ranked Level 2 in Corporate Governance of B3 (former BM&FBOVESPA) (trading symbols are FJTA3, FJTA4).

The Company operates in the segments of Firearms and Accessories and Metal Injection Molding (MIM), with two industrial plants, one in Brazil, located in the state of Rio Grande do Sul, and another in Miami, Florida, USA.

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

Abroad, besides distributing products of the TAURUS and ROSSI trademarks produced in Brazil, the Miami unit manufactures models of TAURUS pistols and HERITAGE revolvers. Sales to the United States cover, mainly, the U.S. civil market and government bodies in the other regions.

In March 2018, Company Management assumed the commitment to dispose of the helmets operation. To carry out this process, a specialized consulting firm was engaged. Due to the decision to sell the investment, it was classified as “held for sale” and accounted for according to technical pronouncement CPC 31 and IFRS 5 - Non-Current Assets Held for Sale and Discontinued Operations. The helmet operation has two production units, one in Mandirituba, Paraná, and another in Simões Filho, Bahia.

The consolidated statements of income for the quarter ended June 30, 2018 show the results of the helmets operation in a single line, as a net income (loss) from discontinued operations. The consolidated statement of income for the quarter ended June 30, 2017 was reclassified for comparability.

Uncertainty related to the Company’s going concern

In the quarter ended June 30, 2018, the Company continued endeavoring to improve its operations and the integration with its suppliers in order to improve the cash generation and the recovery of its operating margins. During this period, the Company underwent re-training of manpower, together with improvements in production controls.

In the quarter, the Company presented growth in consolidated net revenue mainly as a result of higher sales on the Brazilian domestic market and exports to other countries (other than the United States). Sales in the United States also showed a slight increase over the same period in the previous year, and already include the impacts of sales of new products. This performance, combined with other efforts to reorganize operations, led to an improvement in the consolidated cash position.

On July 18, 2018, management completed the process of renegotiation and formalization of debt contract renegotiation and signature formalization with the Bank Syndicate (Banco do Brasil, Banco Santander, Banco Itau and Banco Bradesco), as well as the renegotiation process of its 3rd public offering of debentures with Banco Haitong. The terms of the Operation include the extension of the maturity term of debts with Creditors at the equivalent amount of approximately US$ 162.000 million. The operation’s total payment period is now five (5) years, with grace period for payment of principal and interest in the year 2018. The amortization of principal and interest will be made in monthly payments, beginning on January 21, 2019. Transaction costs are Libor (Month) + 3% p.a. in transactions in dollar and CDI + 2.00% for the 3rd Debenture Issue.

The operation is backed by the following real guarantees: (i) lien of all quotas of the companies Taurus Blindagens Ltda. and Taurus Blindagens Nordeste Ltda. (“Conditional Sale”); (ii) 2nd degree mortgage of two properties located in Mandirituba, PR, and two properties located in Porto Alegre, RS, and 1st degree mortgage of one property located in São Leopoldo, RS ("Mortgage"); and (iii) lien of credit receivables arising from all funds from the occasional sale of quotas which are the subject of the Lien and Mortgage, as well as the rights inherent in the ownership of the Company’s restricted account to be opened with the purpose of receiving funds.

Notes to the financial statements

The conclusion of this Operation represents an important step in the process of restructuring of Company's indebtedness, reduction of financial costs, creating new conditions for the Company to concentrate efforts in its operating and financial development and strengthening.

Below, we show the comparative chart of the debt extension effect after renegotiation that will impact on the migration from short-term debt to long-term debt:

	Position of the debt past due considering the original payment schedule as at 06-30-2018		Position of the Debt past due after the renegotiation on 07-31-2018	
	Short term	**Long term**	**Short term**	**Long term**
PPE	241,214	308,845	50,811	499,248
DEBENTURES	38,825	42,243	7,321	73,747
	280,039	**351,088**	**58,132**	**572,995**

As described in Note 18, as at December 31, 2017, the covenant ratios established in the contracts were not complied with, so the classification of borrowing and financing showed in the financial statements as at June 30, 2018, diverges from the one presented above, because, in these financial statements, the total debt amount with the syndicate of banks is fully shown in short term. The above described information aims at demonstrating how the cash disbursement was expected to occur according to the terms of the previous contracts and how it became according to the new agreed terms.

We present below the chart of the renegotiated debt position according to the timeline of maturities:

						Parent company
	Short term	**Long term**				**06/30/2018**
MATURITIES	**2018/2019**	**2019**	**2020**	**2021**	**2022**	**TOTAL**
PPE	50,811	1,952	88,546	15,597	393,153	**550,059**
DEBENTURES	7,321	288	13,079	2,304	58,076	**81,068**
	58,132	**2,240**	**101,625**	**17,901**	**451,229**	**631,127**

As additional option to assist in the economic and financial rebalance, the Company maintains its strategy: (a) divestitures of non-core assets, namely: the helmets operation (historically advantageous and profitable), whose decision of sale and authorization for selling efforts were made by the Board of Directors in March 2018, in addition to a large land in an affluent residential region of Porto Alegre, where the former facilities of the Company were located and; (b) strong restructuring plan, already in course and conducted by specialized consulting firm already contracted.

The aforementioned restructuring plan, which is already in progress, presented positive results in the quarter ended June 30, 2018, and is expected to continue to bring efficiency gains throughout 2018. The plan is divided into 4 areas: i) Renegotiation of Debt; ii) Operating Efficiency, iii) Commercial Efficiency, and (iv) Evaluation of Results. Below is a summary of the actions:

I Renegotiation of Debt (completed):

The debt rescheduling was conducted through direct and extrajudicial renegotiation with creditors, including the following activities:

- Preparation, analysis and validation of operating and financial projections;
- Preparation of negotiation strategies in different scenarios;
- Negotiation with committee of creditors through meetings and presentations;
- Proper formalizations of the process.

Notes to the financial statements

II - Operating Efficiency

On macro basis, revaluation of the Organizational Structure of the Company through analysis of activities and processes, Span of Control and average remuneration:

- Realignment of the structure with the strategic purposes;
- Streamlining of the hierarchical levels for gain of promptness in decision making;
- Normalization of the areas so as to prevent conflicts and redundancies;
- Review of responsibilities and functions of each position;
- Clear definition of the metrics;
- Redesign of the relationship with other units of the company;
- Revaluation of outsourcing of non-core activities;
- Revaluation of service levels;
- Revaluation of the centralization of activities;
- Elimination of activities that do not aggregate value;
- Analyses of gains of efficiency in the processes;
- Intelligent and long-lasting reduction of costs;
- Development of a participatory environment proper to changes.

On a specific manner, the operating planning and management will be segmented as follows with their respective action plans already in course:

<u>CGS - Cost of goods sold</u>

- Analyze the evolution of Variable Costs and general manufacturing costs (GGF) to identify the main deviations and opportunities.

<u>Operating Master Planning:</u>

- Review the S&OP model;
- Improve methodology of demand forecast;
- Review the logical process and model of production and inventory planning.

<u>Efficiency of the Operating Management:</u>

- Review metrics, goals and routines of analysis of results of key indicators of the processes;
- Map critical points of improvement of each process and develop/ implement applicable corrective actions.

<u>Losses of Materials (yield and scrap):</u>

- Identify critical points of improvement and implement applicable corrective actions.

<u>Research and Development:</u>

- Identification of Capex needs;
- Integration with all the industrial units;
- Schedule of actions.

<u>Tools used:</u>

- Explosion of Ideas;
- Data analysis;
- Simulations of scenarios;
- Analyses of Cause/Effect;
- Compensation Matrix.

III – Commercial Efficiency

In order to capture higher gains of efficiency in the commercial area, three areas are being focused as follows:

<u>Market analysis</u>

- Reviewing the pricing model;

Notes to the financial statements

- Mapping of sales channels and analysis of strategies per channel;
- Analysis of opportunities for reduction of the number of *Layers* and approximation of the point of sale.

Portfolio of products
- Performance analysis of the categories of products;
- Analysis for streamlining of SKUs;
- Definition of strategies for low-margin items;
- Definition of the positioning of each category.

Commercial Performance
- Assess the management model of sales routine;
- Revaluation and design of a variable remuneration program to the sales team;
- Restructuring of the monitoring model for attainment of goals.

IV – Evaluation of Results

These initiatives aim to adjust the key processes of Taurus so as to increase the Company’s profitability and competition.

Accordingly, with the definition of roles and responsibilities, performance metrics and a culture of discipline in the performance of action plans, the Company continues to take actions aimed at higher operating and financial efficiency, in order to cover the demand for its products, improve its margins, recover profitability and the balance of its cash flows.

Notes to the financial statements

2. Presentation of quarterly information

2.1. Preparation basis

a) Compliance statement
The Company's individual and consolidated quarterly information was prepared in accordance with CPC 21 (R1) issued by Accounting Pronouncement Committee ("CPC") and IAS 34 - Interim Financial Reporting, issued by International Accounting Standards Board -IASB, as well as with respect to standards disclosed by Securities Commission, applicable to the preparation of Quarterly Information - ITR.

b) Statement of the Board of Directors
The Company management states it has utilized all of the relevant information for its quarterly information and correspond to those of its management.

The issue of individual and consolidated quarterly information was authorized by the Board of Directors on July 10, 2018.

2.2. Basis of consolidation

		Equity interest	
	Country	**06/30/2018**	**12/31/2017**
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 Máquinas-Ferramenta Ltda.*	Brazil	**100.00%**	**100.00%**
Taurus Investimentos Imobiliários Ltda.*	Brazil	**100.00%**	**100.00%**
Polimetal Metalurgia e Plásticos Ltda. *	Brazil	**100.00%**	**100.00%**
T. Investments Co. Inc.*	Panama	**100.00%**	**100.00%**
Taurus Plásticos Ltda.*	Brazil	**100.00%**	**100.00%**

(*) Presented interest represents the percentage directly and indirectly held by the Company in the capital of subsidiaries.

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

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

2.3. Functional and presentation currency

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

Transactions in foreign currency are translated into the functional currency of the Company at the current exchange rates on the dates of the transactions. Monetary assets and liabilities denominated in foreign

Notes to the financial statements

currencies at the reporting date are retranslated into the functional currency at the exchange rate at that date. All differences are reported in the income statement.

3. Significant accounting judgments and sources of uncertainties about estimates

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

Information regarding critical judgments referring to the accounting policies adopted which impact the amounts recognized in the individual and consolidated quarterly information and information on uncertainties, assumptions and estimates are included in the following notes: 9 - Clients (allowance for doubtful accounts), 10 - Inventories (Provision for inventory loss), 13 - Income tax and social contribution, 14 - Assets held for sale (impairment), 16 - Property, plant and equipment (Impairment), 17 - Intangible assets (Impairment), 23 - Provision for civil, labor and tax risks and 24 - Financial instruments.

(i) Measurement of fair value

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

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

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

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

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

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

Notes to the financial statements

4. Significant accounting policies

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

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

a) Financial instruments

(i) Non-derivative financial assets

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

(ii) Non-derivative financial liabilities

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

(iii) Derivative financial instruments

The Company keeps derivative instruments to hedge its exposures to foreign currency and interest rate changes.

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

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

(iv) Impairment

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

b) Statements of added value

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

c) New standards, interpretations and non-standard revisions

New standards or amendments and interpretations will be effective for the years started after January 1, 2019.

(i) CPC 06 (R2) / IFRS 16 Leases

CPC 06 (R2) / IFRS 16 introduces a single model of accounting of leases in the balance sheet to lessees. A lessee recognizes an asset of right of use that represents its right to use the leased asset and a lease liability that represents its obligation to make the lease payments. Optional exemptions are available for short-term leases and low-value items. The lessor's accounting remains similar to the current standard, that is, lessors continue to classify leases as financial or operating leases.

The standard is effective in years starting on or after January 1, 2019.

Notes to the financial statements

The Company intends to initially adopt CPC 06 (R2) / IFRS 16, adopting a modified retrospective approach. Therefore, cumulative effect of adopting CPC 06 (R2) / IFRS 16 will be recognized as an adjustment to retained earnings' opening balance on January 1, 2019, without updating comparative information.

The Company is not obliged to make adjustments for one-lessor leases, except when it refers to an intermediary lessor in a sublease.

5. Financial risk management

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

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

5.1 Credit risk

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

Trade accounts receivable and other credits

The Company and its subsidiaries adopt as a practice the analysis of the financial situation of their counterparties, as well as the definition of credit limits and permanent monitoring of open positions. For the Company's income, sales are not concentrated to a single client, therefore there is no credit risk of concentration.

Credit approvals are analyzed individually before the terms and the standard terms of payment and delivery of the Company are offered. This analysis includes external evaluations and, in some cases, bank references. Purchase limits are established for each client and represent the maximum outstanding amount for which credit approval is not required; these limits are regularly reviewed. Clients who fail to meet the credit limit established by the Company may only operate when there is a settlement of securities. For public bodies, the Company's management individually assesses the ability to pay and the bidding requirements for completion of the sale. The consolidated statement excludes transactions between related parties and, since these transactions are excluded, the Company has no customers that individually represent more than 5% of sales.

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

Credit risk exposure

The maximum credit risk exposure as of the date of quarterly information was as follows:

	Consolidated		Parent company	
	Book value		Book value	
	06/30/2018	12/31/2017	06/30/2018	12/31/2017
Fair value through profit or loss				
Cash and cash equivalents	**6,789**	6,679	**1,355**	2,543
Amortized cost				
Trade accounts receivable	**121,109**	122,611	**87,459**	69,008
Interest earnings bank deposits	**2,982**	2,785	**2,701**	2,530
Total	**130,880**	132,075	**91,515**	74,081

Notes to the financial statements

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

	Consolidated		Parent company	
	Book value		Book value	
	06/30/2018	12/31/2017	06/30/2018	12/31/2017
Domestic - trade accounts receivable (*)	**59,330**	59,734	**44,107**	32,654
United States clients - trade accounts receivable (*)	**63,372**	59,239	**0**	-
Other (*)	**27,659**	34,825	**58,427**	50,784
Total	**150,361**	153,798	**102,534**	83,438

The maximum exposure to credit risk at the reporting date by type of counterparty was:

	Consolidated		Parent company	
	Book value		Book value	
	06/30/2018	12/31/2017	06/30/2018	12/31/2017
Clients - public agencies (*)	**19,603**	16,377	**19,252**	15,009
Clients - distributors (*)	**105,903**	119,776	**58,427**	50,784
End clients (*)	**24,855**	17,645	**24,855**	17,645
Total	**150,361**	153,798	**102,534**	83,438

* Customer balances are presented without considering the provision for losses (see Note 9).

Notes to the financial statements

Provision for estimated losses
Pursuant to CPC 48 / IFRS 9, the provision for expected losses considers the internal risk assessment indicator, which captures the client's behavior and the uncertainties of the macroeconomic context.

						Consolidated
			06/30/2018			12/31/2017
	Portfolio	Provision	% Coverage	Portfolio	Provision	% Coverage
Not overdue	**70,447**	**(2,320)**	**3.3%**	98,314	(2,349)	2.4%
Overdue (in days)						
0–30	**13,669**	**(390)**	**2.9%**	8,628	(1,132)	13.1%
31–60	**6,461**	**(320)**	**5.0%**	4,180	(275)	6.6%
61–90	**6,777**	**(840)**	**12.4%**	2,052	(295)	14.4%
91–180	**14,484**	**(1,747)**	**12.1%**	5,218	(2,633)	50.5%
181–360	**8,554**	**(2,124)**	**24.8%**	4,636	(1,897)	40.9%
>360	**29,971**	**(21,511)**	**71.8%**	30,770	(22,607)	73.5%
Total	**150,361**	(29,252)		153,798	(31,188)	

						Parent company
			06/30/2018			12/31/2017
	Portfolio	Provision	% Coverage	Portfolio	Provision	% Coverage
Not overdue	**51,051**	**(2,296)**	**4.5%**	16,452	(1,505)	9.1%
Overdue (in days)						
0–30	**4,817**	**(366)**	**7.6%**	24,421	(1,038)	4.3%
31–60	**3,496**	**(307)**	**8.8%**	3,689	(269)	7.3%
61–90	**6,607**	**(817)**	**12.4%**	7,272	(302)	4.2%
91–180	**12,690**	**(1,675)**	**13.2%**	10,767	(2,622)	24.4%
181–360	**7,856**	**(1,874)**	**23.8%**	3,241	(1,884)	58.1%
>360	**16,018**	**(7,740)**	**48.3%**	17,594	(6,810)	38.7%
Total	**102,534**	(15,075)		83,436	(14,430)	

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

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

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

						Consolidated
						06/30/2018
	Book value	Contractual cash flow	Up to 1 year	1–2 years	2–5 years	>5 years
Non-derivative financial liabilities						
Suppliers	98,777	98,777	98,777	-	-	-
Loans and financing	717,846	723,142	578,218	128,308	6,207	10,410
Debentures	81,068	81,068	81,068	-	-	-
Foreign exchange advances	15,590	15,590	15,590	-	-	-
Advance from receivables	466	466	466	-	-	-
Derivative financial instruments						

Notes to the financial statements

Derivative instruments (liabilities)	54	54	54	-	-	-
	913,801	**919,097**	**774,173**	**128,308**	**6,207**	**10,410**

						Consolidated
						12/31/2017
	Book value	**Contractual cash flow**	**Up to 1 year**	**1–2 years**	**2–5 years**	**>5 years**
Non-derivative financial liabilities						
Suppliers	99,954	99,954	99,954	-	-	-
Loans and financing	616,912	626,382	458,942	150,346	5,022	12,072
Debentures	75,771	93,714	23,012	53,693	17,009	-
Foreign exchange advances	24,193	24,193	24,193	-	-	-
Advance from receivables	15,422	15,422	15,422	-	-	-
Derivative financial instruments						
Derivative instruments (liabilities)	242	242	242	-	-	-
	832,494	**859,907**	**621,765**	**204,039**	**22,031**	**12,072**

						Parent company
						06/30/2018
	Book value	**Contractual cash flow**	**Up to 1 year**	**1–2 years**	**2–5 years**	**>5 years**
Non-derivative financial liabilities						
Suppliers	142,604	142,604	142,604	-	-	-
Loans and financing	615,632	632,640	591,462	41,161	17	-
Debentures	81,068	81,068	81,068	-	-	-
Foreign exchange advances	15,590	15,590	15,590	-	-	-
Advance from receivables	466	466	466	-	-	-
	855,360	**872,368**	**831,190**	**41,161**	**17**	**-**

						Parent company
						12/31/2017
	Book value	**Contractual cash flow**	**Up to 1 year**	**1–2 years**	**2–5 years**	**>5 years**
Non-derivative financial liabilities						
Suppliers	134,832	134,832	134,832	-	-	-
Loans and financing	500,519	561,254	134,670	342,887	83,697	-
Debentures	75,771	93,713	23,012	53,693	17,008	-
Foreign exchange advances	24,193	24,193	24,193	-	-	-
Advance from receivables	1,535	1,535	1,535	-	-	-
	736,850	**815,527**	**318,242**	**396,580**	**100,705**	**-**

5.3 Market risk

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

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

(i) Currency risk (foreign exchange)

Notes to the financial statements

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

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

Sensitivity analysis

The probable base scenario for 2018 was defined through assumptions available in the market (source: Brazilian Central Bank Focus), and sensitivity calculation considered the change between rates of the scenario foreseen for 2018 and those prevailing in 2017.

The sensitivity analysis also considered a change from 25% to 50% on exchange-rate change considered in the probable scenario.

Currencies and ratios		Rate 2018	Probable scenario	Possible scenario Δ 25%	Remote scenario Δ 50%
US dollar	Write-off	**3.8558**	3.7000	2.7750	1.8500
US dollar	Increase	**3.8558**	3.7000	4.6250	5.5500

Awareness of the changes in the foreign currency:

		Balance at 2018	Probable scenario	Possible (25%)	Remote scenario (50%)
Assets - Depreciation of Dollar					
Accounts receivable	Dollar – USD	**23,609**	(954)	(6,618)	(12,281)
Liabilities - Increase in Dollar					
Loans and financing	Dollar – USD	**(182,541)**	7,376	(36,415)	(80,207)
Suppliers	Dollar – USD	**(8,864)**	358	(1,768)	(3,895)
Foreign exchange advances	Dollar – USD	**(4,043)**	163	(807)	(1,776)
Advances from clients	Dollar – USD	**(25,962)**	1,049	(5,179)	(11,407)
Other	Dollar – USD	**(219)**	9	(44)	(96)

					Parent company
		Balance at 2018	Probable scenario	Possible (25%)	Remote scenario (50%)
Assets - Depreciation of Dollar					
Accounts receivable	Dollar – USD	**15,153**	(612)	(4,247)	(7,883)
Liabilities - Increase in Dollar					
Loans and financing	Dollar – USD	**(156,032)**	6,305	(31,127)	(68,559)
Suppliers	Dollar – USD	**(4,384)**	177	(875)	(1,926)
Foreign exchange advances	Dollar – USD	**(4,043)**	163	(807)	(1,776)
Advances from clients	Dollar – USD	**(25,802)**	1,043	(5,147)	(11,337)
Other	Dollar – USD	**(348)**	14	(69)	(153)

For the asset balances, an analysis was conducted considering a downturn in the foreign exchange rate and losses arising from a negative change in the currency, while for the liabilities balances, an analysis was conducted considering an upturn in the foreign exchange rate and the losses arising from a positive change in the currency.

(ii) Interest rate risk

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

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

Notes to the financial statements

As of June 30, 2018, the management considered the probable scenario for 2018 is a CDI rate of 6.39% and TJLP of 6.60%. The probable rate was then adjusted at 25% and 50%, as parameter for possible and remote scenarios, respectively. The scenarios below were estimated for the period of 1 year:

Currency	2018	Probable scenario	Possible scenario Δ 25%	Remote scenario Δ 50%
CDI - write-off	6.39%	6.40%	4.80%	3.20%
Rise in the CDI rate	6.39%	6.40%	8.00%	9.60%
TJLP	6.60%	6.63%	8.29%	9.95%
SELIC	6.40%	6.50%	8.13%	9.75%
LIBOR - 30 days	2.09%	2.09%	2.62%	3.14%
LIBOR 3 months	2.33%	2.33%	2.92%	3.50%
LIBOR 6 months	2.50%	2.50%	3.13%	3.75%

					Consolidated Gain (Loss)
	Index	Balance at 06/30/2018	Probable scenario	Possible scenario	Remote scenario
Liabilities					
Interest earnings bank deposits	CDI - write-off	3,929	0	(62)	(125)
Loans	Rise in the CDI rate	(143,917)	(14)	(2,317)	(4,620)
Loans	TJLP	(5,292)	(2)	(89)	(177)
LIBOR - 30 DAYS	LIBOR - 30 DAYS	(85,219)	-	(446)	(892)
LIBOR 3 months	LIBOR 3 months	(538,781)	-	(3,144)	(6,289)
Taxes in installments	SELIC	(6,940)	(7)	(120)	(232)

					Parent company Gain (Loss)
	Index	Balance at 06/30/2018	Probable scenario	Possible scenario	Remote scenario
Liabilities					
Interest earnings bank deposits	CDI - write-off	3,627	0	(58)	(116)
Loans	CDI - write-off	(20,709)	(2)	329	661
Loans	Rise in the CDI rate	(143,917)	(14)	(2,317)	(4,620)
Loans	TJLP	(5,292)	(2)	(89)	(177)
LIBOR 3 months	LIBOR 3 months	(538,781)	-	(3,144)	(6,289)
Taxes in installments	SELIC	(5,933)	(6)	(102)	(199)

5.4 Capital management

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

	Consolidated	
	06/30/2018	**12/31/2017**
Total liabilities	**1,327,609**	1,214,191
Less: Cash and cash equivalents and interest earning bank deposits	**(9,771)**	(9,464)
Net debt	**1,317,838**	1,204,727
Total shareholders' equity	**(510,127)**	(445,233)

Notes to the financial statements

6. Operating segments

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

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

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

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

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

Notes to the financial statements

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

	Firearms		Other		Total		Helmets (a)		Total	
	06/30/2018	06/30/2017	**06/30/2018**	06/30/2017	**06/30/2018**	06/30/2017	**06/30/2018**	06/30/2017	**06/30/2018**	06/30/2017
External income	**424,981**	340,250	**6,262**	10,634	**431,243**	383,301	**41,472**	43,051	**472,715**	393,935
Inter-segment income	**281,460**	343,944	**1,497**	2,456	**282,957**	350,593	**4,499**	6,649	**287,456**	353,049
Cost of sales	**(271,710)**	(250,951)	**(1,088)**	(7,189)	**(272,798)**	(281,381)	**(27,402)**	(30,430)	**(300,200)**	(288,570)
Gross income (loss)	**434,731**	433,243	**6,671**	5,901	**441,402**	452,513	**18,569**	19,270	**459,971**	458,414
Sales expenses	**(47,848)**	(46,129)	**(691)**	(758)	**(48,539)**	(54,889)	**(7,587)**	(8,760)	**(56,126)**	(55,647)
General and administrative expense	**(55,898)**	(61,399)	**(3,061)**	(1,812)	**(58,959)**	(65,677)	**(4,392)**	(4,278)	**(63,351)**	(67,489)
Depreciation and amortization	**(251)**	(521)	**(1,567)**	(9)	**(1,818)**	(789)	**-**	(268)	**(1,818)**	(798)
Other operating income (expenses), net	**3,937**	1,380	**3,207**	1,083	**7,144**	1,180	**(43)**	(200)	**7,101**	2,263
Equity in net income of subsidiaries		-	**-**	(624)	**-**			624		
	(100,060)	(106,669)	**(2,112)**	(2,120)	**(102,172)**	(120,175)	**(12,022)**	(12,882)	**(114,194)**	(121,671)
Operating income (loss)	**334,671**	326,574	**4,559**	3,781	**339,230**	332,338	**6,547**	6,388	**345,777**	336,743
Financial income	**18,754**	5,287	**(128)**	(3,967)	**18,626**	9,895	**(1,389)**	4,608	**17,237**	5,928
Financial expenses	**(157,964)**	(73,288)	**(5,423)**	747	**(163,387)**	(75,491)	**(3,051)**	(2,203)	**(166,438)**	(74,744)
Net financial income (loss)	**(139,210)**	(68,001)	**(5,551)**	(3,220)	**(144,761)**	(65,596)	**(4,440)**	2,405	**(149,201)**	(68,816)
Income (loss) per segment subject to be disclosed before income and social contribution taxes	**195,461**	258,573	**(992)**	561	**194,469**	266,742	**2,107**	8,793	**196,576**	267,927
Elimination of inter-segment income	**(281,460)**	(343,944)	**(1,497)**	(2,456)	**(282,957)**	(350,593)	**(4,499)**	(6,649)	**(287,456)**	(353,049)
Income (loss) before income tax and social contribution	**(85,999)**	(85,371)	**(2,489)**	(1,895)	**(88,488)**	(83,851)	**(2,392)**	2,144	**(90,880)**	(85,122)
Income tax and social contribution	**(1,001)**	46,493	**(535)**	6,655	**(1,536)**	46,562	**(166)**	69	**(1,702)**	53,217
Net income (loss) for the year	**(87,000)**	(38,878)	**(3,024)**	4,760	**(90,024)**	(37,289)	**(2,558)**	2,213	**(92,582)**	(31,905)
Assets of reportable segments	**652,983**	772,781	**91,988**	72,998	**817,482**	861,657	**72,511**	88,876	**817,482**	934,655
Liabilities of reportable segments	**1,266,279**	1,072,465	**22,108**	11,807	**1,327,609**	1,118,600	**39,222**	46,135	**1,327,609**	1,130,407

(a) Helmet Operations reclassified into Discontinued Operations according to Note 26

Notes to the financial statements

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

	Firearms		Helmets	
	06/30/2018	06/30/2017	06/30/2018	06/30/2017
Domestic market				
Southeastern region	**36,913**	21,894	**11,524**	13,193
South region	**11,178**	6,269	**2,016**	2,365
Northeastern region	**6,691**	3,114	**13,571**	14,730
Mid-west region	**3,133**	2,510	**7,117**	6,450
North region	**6,761**	710	**7,206**	6,313
	64,676	34,497	**41,434**	43,051
Foreign market				
United States	**322,019**	294,242	**38**	-
Peru	**267**	1,069		-
Burquina	-	462		-
Honduras	**1,024**	-		-
Oman	**26,691**	-		-
Argentina	**282**	1,557		-
France	**1,531**	1,744		-
Chile	**282**	1,831		-
South Africa	**1,457**	498		-
Germany	**1,733**	926		-
United Kingdom	**63**	-		-
Italy	**446**	779		-
Philippines	**1,594**	714		-
El Salvador	**54**	146		-
Guatemala	-	263		-
Israel	-	151		-
Other countries	**2,864**	1,371		-
	360,307	305,753	**38**	-
	424,981	340,250	**41,472**	43,051

The other segments of the Group have concentrated their sales in the domestic market and have widely distributed products throughout all regions of Brazil. The Company's sales and its subsidiaries do not have any restrictions and do not suffer concentration risk, characterized by a dependence on government agencies or any other client.

7. Cash and cash equivalents

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

	Consolidated		Parent company	
	06/30/2018	12/31/2017	06/30/2018	12/31/2017
Cash balance	**14**	37	**1**	19
Demand deposits	**5,828**	6,257	**428**	2,180
Interest earnings bank deposits	**947**	385	**926**	344
Cash and cash equivalents	**6,789**	6,679	**1,355**	2,543

Notes to the financial statements

The investments classified as cash and cash equivalents are remunerated at variable average rates from 86% to 100% of the CDI at June 30, 2018 (86% to 100.00% of CDI at December 31, 2017) with counterparty financial institutions considered by management as the first line.

8. Financial investments and restricted accounts

	Consolidated		Parent company	
	06/30/2018	**12/31/2017**	**06/30/2018**	**12/31/2017**
Money market investments in CDB	**2,982**	2,785	**2,701**	2,530
Total	**2,982**	2,785	**2,701**	2,530
Current	**2,085**	1,777	**2,085**	1,777
Non-current	**897**	1,008	**616**	753

Financial investments are paid by the average variable rate of 97.77% of CDI at June 30, 2018 (98.79% of CDI as of December 31, 2017), being held as guarantees for short-term financing, and their redemption scheduled takes place in conjunction with amortization, presented in current and non-current assets based on their redemption provisions.

9. Trade accounts receivable

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

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

	Consolidated		Parent company	
	06/30/2018	**12/31/2017**	**06/30/2018**	**12/31/2017**
Domestic clients	**59,330**	65,021	**44,107**	32,654
Foreign clients	**91,031**	88,777	**58,427**	50,784
	150,361	153,798	**102,534**	83,438
Allowance for doubtful accounts - domestic	**(20,838)**	(22,596)	**(10,628)**	(8,981)
Allowance for doubtful accounts - abroad	**(8,414)**	(8,591)	**(4,447)**	(5,449)
	(29,252)	(31,187)	**(15,075)**	(14,430)
	121,109	122,611	**87,459**	69,008

Notes to the financial statements

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

	Consolidated	Parent company
Balance at December 31, 2017	**(31,187)**	**(14,430)**
Initial adoption - CPC 48 / IFRS 9	**(1,635)**	**(1,635)**
Additions	**(2,117)**	**(1,472)**
Reversal of allowance for doubtful accounts	**6,179**	**2,153**
Exchange-rate change	**(205)**	**309**
Income (loss) from discontinued operation	**(287)**	**-**
Balance at June 30, 2018	**(29,252)**	**(15,075)**

10. Inventories

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

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

	Consolidated		Parent company	
	06/30/2018	**12/31/2017**	**06/30/2018**	**12/31/2017**
Finished goods	**129,375**	127,427	**31,208**	32,399
Raw material	**141,081**	134,346	**115,644**	110,525
Provision for loss	**(44,698)**	(49,888)	**(42,754)**	(47,769)
	225,758	211,885	**104,098**	95,155

	Consolidated	Parent company
Balance at December 31, 2017	**(49,888)**	**(47,769)**
Reversal of provision for loss	**5,190**	**5,015**
Balance at June 30, 2018	**(44,698)**	**(42,754)**

11. Recoverable taxes

	Consolidated		Parent company	
	06/30/2018	**12/31/2017**	**06/30/2018**	**12/31/2017**
ICMS	**13,058**	14,837	**4,692**	5,591
IPI	**5,515**	4,099	**5,232**	3,153
PIS	**1,510**	3,482	**1,440**	3,387
COFINS	**7,866**	12,511	**7,708**	12,010
Income tax and social contribution	**12,172**	10,002	**2,805**	1,747
INSS	**-**	20	**-**	-
Other	**23**	-	**23**	-
Total	**40,144**	44,951	**21,900**	25,888
Current	**39,863**	44,458	**21,761**	25,693
Non-current	**281**	493	**139**	195

Notes to the financial statements

12. Other accounts receivable

	Consolidated		Parent company	
	06/30/2018	**12/31/2017**	**06/30/2018**	**12/31/2017**
Advances to suppliers	**3,851**	3,384	**2,736**	1,946
Advances to employees	**2,280**	1,788	**1,076**	796
Judicial deposits (Note 23)	**12,427**	16,489	**8,899**	9,419
Receivables from insurance	**-**	82	**-**	**-**
Related party loans	**-**	-	**20,066**	19,367
Other receivables	**912**	731	**684**	644
Total	**19,470**	22,474	**33,461**	32,172
Current	**7,043**	5,985	**24,562**	22,753
Non-current	**12,427**	16,489	**8,899**	9,419

13. Income tax and social contribution

The income tax and social contribution of the year, both current and deferred, are calculated based on the nominal rate of 15% plus a surcharge of 10% on taxable income in excess of R$ 240 for income tax and 9% on taxable income for social contribution on net income, and consider the offsetting of tax loss carryforward and negative basis of social contribution, limited to 30% of the taxable income. For companies that calculate income tax and social contribution based on estimated profits, the same rates as above are used but on percentage of revenue of 32%. The rate of income tax is 21% for the US subsidiary.

a. Breakdown of assets and deferred tax liabilities

	Consolidated		Parent company	
	06/30/2018	12/31/2017	**06/30/2018**	12/31/2017
On temporary liability differences				
Equity valuation adjustment	**(10,263)**	(8,629)	**(377)**	(2,356)
Deemed cost of property, plant and equipment	**(7,014)**	(9,555)	-	-
Goodwill allocation	**(6,266)**	(5,572)	-	
Financial charges	-	(1,499)	-	(1,370)
Derivative financial instruments	-	(2,353)	-	(2,353)
Other items	**(4,954)**	136	**(1,979)**	-
Total liabilities	**(28,497)**	(27,472)	**(2,356)**	(6,079)

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

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

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

Notes to the financial statements

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

In 2018, the Company does not recognize deferred tax assets since it does not expect future taxable income.

Changes in deferred taxes:	Consolidated	Parent company
Opening balance of deferred taxes, net	**(27,472)**	**(6,079)**
Allocated in income (loss)	**805**	**-**
Allocated to shareholders' equity	**2,172**	**3,723**
Offsetting of the Tax Regularization Program	**(537)**	**-**
Transfer to held for sale	**(3,465)**	**-**
Closing balance of deferred taxes, net	**(28,497)**	**(2,356)**

The amount of tax losses and negative basis of social contribution on which deferred taxes are not recorded totaled R$ 590,806 (R$ 584,965 as of December 31, 2017) in the consolidated, and R$ 197,365 (R$ 200,950 as of December 31, 2017) in the parent company.

The main balances of tax loss carryforwards and negative basis are recorded in the parent company Forjas Taurus S.A. Tax credits arising from tax losses and negative social contribution basis not recognized totaled R$ 200,874 (R$ 198,888 as of December 31, 2017) in Consolidated and R$ 67,104 (R$ 68,323 as of December 31, 2017) in Parent Company.

Notes to the financial statements

Reconciliation of effective rate for income tax and social contribution (continued operations)

	Consolidated		Parent company	
	06/30/2018	**06/30/2017**	**06/30/2018**	**06/30/2017**
Accounting loss before income tax and social contribution	**(88,490)**	(83,446)	**(91,931)**	(63,942)
Combined statutory rate:	**34%**	34%	**34%**	34%
Income tax and social contribution at the combined statutory rates	**30,087**	28,372	**31,257**	21,740
Permanent additions:				
Non-deductible expenses	**(697)**	(432)	**(267)**	(253)
Equity in net income of subsidiaries	**-**	-	**(370)**	(767)
Permanent exclusions:				
Reintegra	**1,537**	1,652	**1,537**	1,652
Dividends received	**-**	6,479	**-**	-
Effects of differentiated rate of deemed profit subsidiaries	**2,282**	365	**-**	-
Offset of tax loss and negative basis in PRT (Tax Regularization Program)	**537**	46,924	**-**	32,037
Deferred taxes not formed on tax loss and negative basis of CSLL	**-**	(18,656)	**-**	(18,016)
Deferred charges not recorded on unrealized exchange-rate change	**(31,484)**	(2,847)	**(32,810)**	(2,968)
Deferred taxes not recorded on other items	**(3,798)**	(8,709)	**-**	(1,388)
Income tax and social contribution in income (loss) for the year	**(1,536)**	53,148	**(653)**	32,037
Current	**(2,341)**	5,442	**(653)**	-
Deferred assets	**805**	47,706	**-**	32,037
	(1,536)	53,148	**(653)**	32,037
Effective rate	**1.70%**	-63.70%	**0.70%**	-49.70%

As there is no expectation on future taxable income, the Company did not recognize its deferred tax assets.

Notes to the financial statements

Breakdown of the total calculation bases and the respective deferred tax assets that could be recorded:

	06/30/2018				Consolidated 12/31/2017			
	Base	25%	9%	Total	Base	25%	9%	Total
Provision for sales commissions	(3,867)	(967)	(348)	**(1,315)**	(4,045)	(1,011)	(364)	(1,375)
Provision of labor proceedings	(53,747)	(13,437)	(4,837)	**(18,274)**	(52,175)	(13,044)	(4,696)	(17,740)
Allowance for doubtful accounts	(31,930)	(7,983)	(2,874)	**(10,857)**	(30,219)	(7,555)	(2,720)	(10,275)
Provision for product warranty	(8,231)	(2,058)	(741)	**(2,799)**	(8,231)	(2,058)	(741)	(2,799)
Provision for legal risks	(39,839)	(9,960)	(3,586)	**(13,546)**	(54,971)	(13,743)	(4,947)	(18,690)
Provision for inventory loss	(44,064)	(11,016)	(3,966)	**(14,982)**	(48,823)	(12,206)	(4,394)	(16,600)
Tax loss and negative basis of social contribution on net income	(590,806)	(147,702)	(53,173)	**(200,875)**	(584,965)	(146,241)	(52,647)	(198,888)
Fair value of investment property AAP	33,614	8,404	3,025	**11,429**	34,255	8,564	3,083	11,647
Unshipped notes	(4,870)	(1,218)	(438)	**(1,656)**	(4,890)	(1,223)	(440)	(1,663)
Difference for depreciation base	(27,738)	(6,935)	(2,496)	**(9,431)**	(28,354)	(7,089)	(2,552)	(9,641)
Provision for tax expenses	(9,503)	(2,376)	(855)	**(3,231)**	(6,351)	(1,588)	(572)	(2,160)
Recognition base difference Exchange rate change	(111,302)	(27,826)	(10,017)	**(37,843)**	(18,702)	(4,676)	(1,683)	(6,359)
Provision for profit sharing	(950)	(238)	(86)	**(324)**	(2,155)	(539)	(194)	(733)
	(888,992)	**(222,251)**	**(80,010)**	**(302,261)**	(809,626)	(202,409)	(72,867)	(275,276)

	06/30/2018				Parent company 12/31/2017			
	Base	25%	9%	Total	Base	25%	9%	Total
Provision for sales commissions	(2,830)	(708)	(255)	**(962)**	(2,842)	(711)	(256)	(967)
Provision of labor proceedings	(32,547)	(8,137)	(2,929)	**(11,066)**	(31,114)	(7,779)	(2,800)	(10,579)
Allowance for doubtful accounts	(15,075)	(3,769)	(1,357)	**(5,126)**	(14,430)	(3,608)	(1,299)	(4,907)
Provision for product warranty	(6,764)	(1,691)	(609)	**(2,300)**	(6,764)	(1,691)	(609)	(2,300)
Provision for legal risks	(38,760)	(9,690)	(3,488)	**(13,178)**	(28,852)	(7,213)	(2,597)	(9,810)
Provision for inventory loss	(42,754)	(10,688)	(3,848)	**(14,536)**	(47,769)	(11,942)	(4,299)	(16,241)
Tax loss and negative basis of social contribution on net income	(197,365)	(49,341)	(17,763)	**(67,104)**	(200,950)	(50,238)	(18,086)	(68,324)
Fair value of investment property AAP	27,436	6,859	2,469	**9,328**	27,920	6,980	2,513	9,493
Unshipped notes	(1,283)	(321)	(115)	**(436)**	(2,538)	(635)	(228)	(863)
Difference for depreciation base	(1,110)	(278)	(100)	**(377)**	(1,244)	(311)	(112)	(423)
Provision for tax expenses	(5,896)	(1,474)	(531)	**(2,005)**	(4,176)	(1,044)	(376)	(1,420)
Recognition base difference Exchange rate change	(120,023)	(30,006)	(10,802)	**(40,808)**	(18,463)	(4,616)	(1,662)	(6,278)
Provision for profit sharing	(346)	(87)	(31)	**(118)**	(690)	(173)	(62)	(235)
	(436,054)	**(109,013)**	**(39,245)**	**(148,258)**	(331,912)	(82,981)	(29,873)	(112,854)

The portion of the amounts not constituted is represented by the assets, since there is no grounded expectation of generation of taxable profits.

Notes to the financial statements

14. Assets held for sale

Non-current assets or groups (containing assets and liabilities) held for sale are classified as “held for sale” if it is highly probable that they will be primarily recovered through sales instead of the continuous use.

Assets or group of assets held for sale are generally stated at the lowest value between their book and the fair value less selling expenses.

Any impairment loss on assets over a group of assets held for sale is initially allocated to goodwill, and then to remaining assets and liabilities on a prorated basis. No loss should be allocated to inventories, financial assets, deferred tax assets, employee benefit assets and investment property and biological assets, which continue to be measured under the other accounting policies of the Group. Impairment losses determined in the initial classification as held for sale or distribution, and gains and losses from subsequent remeasurements, are recognized in profit or loss.

Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortized or depreciated, and any investment measured under the equity method is no longer subject to the application of the method.

Reconciliation of book value

	Consolidated	Consolidated
In thousands of reais	06/30/2018	12/31/2017
Buildings, land and improvements	51,390	51,390
Helmets’ operation - Non-current assets held for sale	72,510	-
Total non-current assets held for sale	**123,900**	**51,390**
Helmets’ operation - Liabilities held for sale	39,222	-
Total liabilities held for sale	**39,222**	**-**

Buildings, land and improvements

In 2016, Forjas Taurus S.A. transferred the operation from the Industrial Plant located in the city of Porto Alegre/RS to the Industrial Plant located in the city of São Leopoldo/RS. In view of the foregoing and considering the terms of CPC 28 - Investment Property, the Company, at the level of the quarterly information, reclassified the items formerly classified as Property, plant and equipment to Investment Property.

In 2017, through approval of the Board of Directors, the sale and the availability for intermediation by market specialists were approved. Accordingly, these properties were reclassified to “Assets held for sale”.

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

Location: Avenida do Forte, nº 511 - Porto Alegre (RS)
Industrial complex, not occupied, with 18,600.00 m^2 of built area in urban land of 29,900 m^2 of area.

Assets held for sale - Helmets’ operation

On March 27, 2018, the Board of Directors unanimously authorized the offer of the HELMETS business – represented by Taurus Blindagens Ltda and Taurus

Notes to the financial statements

Taurus Blindagens Nordeste Ltda.

The preparation of a schedule and sales efforts were the responsibility of a specialized firm, according to the proposal already accepted by the Company.

On June 30, 2018, the group of assets and liabilities held for sale was presented as the chart below and comprised the following assets and liabilities:

Property, plant and equipment / intangible	23,410
Inventories	21,703
Trade accounts receivable and other receivables	27,397
Assets held for sale	**72,510**
Suppliers and other accounts payable	39,222
Liabilities held for sale	**39,222**

The company did not identify any loss amounts to be recognized.

Notes to the financial statements

15. Investments (parent company)

									Parent company	
	Taurus Blindagens Ltda.	**Taurus Blindagens Nordeste Ltda.**	**Taurus Plásticos Ltda.**	**Taurus Holdings, Inc.**	**T. Investments Co. Inc.**	**Taurus Investimentos Imobiliários Ltda.**	**Polimetal Metalurgia e Plásticos Ltda.**	**Taurus Máquinas-Ferramenta Ltda.)**	**06/30/2018**	**12/31/2017**
Current assets	40,879	14,720	2,782	254,124	5	61,981	250,651	377		
Non-current assets	98,663	56,838	2,392	122,504	-	45,376	106,420	568		
Current liabilities	26,698	19,765	1,313	93,088	-	1,445	110,891	6,146		
Non-current liabilities	5,421	762	30	121,251	-	16,276	46,290	19,615		
Capital	73,855	9,400	6,355	1,175	42,414	53,292	304,780	293,639		
Shareholders' equity	107,423	51,031	3,831	162,289	5	89,636	199,890	(24,816)		
Net revenue	28,589	17,382	842	322,019	-	1,399	87,915	-		
Net income (loss) for the year	1,693	519	139	(6,806)	(39,597)	7,425	18,013	30,294		
Number of shares/quotas	14	9,400	636	302,505	11,000,000	43,623,159	304,779,837	185,007,117		
Direct ownership interest (%)	0.00%	0.10%	0.01%	100%	100%	81.86%	100%	63.00%		
Opening balances	1	50	-	134,145	33,976	70,910	181,150	-	**417,433**	**521,562**
Equity income (loss) (2)	-	**1**	-	**(3,418)**	**(39,597)**	**6,078**	**16,762**	**19,087**	**(1,088)**	**(104,490)**
Exchange rate change over investments	-	-	-	**23,699**	**5,626**	-	-	-	**29,325**	**2,349**
Reclassified for provision for unsecured liability (1)	-	-	-	-	-	-	-	**(19,087)**	**(19,087)**	**(1,988)**
Closing balances	**1**	**51**	**-**	**154,426**	**5**	**76,988**	**197,912**	**-**	**426,583**	**417,433**

(1) The amount regarding the interest in unsecured liability of the subsidiary Taurus Máquinas-Ferramenta Ltda., is presented in “Provision for unsecured liability” caption in non-current liabilities.
(2) In order to determine the investment amounts, the value of shareholders' equity and of income (loss) of each investee is adjusted for unrealized profits in intercompany transactions.

Notes to the financial statements

Foreign operation

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

	Taurus Holdings, Inc.	
	Consolidated	
	06/30/2018	**12/31/2017**
Assets	**376,628**	339,379
Liabilities	**214,339**	170,357
Net revenue	**322,019**	541,270
Loss for the year	**(6,806)**	(46,262)

16. Property, plant and equipment

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

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

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

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

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

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

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

Notes to the financial statements

Consolidated

Cost or deemed cost	**Land**	**Buildings**	**Machinery and facilities**	**Furniture and computers**	**Vehicles**	**Other**	**Property, plant and equipment in progress**	**Advances to suppliers**	**Total**
Balance at December 31, 2016	18,217	127,557	241,954	23,243	1,020	40	18,222	296	430,549
Additions	-	1,662	13,053	924	-	-	4,730	113	20,482
								-	
Disposals	(2,386)	(1)	(4,955)	(555)	(113)	(40)	(153)	-	(8,203)
Transfers	(370)	11,409	6,931	916	18	-	(18,904)	-	-
Effect of exchange rate changes	137	658	724	125	3	-	-	-	1,647
Balance at December 31, 2017	**15,598**	**141,285**	**257,707**	**24,653**	**928**	**-**	**3,895**	**409**	**444,475**
Additions	644	-	2,168	267	-	-	2,572	-	5,651
Disposals	(1,336)	(3,735)	(7,851)	(56)	(92)	-	(332)	(259)	(13,661)
Transfers	-	55	1,552	270	-	-	(1,877)	-	-
Effect of changes in exchange rate	1,136	7,381	9,037	1,351	32	-	-	-	18,937
Effect of Discontinued Operations:									
Net changes in the year	-	46	(1,054)	32	20	-	386	-	(570)
Transfer to held for sale	(76)	(12,357)	(29,716)	(2,300)	(606)	-	(943)	(150)	(46,148)
Balance at June 30, 2018	**15,966**	**132,675**	**231,843**	**24,217**	**282**	**-**	**3,701**		**408,684**
Depreciation									
Balance at December 31, 2016	(194)	(26,912)	(149,549)	(14,399)	(845)	-	-	-	(191,899)
Depreciation for the year	-	(7,469)	(24,992)	(2,158)	(57)	-	-	-	(34,676)
Disposals	194	-	4,663	555	106	-	-	-	5,518
Transfers	-	-	-	-	-	-	-	-	-
Effect of exchange rate changes	-	(179)	(446)	(104)	(3)	-	-	-	(732)
Balance at December 31, 2017	**-**	**(34,560)**	**(170,324)**	**(16,106)**	**(799)**	**-**	**-**	**-**	**(221,789)**
Depreciation for the year	-	(3,381)	(10,981)	(872)	(2)	-	-	-	(15,236)
Disposals	-	825	6,571	52	55	-	-	-	7,503
Transfers	-	-	-	-	-	-	-	-	-
Effect of exchange rate changes	-	(2,184)	(5,325)	(1,196)	(32)	-	-	-	(8,737)
Effect of Discontinued Operations:									
Net changes in the year	-	(273)	(600)	(36)	(1)	-	-	-	(910)
Transfer to held for sale	-	3,447	19,741	1,685	497	-	-	-	25,370
Balance at June 30, 2018	**-**	**(36,126)**	**(160,918)**	**(16,473)**	**(282)**	**-**	**-**	**-**	**(213,799)**
Book value on December 31, 2017	15,598	106,725	87,383	8,547	129	-	3,895	409	222,686
Book value on June 30, 2018	**15,966**	**96,549**	**70,925**	**7,744**	-		**3,701**	-	**194,885**

Notes to the financial statements

Cost or deemed cost	Land	Buildings	Machinery and facilities	Furniture and computers	Vehicles	Other	Property, plant and equipment in progress	Advances to suppliers	Parent company Total
Balance at December 31, 2016	-	10,110	60,514	5,978	134	-	8,728	-	85,464
Additions	-	606	1,520	551	-	-	2,753	2	5,432
Disposals	-	-	(643)	-	(9)	-	(83)	-	(735)
Transfers	-	6,363	1,419	549		-	(8,331)	-	-
Balance at December 31, 2017	**-**	**17,079**	**62,810**	**7,078**	**125**	**-**	**3,067**	**2**	**90,161**
Additions	-	-	114	-	-	-	1,320	-	1,434
Disposals	-	-	-	(25)	(92)	-	(78)	(2)	(197)
Transfers	-	62	1,369	263	-	-	(1,694)	-	-
Balance at June 30, 2018	**-**	**17,141**	**64,293**	**7,316**	**33**	**-**	**2,615**	**-**	**91,398**
Depreciation									
Balance at December 31, 2016	-	(1,796)	(41,421)	(3,779)	(70)	-	-	-	(47,066)
Depreciation for the year	-	(1,517)	(5,266)	(642)	(18)	-	-	-	(7,443)
Disposals	-	-	518	-	2	-	-	-	520
Balance at December 31, 2017	**-**	**(3,313)**	**(46,169)**	**(4,421)**	**(86)**	**-**	**-**	**-**	**(53,989)**
Depreciation for the year	-	(745)	(2,350)	(343)	(2)	-	-	-	(3,440)
Disposals	-	-	-	22	55	-	-	-	77
Balance at June 30, 2018	**-**	**(4,058)**	**(48,519)**	**(4,742)**	**(33)**	**-**	**-**	**-**	**(57,352)**
Book value on December 31, 2017	-	13,766	16,641	2,657	39	-	3,067	2	36,172
Book value on June 30, 2018	-	**13,083**	**15,774**	**2,574**	-	**-**	**2,615**	**-**	**34,046**

Notes to the financial statements

Property, plant and equipment in progress
The balance of constructions is related to machinery and equipment still in the implementation phase and constructions in progress. These assets should come into operation during 2018.

Guarantee
The Company uses its assets as guarantees for the funds obtained from financial institutions. Although most fixed assets are collateralized by loans and financing, and historically, the guarantees with assets have never been used. In 2018, the Company used the amount of R$ 65,356 in guarantees (R$ 70,763 as of December 31, 2017).

17. Intangible assets

Goodwill

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

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

Other intangible assets

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

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

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

Notes to the financial statements

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

						Consolidated
	Software	**Trademarks and patents**	**Client Relationship**	**Goodwill**	**Product development**	**Total**
Cost						
Balance at December 31, 2016	4,924	21,591	14,339	42,680	6,425	89,959
Acquisitions	117	-	-	-	577	695
Transfers	1,305	-	-	-	(1,305)	-
Write-offs	-	-	-	-	-	-
Effects of exchange-rate change	-	155	207	151	59	572
Balance at December 31, 2017	**6,346**	**21,746**	**14,546**	**42,831**	**5,756**	**91,226**
Acquisitions	-	-	-	-	164	164
Transfers	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-
Effects of exchange-rate change	-	1,730	2,319	1,690	455	6,193
Effect of Discontinued Operations:						
Net changes in the year	-	18	-	-	-	18
Transfer to held for sale	(1,305)	(1,284)	-	-	-	(2,589)
Balance at June 30, 2018	**5,041**	**22,210**	**16,865**	**44,521**	**6,375**	**95,012**
Amortization						
Balance at December 31, 2016	(1,666)	(7,297)	(6,680)	-	(102)	(15,745)
				-		
Amortization for the year	(822)	(91)	(1,460)	-	(2)	(2,375)
Transfers	(102-	-	-	-	102	-
Write-offs	-	-	-	-	-	-
Effects of exchange-rate change	-	-	(97)	-	-	(97)
Balance at December 31, 2017	**(2,590)**	**(7,388)**	**(8,237)**	**-**	**(2)**	**(18,217)**
Amortization for the year	(402)	-	(846)	-	(173)	(1,421)
Transfers	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-
Effects of exchange-rate change	-	-	(1,315)	-	(247)	(1,562)
Effect of Discontinued Operations:						
Transfer to held for sale	112	-	-	-	-	112
Balance at June 30, 2018	**(2,880)**	**(7,388)**	**(10,398)**	**-**	**(422)**	**(21,088)**
Book value						
December 2017	3,756	14,358	6,309	42,831	5,754	73,009
June 2018	**2,161**	**14,822**	**6,467**	**44,521**	**5,953**	**73,924**

Impairment test for cash generating units with goodwill

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

Cash-generating unit	**2017**
Firearms	42,831

The recoverability test for CGUs mentioned above is performed annually based on the fair value net of sales expenses, which is estimated based on discounted cash flows. On December 31, 2017, the tests performed did not indicate the need of forming a provision for impairment losses on goodwill and intangible assets with indefinite useful lives.

Notes to the financial statements

Main assumptions used for forecasting the discounted cash flows

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

	Discount Rate WACC	Average growth rate
Cash-generating unit	**2017**	**2017**
Firearms	16.1%	4.0%

The discount rate for CGU is represented by a post-tax rate based on US Treasury Bonds for 20 years, adjusted for a risk premium that reflects the risks of investments in equity securities and the systematic risk of the unit in question. The company estimated, based on management's experience with assets of this CGU, the weighted average of the capital cost of the industry in which such CGU operates, which was calculated based on a possible debt/shareholders' equity ratio of 15.6% for Firearms CGU at the market interest rate of 14%.

Growth rate and perpetuity

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

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

Notes to the financial statements

18. Loans and financing

The terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	06/30/2018 Contracted value	06/30/2018 Book value	12/31/2017 Contracted value	12/31/2017 Book value
Working capital	R$	CDI +2.00%	2018	**9,500**	**8,711**	2,500	993
FINAME	R$	2.50–8.70% p.a.	2021	**5,879**	**601**	7,681	1,014
FINEP	R$	4–5.25% p.a.	2020	**-**	**-**	14,095	5,564
BNDES	R$	3.50% p.a.	2020	**9,995**	**4,692**	9,995	5,672
FNE	R$	9.50% p.a.	2019	**-**	**-**	9,806	2,821
Advance from receivables	R$	23.9% p.a.	2017	**6,136**	**466**	6,136	15,422
Foreign exchange advance	USD	9.80% p.a.	2017	**28,065**	**15,590**	28,065	24,193
Working capital	USD	Libor + 1.55% to 5.6% p.a.	2021	**499,162**	**619,961**	499,162	528,709
Working capital	USD	80–100% of CDI p.a.	2019	**65,072**	**62,848**	65,072	53,526
Investments	USD	5.33% p.a.	2021	**6,035**	**16,994**	6,035	15,028
Investments	USD	Libor + 2.25% p.a.	2021	**1,731**	**4,039**	1,731	3,585
				Total	**733,902**		**656,527**
				Current liabilities	**594,274**		**498,557**
				Non-current liabilities	**139,628**		**157,970**

							Parent company
	Currency	Nominal interest rate	Year of maturity	06/30/2018 Contracted value	06/30/2018 Book value	12/31/2017 Contracted value	12/31/2017 Book value
Working capital	R$	CDI + 6.15%	2018	**9,500**	**8,711**	2,500	993
FINAME	R$	2.50–5.50%	2021	**2,304**	**600**	2,304	746
BNDES	R$	3.50%	2020	**9,995**	**4,692**	9,995	5,672
Advance from receivables	R$	24.60%	2017	**6,136**	**466**	6,136	1,535
Foreign exchange advances	USD	9.80%	2017	**28,065**	**15,590**	28,065	24,193
Working capital	USD	Libor + 3.41–5.60%	2021	**424,162**	**538,781**	424,162	439,582
Working capital	USD	85–100% of CDI	2019	**65,072**	**62,848**	65,072	53,526
				Total	**631,688**		**526,247**
				Current liabilities	**591,928**		**479,144**
				Non-current liabilities	**39,760**		**47,103**

Notes to the financial statements

Schedule of maturities of non-current liabilities:

Year of maturity	Consolidated		Parent company	
	06/30/2018	12/31/2017	06/30/2018	12/31/2017
2018	-	50,673	**-**	45,227
2019	**39,306**	92,259	**37,883**	1,861
2020	**84,529**	1,320	**1,862**	15
2021	**1,570**	13,718	**15**	-
>2022	**14,223**	-	**-**	-
	139,628	157,970	**39,760**	47,103

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

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

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

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

Covenants

Up to June 30, 2018, the instrument, which was included in re-profile of debt process signed in December/2016, provides for the early maturity in cases of non-compliance of covenants that define, among other obligations: the maintenance of certain financial ratios, such as: net debt/EBITDA equal to or less than 3.5 in 2017 and 3x as from 2018 and EBITDA/net financial expenses equal to or greater than 1.10x in 2017 and 1.20x as from 2018 where: net debt is equal to the total debt (including sureties and guarantees) less cash and cash equivalents, EBITDA is equal to income before taxes, interest, taxes, depreciation and amortization in the last 12 months and net financial expenses correspond to total financial income less financial expenses in the last 12 months, adjusted for non-recurring items and guaranteed as: surety, lien, mortgage, lien and external pledge that will be shared with international guarantee and debenture operation creditors.

These indices are monitored by Management, and the PPE and Debentures contracts determine that the indices must be measured on an annual basis. These indexes were not met in the fiscal year ended December 31, 2017, reason why the loans and financing under these agreements were reclassified to short term.

As described in note 1, as of July 18, 2018, the new process of renegotiation of debts with the Bank syndicate was completed.

Notes to the financial statements

19. Debentures

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

Debentures	Principal (R$)	Issuing Date	Securities in the market	Financial charges	06/30/2018	12/31/2017
3rd issuance (a)	100,000	06/13/2014	10,000	DI rate + 10.30% (2016)	**81,068**	75,771
				Grand total	**81,068**	75,771
				Current liabilities	**81,068**	75,771
				Non-current liabilities	**-**	-
				Total	**81,068**	75,771
				Incurred cost transactions	**3,584**	3,584
				Appropriate cost transactions	**3,584**	3,544
				Unearned transaction costs	**-**	40

<u>Covenants</u>

Up to June 30, 2018, the instrument, which was included in re-profile of debt process signed in December/2016, provides for the early maturity in cases of non-compliance of covenants that define, among other obligations: the maintenance of certain financial ratios, such as: (net debt/EBITDA) equal to or less than 3.5 in 2017 and 3x as from 2018 and EBITDA/net financial expenses equal to or greater than 1.10x in 2017 and 1.20x as from 2018 where: net debt is equal to the total debt (including sureties and guarantees) minus cash and cash equivalents, EBITDA is equal to earnings before taxes, interest, taxes, depreciation and amortization in the last 12 months and net financial expenses correspond to total financial income less financial expenses in the last 12 months, adjusted for non-recurring items and guaranteed as: surety, lien, mortgage, fiduciary assignment and external pledge that will be shared with international guarantee and debenture operation creditors.

Such indices are monitored by Management, as the contracts determine that the indices be measured annually. These indexes were not met in the fiscal year ended December 31, 2017, reason why the debentures under these agreements were reclassified to short term.

As described in Note 1, on July 18, 2018, the new process of such debt’s renegotiation was completed with Banco Haitong.

Notes to the financial statements

20. Other accounts payable

	Consolidated		Parent company	
	06/30/2018	12/31/2017	06/30/2018	12/31/2017
Performance bonus	**6,214**	4,463	**-**	-
Sales commissions	**4,445**	3,540	**4,353**	2,491
Accrued interest	**234**	1,036	**-**	-
Royalties	**4,704**	3,730	**4,704**	3,730
FEE Banking Syndicate	**989**	5,602	**989**	5,602
Accounts payable - CBC	**67,652**	67,740	**67,652**	67,740
Other	**5,603**	8,707	**1,790**	3,660
	89,841	94,818	**79,488**	83,223
Current	**87,066**	91,952	**76,716**	80,357
Non-current	**2,775**	2,866	**2,772**	2,866

21. Salaries and social security charges

	Consolidated		Parent company	
	06/30/2018	12/31/2017	06/30/2018	12/31/2017
Salaries	2,006	1,413	**730**	883
Social security charges	12,376	20,458	**5,057**	8,443
Provisions for vacation and 13th salary	17,036	20,055	**7,367**	8,092
	31,418	**41,926**	**13,154**	**17,418**

22. Taxes, duties and contributions

	Consolidated		Parent company	
	06/30/2018	12/31/2017	06/30/2018	12/31/2017
ICMS	**964**	5,376	**964**	2,402
	-	3,909	**-**	3,849
PIS	**116**	69	**4**	10
COFINS	**536**	325	**20**	47
SPECIAL TAX - FAET (USA)	**15,858**	14,567	**-**	-
IRRF	**522**	1,113	**379**	262
INCOME TAX AND SOCIAL CONTRIBUTION	**5,629**	3,740	**653**	276
INSTALLMENT PAYMENT OF PRT	**5,998**	7,192	**5,022**	6,645
OTHER PAYMENTS IN INSTALLMENTS	**1,923**	1,446	**1,834**	1,485
OTHER	**7,582**	7,042	**5,855**	5,954
	39,128	44,779	**14,731**	20,930
Current	**38,065**	40,031	**13,727**	17,944
Non-current	**1,063**	4,748	**1,004**	2,986

The Company formalized its adhesion to the Tax Regularization Program (PRT), published by Provisional Measure 766/2017 and regulated by IN 1687/2017, on May 26, 2017. This program allowed the consolidation of federal tax debts and offsetting of 76% of the amount using credits of tax losses and negative basis of social contribution. The balance of 24% was paid in 24 months.

Notes to the financial statements

The consolidation of these debts is shown in the tables below:

	IPI	IRPJ CSLL	PIS COFINS	IOF	IRRF PCC	AFRMM/II	INSS	Consolidated Total
Value Principal	31,302	456	9,548	342	1,090	497	307	43,542
Fine	6,920	165	2,226	68	368	99	230	10,076
Interest	3,914	94	2,137	42	(32)	81	125	6,361
	42,136	715	13,911	452	1,426	677	662	59,979
Offset of tax loss and negative basis of social contribution on net income	32,140	543	10,455	344	1,084	515	503	45,584
Balance - Payment in 10 installments	9,996	172	3,456	108	342	162	159	14,395
Payments	(5,899)	(100)	(1,948)	(63)	(200)	(95)	(93)	(8,397)
Balance payable	**4,097**	**72**	**1,508**	**45**	**142**	**67**	**66**	**5,998**

	IPI	IRPJ CSLL	PIS COFINS	IOF	IRRF PCC	AFRMM/II	INSS	Parent company Total
Value Principal	30,103	-	5,594	342	711	497	307	37,554
Fine	6,021	-	1,088	68	142	99	230	7,648
Interest	3,909	-	778	42	83	81	125	5,018
	40,033	-	7,460	452	936	677	662	50,220
Offset of tax loss and negative basis of social contribution on net income	30,542		5,553	344	711	515	503	38,168
Balance - Payment in 10 installments	9,491		1,907	108	225	162	159	12,052
Payments	(5,605)	-	(1,044)	(63)	(131)	(95)	(93)	(7,031)
Balance payable	**3,886**	**-**	**863**	**45**	**94**	**67**	**66**	**5,021**

23. Provisions for civil, labor and tax risks

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

Notes to the financial statements

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

				Consolidated
			06/30/2018	12/31/2017
	Provision	Judicial deposit (1)	Net	Net
Labor	55,257	(11,688)	43,569	49,230
Civil	17,669	-	17,669	9,863
Tax	27,689	(739)	26,950	26,949
	100,615	**(12,427)**	**88,188**	86,042
Classified in current liabilities	40,982			
Classified in the non-current liabilities	59,633			

				Parent company
			06/30/2018	12/31/2017
	Provision	Judicial deposit (1)	Net	Net
Labor	34,849	(8,160)	26,689	34,631
Civil	11,072	-	11,072	1,163
Tax	27,689	(739)	26,950	26,950
	73,610	**(8,899)**	**64,711**	62,744
Classified in current liabilities	29,615			
Classified in the non-current liabilities	43,995			

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

Changes in provisions are as follows:

	Civil and labor	Tax	Total
Balance at December 31, 2017	74,524	28,007	102,531
Provisions formed during the year	19,172	-	19,172
Provisions used during the year	(1,197)	-	(1,197)
Write-off of provision	(16,974)	-	(16,974)
Effect of changes	982		982
Effect of discontinued operations and assets and liabilities held for sale			
Transfer of Assets held for sale	(3,581)	(318)	(3,899)
Balance at June 30, 2018	**72,926**	**27,689**	**100,615**

			Parent company
	Civil and labor	Tax	Total
Balance at December 31, 2017	44,473	27,689	72,162
Provisions formed during the year	12,251	-	12,251
Provisions used during the year	(405)	-	(405)
Write-off of provision	(10,398)	-	(10,398)
Balance at June 30, 2018	**45,921**	**27,689**	**73,610**

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

				Consolidated				Parent company
	06/30/2018			12/31/2017	06/30/2018			12/31/2017
	Possible	Remote	Possible	Remote	Possible	Remote	Possible	Remote
Tax	**12,245**	-	12,141	418	**4,408**	-	736	-
Civil	**54,764**	**60**	62,524	351	**54,692**	**19**	55,665	200
Labor	**63,311**	**6,545**	59,153	6,711	**43,779**	**5,099**	39,904	4,547
Other	**10,104**	**-**	8,438	712	**10,104**	**-**	8,160	330
	140,424	**6,605**	142,256	8,192	**112,983**	**5,118**	104,465	5,077

Notes to the financial statements

Sanctioning Administrative Processes - PMESP

The Company was summoned to present defense in two (02) administrative processes filed by the Military Police of the State of São Paulo (Sanctioning Process CSMAM-002/30/16 and Sanctioning Process 003/30/2016 in addendum to Process CSMAM 01/30/14) which challenges the possibility or not of partial or total non-compliance with the agreements for acquisition and supply of 98,465 (ninety-eight thousand, four hundred and sixty-five) firearms, type pistol, models 24/7 and 640, between years 2007 and 2011, in the first process and also agreements for acquisition and supply of 5,931 (five thousand, nine hundred and thirty-one) firearms, type submachine gun, model SMT 40 in year 2011 in the second process and its addendum, in the total amount of R$ 22,681.

In relation to Sanctioning Process CSMAM-002/30/16, the Company considers possible some monetary loss, but since it is an administrative process and is at initial phase, we are presently unable to estimate the values, and the sanctions to which the Company is subject are provided for in article 87, Federal Law 8666/93, combined with article 81, State Law (SP) 6544/89.

Sanctioning Process No. CSMAM 01/30/14 was closed with the decision that suspended the Company's right to contract with the public management of the State of São Paulo for a period of two (02) years from October 2016, not subject to any monetary fine.

Also, on December 19, 2017, the Company received service of judicial process where the State of São Paulo requires the rescission of agreements of supply of submachine guns entered into in 2011 with the Military Police of the State of São Paulo and the return of the value paid at the time, of R$ 21.7 million, plus inflation adjustment and other legal consequences.

In a preliminary analysis performed by the Company's legal advisers, this lawsuit was classified as possible loss. On December 31, 2017, the Company provisioned part of the value of the share, corresponding to its best estimate of the probable outlay of resources to resolve this demand.

Djibouti

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

Public Civil Action - Attorney General of Sergipe for the Federal Public Ministry

The Company became aware of the filing by the Attorney General of Sergipe for the Federal Public Ministry of a Public Civil Action against Taurus and also against the Federal Government (Brazilian Army), before the Judge of the 2nd Federal Court of the Judiciary Section of Sergipe. The requests are related to alleged defects in a few models of firearms produced by Taurus.

In the Public Civil Action, the Federal Public Ministry pleads that i) Taurus be prevented from trading a few models of firearms in Brazil; ii) Taurus make a national recall for replacement and/or indemnity according to the market value of these models of firearms and iii) the Federal Government be prohibited from applying the restriction of import of models that have local similar products, under penalty of daily fine of R$ 10 (ten thousand reais).

Finally, the Federal Public Ministry pleads i) the conviction of the Federal Government to the obligation to modify R-105 or to issue a new substitutive regulation that does not create regime of monopoly of sales of firearms in Brazil, which adversely affects the free competition; ii) the conviction of Taurus to the obligation to make a national recall within 20 days, for the repair, replacement and/or indemnity according to the market value of these models of firearm; (iii) the conviction of the Federal Government and Taurus to the payment of collective pain and suffering in amount to be defined by the judge, not below R$ 40.000 million.

Notes to the financial statements

In preliminary injunction, the Judge of the 2nd Federal Court of the Judiciary Section of Sergipe determined the obligation by Taurus to submit a detailed plan of recall of the supposedly defective models of firearms within 90 days. The preliminary injunctions for suspension of the trading of the models allegedly defective and prohibition of restriction of import of firearms by the Federal Government were rejected by the Judge.

In the judgment of the bill of review filed by Taurus, The Federal Court of the 5th Region suspended the effectiveness of the decision granted by the Judge of the 2nd Federal Court of the Judiciary Section of Sergipe, with respect to the part that establishes the submission, by Taurus, of a plan of recall within 90 (ninety) days.

In the opinion of Taurus' legal advisors, the present lawsuit is classified as risk of possible loss.

Punitive action - State of Goiás
The State of Goiás filed a lawsuit against Taurus due to alleged breach of contract derived from the sale by Taurus of 2,500 firearms manufactured by it, model pistol PT 24/7 PRO D, in the total amount of R$ 4.873 (four million, eight hundred seventy and three thousand reais), firearms allegedly defective and that these defects would have not been solved by Taurus.

After the objection submitted by Taurus, the Judge of the lower court partially accepted the request for preliminary injunction by the State of Goiás and determined the full replacement of the firearms supplied and allegedly defective. Against this decision, Taurus filed bill of review, seeking the concession of suspension effect, which was rejected in monocratic decision of the Reporting Judge. The decision is not final and the appeal filed by Taurus is pending judgment.

Therefore, the parties signed the agreement that was attached to the process that estimate the delivery by the Military Policy (PM) of the state of Goiás to Taurus of the total of 2,457 Taurus pistols PT 24/7 PRO D model, upon substitution for 2,000 (two thousand) Pistols PT 92 AF model. The agreement is at execution phase and Taurus is manufacturing the firearms that will be delivered to the PM of the state of Goias. After the agreement is fulfilled the process will be terminated.

Public Civil Action – Public Prosecutor's Office ***of the Federal District and Territories***
The Public Prosecutor's Office of the Federal District and Territories ("MPDFT") filed a Public Civil Action requiring injunction against the Company in view of the supposed supply to the Federal District's Civil Police of pistols that would not meet the contractual specifications. Through this action, it requires that Taurus is sentenced to pay pecuniary damages, temporary suspension of the Company to bid and enter into contracts with the Public Administration for two years, as well as sentence it to pay collective pain and suffering in the amount of R$ 10,000 (ten million reais). Initially, it required the freezing of the claimed amounts in the Company's bank accounts.

The Section of the 8th Civil Court of Brasília denied the preliminary order to freeze the Company's bank accounts because there is no proof of the alleged need for immediate freezing of the amounts claimed in the action. The MPDFT filed an interlocutory appeal, received by the Federal Regional Court of the 1st Region without suspensive effect, and as at this date is pending judgment.

After the defense by Taurus, the Justice accepted the claim from the Federal District as MPDFT's co-plaintiff, and determined that the action is sent to one of the Tax Courts of the Federal District Government, because it considered itself incompetent to rule the action.

Taurus will perform all the measures necessary to prove that the allegations are unjustified and that the products traded do not have manufacturing defects. The Company believes that the risk of loss on this lawsuit is classified as possible.

24. Financial instruments

Company Management determines the classification of its non-derivative financial assets and liabilities at the time of their initial recognition, pursuant to the criteria set forth in CPC 48 / IFRS 9 when the

Notes to the financial statements

characteristics of the Company's cash flows and business model in the management of financial assets. Financial liabilities are measured according to their nature and purpose.

a) Derivatives

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

Notes to the financial statements

We summarize below our positions with derivative financial instruments:

	Consolidated		Parent company	
	06/30/2018	12/31/2017	06/30/2018	12/31/2017
Derivative financial instruments - liabilities	**(54)**	(242)	**-**	-
	(54)	(242)	**-**	-

All the transactions involving derivative financial instruments are recognized in the Company's quarterly information, as shown in the table below:

		Consolidated 06/30/2018		Consolidated 12/31/2017	
Instrument	Contracting currency referring to the notional amount	Notional in thousands	Fair value	Notional in thousands	Fair value
Swap Fixed x Libor (i)	US Dollars - USD	**5,711**	**(54)**	5,711	(242)
		5,711	**(54)**	5,711	(242)

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

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

b) Fair value vs. book value

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

				Consolidated
		06/30/2018		12/31/2017
	Amortized cost	Fair value	Amortized cost	Fair value
Assets measured at amortized cost				
Interest earnings bank deposits	**2,982**	**-**	2,785	-
Financial assets measured at fair value through profit or loss				
Cash and cash equivalents	**-**	**6,789**	-	6,679
Accounts receivable	**-**	**121,109**	-	122,611
	2,982	**1127.898**	2,785	129,290
Liabilities measured at fair value				
Hedge operations	**-**	**54**		242
Liabilities measured by the amortized cost				
Loans and financing	**717,846**	**-**	616,912	-
Debentures	**81,068**	**-**	75,771	**-**
Foreign exchange advances	**15,590**	**-**	24,193	**-**
Suppliers and advance from receivables	**99,243**	**-**	115,376	**-**
	913,747	**54**	832,252	242

Notes to the financial statements

				Parent company
	06/30/2018			12/31/2017
	Amortized cost	Fair value	Amortized cost	Fair value
Assets measured at amortized cost				
Interest earnings bank deposits	**2,701**		2,530	
Financial assets measured at fair value through profit or loss				
Cash and cash equivalents		**1,355**		2,543
Accounts receivable		**87,459**		69,008
	2,701	**88,814**	2,530	71,551
Liabilities measured by the amortized cost				
Loans and financing	**615,632**	**-**	500,519	-
Debentures	**81,068**	**-**	75,771	-
Foreign exchange advances	**15,590**	**-**	24,193	-
Suppliers and advance from receivables	**143,070**	**-**	136,367	-
				-
	855,360	**-**	736,850	-

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

The fair value that is determined for disclosure purposes is calculated based on the present value of principal and future cash flows, discounted at market interest rate on the date of presentation of the quarterly information.

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

Notes to the financial statements

25. Related parties

	Balances of subsidiaries outstanding with the parent company							Effect on the result of transactions of subsidiaries with parent company	
	Current assets (ii)	Non-current assets (iii)	Total assets	Current liabilities (i)	Non-current liabilities		Total liabilities	Income	Expense
December 31, 2017									
Taurus Blindagens Ltda.	731	-	731	997	19,074	(iv)	20,071	-	-
Taurus Blindagens Nordeste Ltda.	26	-	26	775	28,015	(iv)	28,790	-	-
Taurus Holdings, Inc.	23,252	-	23,252	63,901	5,329	(v)	69,230	420,535	-
Taurus Investimentos Imobiliários Ltda.	421	-	421	1,681	-		1,681	-	-
Taurus Máquinas-Ferramenta Ltda.	-	14,044	14,044	-	-		-	-	1,523
Taurus Plásticos Ltda.	46	-	46	-	-		-	-	-
Polimetal Metalurgia e Plásticos Ltda.	18,745	-	18,745	68,411	-		68,411	546	178,416
	43,221	14,044	57,265	135,765	52,418		188,183	421,081	179,939
June 30, 2018									
Taurus Blindagens Ltda.	**41**	**-**	**41**	**813**	**12,216**	(iv)	**13,029**	**-**	**811**
Taurus Blindagens Nordeste Ltda.	**26**	**-**	**26**	**332**	**23,948**	(iv)	**24,280**	**-**	**1,420**
Taurus Holdings, Inc.	**34,256**	**-**	**34,256**	**63,614**	**6,211**	(v)	**69,825**	**199,197**	**-**
Taurus Investimentos Imobiliários Ltda.	**36**	.	**36**	**968**	**8,270**	(iv)	**9,238**	**-**	**753**
Taurus Máquinas-Ferramenta Ltda.	**-**	**15,476**	**15,476**	**-**	**-**		**-**	**848**	**-**
Taurus Plásticos Ltda.	**47**	**-**	**47**	**-**	**-**		**-**	**-**	**-**
Polimetal Metalurgia e Plásticos Ltda.	**20,224**	**-**	**20,224**	**79,144**	**-**		**79,144**	**98**	**82,263**
	54,630	**15,476**	**70,106**	**144,871**	**50,645**		**195,516**	**200,143**	**85,247**

(i) Refers to amounts recorded under Suppliers caption - R$ 144,871.
(ii) Refers to amounts recorded under Trade accounts receivable caption, R$ 34,603 and other accounts receivable - R$ 20,027.
(iii) Refers to values recorded under the captions financial loans R$ 15,476 with the parent company Forjas Taurus S.A. which are updated at 100% of CDI (Interbank Deposit Certificate).
(iv) Represent loan agreements totaling R$ 44,434 with subsidiary Taurus Blindagens Ltda., Taurus Blindagens Nordeste Ltda. and Taurus Investimentos Imobiliários Ltda which are restated to 100% of the CDI (Interbank Deposit Certificate).
(v) Refers to advances received from clients - R$ 6,211

Notes to the financial statements

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

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

The transactions carried out with related parties follow the price conditions and terms agreed between the parties and cannot be compared to those practiced with other non-related parties.

On June 30, 2018, operations involving Forjas Taurus S.A. and CBC refer mainly to sales of firearms for trading, and purchase of ammunition. The amount of these operations is shown below:

	Current assets	Current liabilities	Income	Expense
Companhia Brasileira de Cartuchos	256	16,277	1,191	27,641
CBC Participações	627	3,568	158,253	-
	883	19,845	159,444	27,641

Directors' fees and Board Members
The remuneration of directors and board members includes salaries, fees and benefits:

	Consolidated		Parent company	
	06/30/2018	06/30/2017	06/30/2018	06/30/2017
Salaries and benefits of statutory directors	**1,071**	737	**1,071**	737
Remuneration and benefits of the Board of Directors	**42**	105	**42**	105
Remuneration and benefits of the Tax Council	**120**	89	**120**	89
	1,233	931	**1,233**	931

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

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

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

	06/30/2018	12/31/2017
Forjas Taurus S.A.	**102,213**	113,581
Taurus Blindagens Ltda	**688,844**	575,690
	791,057	689,271

Notes to the financial statements

26. Discontinued operations

A discontinued operation is an item of the Group's business including operations and cash flows that can be clearly distinguished from the rest of the Group and that:

- represents a separate major line of business or geographical area of operations;
- It is part of a single coordinated plan to sell a separate major line of business or geographical area of operations; or
- is a subsidiary acquired only for the purpose of resale.
- The classification as a discontinued operation is made upon its disposal or when the operation fails to meet the criteria for being held for sale, if this occurs before.

When an operation is classified as a discontinued operation, the comparative statements of operations and the statement of comprehensive income are reissued as if the operation had been discontinued since the beginning of the comparative period.

In March 2018, the Board of Directors unanimously authorized the offer of the HELMETS business – represented by Taurus Blindagens Ltda and Taurus Blindagens Nordeste Ltda. – to the market.

The preparation of the schedule was under the responsibility of a specialized firm according to the proposal already accepted by the Company.

The Helmets' segment was not classified as a discontinued operation or classified as held-for-sale before. Statement of income for comparative period is being restated in order to present discontinued operation separately from continued operations.

Although intra-group transactions were completely eliminated from consolidated income, Company Management chose to attribute the elimination of transactions between continued and discontinued operations prior to disposal in order to reflect the continuity of these transactions after disposal, since Management believes that the information is useful to users of the financial statements. To achieve this presentation, Company Management – starting from the results of discontinued operations – eliminated inter-segment sales (and costs resulting from these sales, less unrealized profits) made prior to its disposal.

(a) Net income (loss) from discontinued operations

	06/30/2018	**06/30/2017**
Net sales	41,472	43,051
Elimination of inter-segment income	(4,499)	(6,649)
External income	36,973	36,402
Expenses / costs / net financial income (loss)	(43,864)	(44,727)
Elimination of inter-segment expenses	4,499	6,649
Foreign expenses	(39,365)	(38,078)
Income (loss) from operating activities	(2,392)	(1,676)
Taxes on profits	(166)	69
Net income (loss) of discontinued operations	**(2,558)**	**(1,607)**
Earnings per share - Basic (in R$)	**(0.034632)**	(0.021759)

Notes to the financial statements

Income (loss) from discontinued operations as of June 30, 2018 is R$ 2,558 thousand (R$ 1,607 thousand on June 30, 2017) is fully attributed to controlling shareholders.

(b) Cash flow from discontinued operations

	06/30/2018	06/30/2017
Net cash generated by operating activities	**(2,307)**	11,991
Net cash generated in investment activities	**(1,518)**	(3,019)
Net cash invested in financing activities	**(7,295)**	8,500
Net cash generated by discontinued operations	**(11,120)**	17,472

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

a) Capital

On June 30, 2018, the Company's capital was R$ 404,489 (R$ 404,489 thousand as of December 31, 2017), represented by 64,688,212 shares, of which 46,445,314 common shares and 18,242,898 preferred shares, all registered, book-entry and with no par value.

Preferred shares

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

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

(i) Transformation, Take-over, Merger or Spin-off of the Company;
(ii) Approval of agreements entered into between the Company and its Controlling Shareholder, as defined in Level 2 Regulation, directly of by means of third parties, as well as other companies in which the Controlling Shareholder holds interests, whenever, pursuant to law or statutory provision, such matters should be submitted to the General Meeting;
(iii) Appraisal of assets earmarked for the capital increase subscription of the Company;
(iv) Choice of a specialized company for determination of the Company's Economic Value;
under Chapter VII hereof; and
(v) Change or revocation of statutory provisions which change or modify any of the requirements established in item 4.1 Regulations of the Level 2, excepting that this voting right shall prevail only while the Contract of Participation of Level 2 Corporate Governance is in force.

Authorized shares (in thousands of shares)

	06/30/2018	06/30/2017
Common shares	51,851	51,851
Preferred shares	103,702	103,702
	155,553	155,553

Notes to the financial statements

Shares issued and fully paid-in

	Common		Preferred	
	Amount in thousands	**Amount in R$ thousand**	**Amount in thousands**	**Amount in R$ thousand**
As of June 30, 2017, R$ 1.68 (common shares) - R$ 1.72 (preferred shares)*	46,445	78,028	18,243	31,378
As of June 30, 2018, R$ 1.80 (common shares) - R$ 2.11 (preferred shares)*	**46,445**	**83,601**	**18,243**	**38,493**

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

b) Equity valuation adjustments

Deemed cost

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

Fair value of property investments

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

Accumulated translation adjustments

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

c) Earnings per share

Basic earnings per share - Continued operations	**06/30/2018**	06/30/2017
Income attributable to shareholders (in thousands of R$)	**(90,027)**	(29,464)
Balance of shares at the end of the year	**64,688,212**	64,688,212
Total shares according to CPC 41 – weighted average	**64,688,212**	64,688,212
Earnings per share - Basic (in R$)	**(1.3917)**	(0.4555)

Basic earnings per share - Discontinued operations	**06/30/2018**	06/30/2017
Income attributable to shareholders (in thousands of R$)	**(2,558)**	(2,441)
Balance of shares at the end of the year	**64,688,212**	64,688,212
Total shares according to CPC 41 – weighted average	**64,688,212**	64,688,212
Earnings per share - Basic (in R$)	**(0.0395)**	(0.0377)

Basic earnings per share	**06/30/2018**	06/30/2017
Income/(loss) attributable to shareholders (in thousands of R$)	**(92,584)**	(31,905)
Balance of shares at the end of the year	**64,688,212**	64,688,212
Total shares according to CPC 41 – weighted average	**64,688,212**	64,688,212
Earnings per share - Basic (in R$)	**(1.4312)**	(0.4932)

d) Capital transactions

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

Notes to the financial statements

28. Net operating income

According to CPC 47 / IFRS 15, income is recognized when the client obtains control of the products. If a reasonable estimate of potential return of goods cannot be made, when allowed, income recognition is deferred until the return period expires or until a reasonable estimate of the returns can be made.

Pursuant to CPC 47 / IFRS 15, income for these contracts will be recognized to the extent that it is probable that there will be no significant reversal in the amount of accumulated income. Consequently, for agreements in which the Company is unable to make a reasonable estimate of the returns, income is expected to be recognized prior to the expiry of the period of return or before it is possible to make a reasonable estimate. A reimbursement liability and an asset for recovery will be recognized for these contracts and will be reported separately on the balance sheet.

The Company adopted CPC 47 / IFRS 15 using the cumulative effect method (with no practical expedients), with initial application of the standard recognized on initial date (that is, January 1, 2018). Consequently, the information presented for 2017 was not restated and, accordingly, it was presented as formerly reported according to CPC 30 / IAS 18 and related interpretations.

No amount was determined to be adjusted on January 01, 2018 as a result of adopting this pronouncement.

Sales tax

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

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

	Consolidated		**Parent company**	
	06/30/2018	**06/30/2017**	**06/30/2018**	**06/30/2017**
Sales of goods	**492,238**	396,758	**333,416**	308,288
Rendering of services	12	4	12	4
Total gross revenue	**492,250**	396,762	**333,428**	308,292
Sales tax	**(57,917)**	(43,774)	**(28,500)**	(16,772)
Refunds and rebates	(3,090)	(2,104)	(2,671)	(1,307)
Total net operating revenue	**431,243**	**350,884**	**302,257**	**290,213**

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

Notes to the financial statements

29. Expenses per type

	Consolidated		Parent company	
	06/30/2018	06/30/2017	06/30/2018	06/30/2017
Expenses according to the role				
Cost of products sold	**(272,798)**	(258,140)	**(208,488)**	(226,853)
Sales expenses	**(48,539)**	(46,891)	**(20,636)**	(19,704)
General and administrative expenses	**(60,777)**	(63,736)	**(25,851)**	(37,953)
Other operating expenses	**(8,882)**	(6,740)	**(3,263)**	(2,985)
	(390,996)	(375,507)	**(258,238)**	(287,495)
Expenses per type				
Depreciation and amortization	**(16,657)**	(15,884)	**(3,738)**	(3,761)
Personnel expenses	**(111,656)**	(123,368)	**(32,464)**	(40,925)
Tax expenses	**(215)**	110	**-**	-
Raw materials and use and consumption materials	**(140,298)**	(110,736)	**(180,810)**	(195,371)
Auxiliary, conservation and maintenance materials	**(18,943)**	(24,292)	**(3,634)**	(2,278)
Freight and insurance	**(14,196)**	(15,000)	**(8,728)**	(8,937)
Third party services	**(14,192)**	(18,160)	**(7,289)**	(8,898)
Advertising and publicity	**(9,720)**	(9,101)	**(1,676)**	(1,659)
Expenses with product warranty	**(1,706)**	(4,260)	**(953)**	(3,565)
Water and electricity	**(6,069)**	(8,377)	**(765)**	(1,937)
Travel and accommodation	**(1,938)**	(2,880)	**(1,025)**	(1,874)
Commission expenses	**(12,877)**	(6,356)	**(6,260)**	490
Cost of write-off property, plant and equipment	**(6,158)**	(4,700)	**(120)**	(35)
Provision for contingencies	**(13,007)**	(17,316)	**(4,571)**	(13,576)
Rentals	**(450)**	(2,518)	**(390)**	(413)
Other expenses	**(22,914)**	(12,669)	**(5,815)**	(4,756)
	(390,996)	(375,507)	**(258,238)**	(287,495)

30. Net financial income (loss)

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

	Consolidated		Parent company	
	06/30/2018	06/30/2017	06/30/2018	06/30/2017
Financial expenses				
Interest	**(30,584)**	(48,039)	**(32,381)**	(44,017)
Exchange-rate changes	**(124,373)**	(30,379)	**(118,557)**	(29,130)
IOF	**(1,003)**	(1,013)	**(890)**	(726)
Other expenses	**(7,427)**	(7,934)	**(5,715)**	(11,494)
	(163,387)	(87,365)	**(157,543)**	(85,367)
Financial income				
Interest	**1,247**	1,459	**665**	1,134
Exchange-rate changes	**17,294**	18,400	**16,764**	17,470
Other income	**85**	314	**82**	276
	18,626	20,173	**17,511**	18,880
Net financial income (loss)	**(144,761)**	(67,192)	**(140,032)**	(66,487)

31. Insurance coverage

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

Notes to the financial statements

In 2018, insurance coverage for the Company was as follows:

	06/30/2018	
	Consolidated	**Parent company**
Material damages	410,680	80,000
Civil liability	203,060	15,000
Loss of profit	161,993	161,993

32. Provision for product warranty

The Company quantifies and records an estimate for the costs related to the warranty, according to historical and current repair costs. The provision for product warranty ensures that the repair costs in case of replacement or repair do not affect the operating results for the periods in which these additional costs occurred. Therefore, amounts are recorded for the accrual basis of accounting. As of June 30, 2018 and 2017, the balances are shown as follows:

	Consolidated		Parent company	
	06/30/2018	**12/31/2017**	**06/30/2018**	**12/31/2017**
Domestic market	**8,232**	8,232	**6,764**	5,122
Foreign market	**9,894**	8,488	**-**	-
Total	**18,126**	**16,720**	**6,764**	**5,122**
Current liabilities	**12,594**	11,974	**6,764**	5,122
Non-current liabilities	**5,532**	4,746	**-**	-

33. Subsequent events

Restructuring of the operations in the US market

On April 12, 2018, Taurus Manufactoring (USA) signed an Agreement with the Development Authority of Bainbridge and Decatur County, State of Georgia, to reallocate its US base from Miami, Florida, to Bainbridge, Georgia. The reallocation will occur when the Development Authority complete the construction of a manufacturing building of 18.5 thousand square meters. The construction project is expected to be completed in the fourth quarter of 2019. As soon as the building is completed, the Company will enter into a lease on the building with the Development Authority for US$ 10 per year (ten dollars per year) in the first 30 years, with the option to purchase the building for US$ 100 (one hundred dollars) after 30 years.

The Company will have to meet certain investment and employment targets up to 2025 to be entitled to several tax incentives listed in the Contract.

The estimated economic benefit to the Company of all tax and property incentives is approximately US$ 42,000,000 (forty-two million dollars).

Notes to the financial statements

Management believes that the transfer to Bainbridge, Georgia, will provide the Company with a strategic and competitive advantage that will enable it to increase the domestic production capacity to supply the US firearms market. In addition, the Company will be able to improve the market's awareness of the Taurus trademark as a result of the increase in product offerings that are designed and manufactured in the US. Also, the new base is more centrally located in relation to the customer base, which will enable to reduce operating expenses as compared to the current plant's location.

As a result of the reallocation, the Company listed its current US base in Miami, Florida, for sale and already has a memorandum of understanding signed for carrying out the sale to a buyer in December 2018. Immediately after the purchase and sale contract signature, the Company will sign a new contract, for property rental, up to December 31, 2019.

Renegotiation of Debt

The debt renegotiation process was completed on July 18, 2018, according to the details presented in Note 1 Operations.

Notes to the financial statements

Opinions and Statements / Special Review Report - Unqualified

Report on the review of quarterly information-ITR

To the Shareholders, Board Members and Directors of

Forjas Taurus S.A.

São Leopoldo - RS

Introduction

We have reviewed the interim, individual and consolidated interim financial information of Forjas Taurus S.A. ("Company"), contained in the Quarterly Information - ITR Form for the quarter ended June 30, 2018, which comprises the balance sheet as of June 30, 2018 and related statements of income, of comprehensive income for the 3 and 6-months period then ended, of changes in shareholders' equity and of cash flows for the quarter then ended, including the explanatory notes.

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

Scope of the review

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

Conclusion on the individual and consolidated interim information

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

Material going concern uncertainty

We call the attention to note 1 to the financial statements, which indicates that the Company incurred consolidated loss of R$ 92,584 thousand in the semester ended June 30, 2018 and, on this date, the consolidated current liabilities exceeded the consolidated current assets by R$ 552,461 thousand, and it has shareholders' deficit of R$ 510,127 thousand. As mentioned in note 1, these events or conditions, together with other issues described in that note, indicate the existence of relevant uncertainty that may raise significant doubt as to the Company's ability to continue as a going concern. Our opinion is not qualified in this respect.

Other issues - Statements of added value

The individual and consolidated interim financial information related to statements of added value (DVA) for the three-month period ended June 30, 2018, prepared under responsibility of Company's Management, and presented as supplementary information for IAS 34 purposes, was submitted to review procedures carried out jointly with the audit of Company's quarterly information. To form a conclusion, we evaluated whether these statements are reconciled with interim financial information and accounting records, as applicable, and whether their forms and contents are in accordance with criteria defined in Technical Pronouncement CPC 09 – Statement of Added Value. Based on our review, we are not aware of any other event that make us believe that those were not prepared, in all material respects, in accordance with individual and consolidated interim financial information taken as a whole.

Porto Alegre, August 10, 2018

KPMG Auditores Independentes

CRC SP014428/F-7

Cristiano Jardim Seguecio

Accountant CRC SP244525/O-9 T-RS

Notes to the financial statements

Notes to the financial statements

Opinions and Statements / Tax Council opinion or equivalent body

Fiscal council opinion

The Tax Council of Forjas Taurus S.A. In compliance with legal and statutory provisions, reviewed the information regarding the second quarter of 2018. Based on this review and on information contained in the Quarterly Information Review Report, issued without qualifications by KPMG Auditores Independentes and dated August 10, 2018, in addition to information and explanations received from the Company’s management, it represents that the mentioned documents are appropriate for disclosure.

São Leopoldo, August 10, 2018.

Haroldo Zago

President

Mauro César Medeiros de Mello

Board Member

Amoreti Franco Gibbon

Board Member

Notes to the financial statements

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

REPRESENTATION BY THE DIRECTORS OF FORJAS TAURUS S.A. ON THE FINANCIAL STATEMENTS FOR THE SECOND QUARTER OF 2018

Mr. Salesio Nuhs, Mr. Sergio Castilho Sgrillo Filho, Mr. Eduardo Minghelli and Mr. Ricardo Machado, Executive Officers of Forjas Taurus S.A., company with head office at Av. São Borja, 2181/Prédio A, CEP: 93.032-000, São Leopoldo, RS, enrolled in the EIN 92.781.335/0001-02, in compliance with provisions of items V and VI of article 25 of CVM Instruction 480, of December 07, 2009, state that they have reviewed, discussed and agreed with Financial Statements of Forjas Taurus S.A. and consolidated companies for the period from January 01, 2018 to June 30, 2018.

São Leopoldo, August 10, 2018.

Salesio Nuhs

CEO

Sergio Castilho Sgrillo Filho

Administrative and Financial Director

Investor Relations Director

Eduardo Minghelli

Executive Officer without specific designation

Ricardo Machado

Executive Officer without specific designation

Notes to the financial statements

Opinions and Statements / Statement of the Executive Officers on Independent Auditor's Report

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

Mr. Salesio Nuhs, Mr. Sergio Castilho Sgrillo Filho, Mr. Eduardo Minghelli and Mr. Ricardo Machado, Executive Officers of Forjas Taurus S.A., company with head office at Av. São Borja, 2181/Prédio A, CEP: 93.032-000, São Leopoldo, RS, enrolled in the CNPJ [EIN] 92.781.335/0001-02, as provided in sections V and VI, article 25, CVM Instruction 480, dated December 07, 2009, hereby represent that they reviewed, discussed and agreed with the opinions expressed KPMG Auditores Independentes, contained in the Independent Auditors' Review Report with regard to the Financial Statements for the period from January 01, 2018 to June 30, 2018, issued on August 10, 2018.

São Leopoldo, August 10, 2018.

Salesio Nuhs

CEO

Sergio Castilho Sgrillo Filho

Administrative and Financial Director

Investor Relations Director

Eduardo Minghelli

Executive Officer without specific designation

Ricardo Machado

Executive Officer without specific designation