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## Company Information/Capital Composition

Number of Shares (Units)	Current Quarter 03/31/2014
Of Paid-in Capital	
Common	47,137,539
Preferred	94,275,078
Total	141,412,617
Treasury shares	
Common	2,827,206
Preferred	9,608,901
Total	12,436,107

## Individual financial statements / Balance sheet - Assets

(In thousands of reais)

Account code	Account description	Current quarter 03/31/2014	Prior year 12/31/2013
1	Total assets	831,576	887,436
1.01	Current assets	307,280	370,502
1.01.01	Cash and cash equivalents	105,047	27,874
1.01.01.01	Cash and banks	14,111	4,102
1.01.01.02	Short-term investments	90,936	23,772
1.01.03	Accounts receivable	52,513	171,648
1.01.03.01	Customers	52,513	171,648
1.01.04	Inventories	76,337	80,702
1.01.06	Taxes recoverable	22,945	25,195
1.01.06.01	Current taxes recoverable	22,945	25,195
1.01.07	Prepaid expenses	1,910	1,897
1.01.08	Other current assets	48,528	63,186
1.01.08.03	Other	48,528	63,186
1.01.08.03.01	Financial instruments	32,680	45,096
1.01.08.03.03	Other receivables	15,848	18,090
1.02	Noncurrent assets	524,296	516,934
1.02.01	Long-term receivables	38,468	24,436
1.02.01.06	Deferred taxes	1,929	0
1.02.01.06.01	Deferred income and social contribution taxes	1,929	0
1.02.01.08	Receivables from related parties	33,351	21,115
1.02.01.08.04	Receivables from other related parties	33,351	21,115
1.02.01.09	Other noncurrent assets	3,188	3,321
1.02.01.09.03	Taxes recoverable	712	859
1.02.01.09.04	Other	2,476	2,462
1.02.02	Investments	426,684	430,477
1.02.02.01	Equity interests	426,684	430,477
1.02.02.01.02	Investments in subsidiaries	426,494	430,287
1.02.02.01.04	Other investments	190	190
1.02.03	Property, plant and equipment	54,697	57,379
1.02.03.01	Property, plant and equipment in use	49,213	52,174
1.02.03.01.01	Property, plant and equipment in use	49,213	52,174
1.02.03.03	Construction in progress	5,484	5,205
1.02.04	Intangible assets	4,447	4,642
1.02.04.01	Intangible assets	4,447	4,642
1.02.04.01.02	Intangible assets	4,447	4,642

## Individual financial statements / Balance sheet – Liabilities and equity

(In thousands of reais)

Account code	Account description	Current quarter 03/31/2014	Prior year 12/31/2013
2	Total liabilities and equity	831,576	887,436
2.01	Current liabilities	554,837	591,581
2.01.01	Social and labor liabilities	14,410	18,149
2.01.01.01	Social security obligations	2,902	4,506
2.01.01.02	Labor obligations	11,508	13,643
2.01.02	Trade accounts payable	55,937	63,487
2.01.02.01	Domestic suppliers	54,336	61,758
2.01.02.02	Foreign suppliers	1,601	1,729
2.01.03	Tax liabilities	2,829	3,508
2.01.03.01	Federal tax liabilities	2,763	988
2.01.03.01.01	Income and social contribution taxes payable	1,667	675
2.01.03.01.02	Other taxes	1,096	313
2.01.03.02	State tax obligations	61	2,515
2.01.03.03	Municipal tax obligations	5	5
2.01.04	Loans and financing	359,586	381,968
2.01.04.01	Loans and financing	305,226	324,403
2.01.04.01.01	In local currency	123,660	136,867
2.01.04.01.02	In foreign currency	181,566	187,536
2.01.04.02	Debentures	54,360	57,565
2.01.05	Other payables	113,966	116,600
2.01.05.02	Other	113,966	116,600
2.01.05.02.01	Dividends and interest on equity payable	7	7
2.01.05.02.05	Foreign exchange payable	62,322	0
2.01.05.02.06	Derivative financial instruments	12,456	9,010
2.01.05.02.07	Advance on receivables	7,333	71,040
2.01.05.02.08	Other payables	31,848	36,543
2.01.06	Provisions	8,109	7,869
2.01.06.01	Tax, social security, labor and civil provisions	3,375	3,135
2.01.06.01.02	Social security and labor provisions	3,375	3,135
2.01.06.02	Other provisions	4,734	4,734
2.01.06.02.01	Provision for warranty	4,734	4,734
2.02	Noncurrent liabilities	141,997	149,862
2.02.01	Loans and financing	103,075	110,425
2.02.01.01	Loans and financing	103,075	110,425
2.02.01.01.01	In local currency	45,033	60,132
2.02.01.01.02	In foreign currency	58,042	50,293
2.02.02	Other payables	38,534	35,593
2.02.02.02	Other	38,534	35,593
2.02.02.02.03	Taxes payable	1,358	1,444
2.02.02.02.04	Provision for capital deficiency	31,943	31,035
2.02.02.02.05	Other payables	5,233	3,114
2.02.03	Deferred taxes	0	3,456
2.02.03.01	Deferred income and social contribution taxes	0	3,456
2.02.04	Provisions	388	388
2.02.04.01	Tax, social security, labor and civil provisions	388	388
2.02.04.01.01	Tax provisions	388	388

## Individual financial statements / Balance sheet – Liabilities and equity

(In thousands of reais)

Account code	Account description	Current quarter 03/31/2014	Prior year 12/31/2013
2.03	Equity	134,742	145,993
2.03.01	Realized capital	257,797	257,797
2.03.02	Capital reserves	-73,891	-73,891
2.03.02.05	Treasury shares	-32,895	-32,895
2.03.02.09	Capital transactions	-40,996	-40,996
2.03.05	Retained earnings (accumulated losses)	-104,014	-99,659
2.03.06	Equity valuation adjustments	37,298	37,483
2.03.07	Cumulative translation adjustments	17,552	24,263

## Individual financial statements / Income statement

(In thousands of reais)

Account code	Account description	YTD	Same prior-year period
		01/01/2014 to 03/31/2014	01/01/2013 to 03/31/2013
3.01	Revenue from sale of products and/or services	75,870	77,979
3.02	Cost of goods sold and/or services rendered	-62,132	-63,720
3.03	Gross profit	13,738	14,259
3.04	Operating income (expenses)	-14,391	6,475
3.04.01	Selling expenses	-8,070	-6,030
3.04.02	General and administrative expenses	-6,707	-7,859
3.04.04	Other operating income	744	46
3.04.05	Other operating expenses	-1,947	-745
3.04.06	Equity pickup	1,589	21,063
3.05	Income (loss) before financial income (expenses) and taxes	-653	20,734
3.06	Financial income (expenses)	-7,966	-10,410
3.06.01	Financial income	32,863	10,742
3.06.02	Financial expenses	-40,829	-21,152
3.07	Income (loss) before income taxes	-8,619	10,324
3.08	Income and social contribution taxes	4,079	-1,130
3.08.01	Current	-1,306	0
3.08.02	Deferred	5,385	-1,130
3.09	Net income (loss) from continuing operations	-4,540	9,194
3.11	Net income (loss) for the period	-4,540	9,194
3.99	Earnings (loss) per share – (Reais/Share)		
3.99.01	Basic earnings (loss) per share		
3.99.01.01	ON	-0.03210	0.06502
3.99.01.02	PN	-0.03210	0.06502
3.99.02	Diluted earnings (loss) per share		
3.99.02.01	ON	-0.03210	0.06502
3.99.02.02	PN	-0.03210	0.06502

## Individual financial statements / Statement of comprehensive income

(In thousands of reais)

Account code	Account description	YTD	Same prior-year period
		01/01/2014 to 03/31/2014	01/01/2013 to 03/31/2013
4.01	Net income (loss) for the period	-4,540	9,194
4.02	Other comprehensive income (loss)	-6,711	-1,108
4.02.01	Translation adjustments for the period	-6,711	-2,074
4.02.03	Adjustments to financial instruments	0	966
4.03	Comprehensive income (loss) for the period	-11,251	8,086

## Individual financial statements / Cash flow statement – Indirect method

(In thousands of reais)

Account code	Account description	YTD	Same prior-year period
		01/01/2014 to 03/31/2014	01/01/2013 to 03/31/2013
6.01	Net cash from operating activities	121,459	-14,878
6.01.01	Cash from operations	2,207	-4,947
6.01.01.01	Income (loss) before income and social contribution taxes	-8,619	10,324
6.01.01.02	Depreciation and amortization	2,845	2,985
6.01.01.03	Cost of permanent assets written off	683	0
6.01.01.04	Allowance for doubtful accounts	-496	-15
6.01.01.05	Equity pickup	-1,589	-21,063
6.01.01.07	Provision for derivative financial instruments	7,766	-1,104
6.01.01.08	Provision for interest on loans and financing	1,341	3,362
6.01.01.09	Change in investment in subsidiaries	36	204
6.01.01.12	Provision for contingencies	240	360
6.01.02	Changes in assets and liabilities	119,252	-9,931
6.01.02.01	Decrease (increase) in customers	119,630	-5,112
6.01.02.02	(Increase) in inventories	4,365	-9,438
6.01.02.03	Decrease (increase) in other accounts receivable	4,480	-1,288
6.01.02.04	(Decrease) increase in suppliers	-7,550	1,812
6.01.02.05	(Decrease) in accounts payable and provisions	-1,673	4,095
6.02	Net cash used in investing activities	-13,212	-16,040
6.02.01	Receivables from related companies	-12,236	-11,926
6.02.02	Other long-term receivables	133	350
6.02.03	In investments	-458	-438
6.02.04	In property, plant and equipment	-622	-3,985
6.02.05	In intangible assets	-29	-41
6.03	Net cash from financing activities	-31,074	-3,952
6.03.02	Loans raised	32,367	7,440
6.03.03	Loans repayment	-52,812	-2,797
6.03.06	Payment of interest on loans	-10,629	-8,595
6.05	Increase (decrease) in cash and cash equivalents	77,173	-34,870
6.05.01	Opening balance of cash and cash equivalents	27,874	101,560
6.05.02	Closing balance of cash and cash equivalents	105,047	66,690



## Individual financial statements / Statement of changes in equity (SCE) - 01/01/2014 to 03/31/2014

(In thousands of reais)

Account code	Account description	Paid-in capital	Capital reserves, options granted and treasury stock	Income reserve	Retained earnings/ accumulated losses	Other comprehensive income/losses	Equity
5.01	Opening balances	257,797	-73,891	0	-99,659	61,746	145,993
5.03	Adjusted opening balances	257,797	-73,891	0	-99,659	61,746	145,993
5.05	Total comprehensive income (loss)	0	0	0	-4,355	-6,896	-11,251
5.05.01	Net income (loss) for the period	0	0	0	-4,540	0	-4,540
5.05.02	Other comprehensive income (loss)	0	0	0	185	-6,896	-6,711
5.05.02.04	Translation adjustments for the period	0	0	0	0	-6,711	-6,711
5.05.02.06	Realization of equity valuation adjustments	0	0	0	185	-185	0
5.07	Closing balances	257,797	-73,891	0	-104,014	54,850	134,742

## Individual financial statements / Statement of changes in equity (SCE) - 01/01/2013 to 03/31/2013

(In thousands of reais)

Account code	Account description	Paid-in capital	Capital reserves, options granted and treasury stock	Income reserve	Retained earnings/ accumulated losses	Other comprehensive /losses	Equity
5.01	Opening balances	257,797	-73,891	321	-20,604	38,157	201,780
5.03	Adjusted opening balances	257,797	-73,891	321	-20,604	38,157	201,780
5.05	Total comprehensive income (loss)	0	0	0	9,667	-1,581	8,086
5.05.01	Net income (loss) for the period	0	0	0	9,194	0	9,194
5.05.02	Other comprehensive income (loss)	0	0	0	473	-1,581	-1,108
5.05.02.01	Adjustments to financial instruments	0	0	0	0	966	966
5.05.02.04	Translation adjustments for the period	0	0	0	0	-2,074	-2,074
5.05.02.06	Realization of equity valuation adjustments	0	0	0	473	-473	0
5.07	Closing balances	257,797	-73,891	321	-10,937	36,576	209,866

## Individual financial statements / Statement of value added

(In thousands of reais)

Account code	Account description	YTD	Same prior-year period
		01/01/2014 to 03/31/2014	01/01/2013 to 03/31/2013
7.01	Revenues	90,122	87,638
7.01.01	Sales of goods, products and services	89,560	85,156
7.01.02	Other revenues	66	2,497
7.01.04	Set up/reversal of allowance for doubtful accounts	496	-15
7.02	Inputs acquired from third parties	-57,003	-51,746
7.02.01	Cost of products, goods and services sold	-46,334	-35,987
7.02.02	Materials, energy, third-party services and others	-10,669	-15,759
7.03	Gross value added	33,119	35,892
7.04	Retentions	-2,845	-2,985
7.04.01	Depreciation, amortization and depletion	-2,845	-2,985
7.05	Net value added produced by the entity	30,274	32,907
7.06	Value added received in transfer	34,452	31,805
7.06.01	Equity pickup	1,589	21,063
7.06.02	Financial income	32,863	10,742
7.07	Total value added to be distributed	64,726	64,712
7.08	Distribution of value added	64,726	64,712
7.08.01	Personnel	22,590	24,068
7.08.01.01	Direct compensation	18,801	18,780
7.08.01.02	Benefits	2,351	3,870
7.08.01.03	Unemployment compensation fund (FGTS)	1,438	1,418
7.08.02	Taxes, charges and contributions	4,259	7,574
7.08.02.01	Federal	3,239	5,890
7.08.02.02	State	1,019	1,525
7.08.02.03	Municipal	1	159
7.08.03	Remuneration of third-party capital	42,417	23,876
7.08.03.01	Interest	40,829	21,098
7.08.03.02	Rents	1,588	1,453
7.08.03.03	Other	0	1,325
7.08.04	Equity remuneration	-4,540	9,194
7.08.04.03	Retained earnings (accumulated losses) for the period	-4,540	9,194

## Consolidated financial statements / Balance sheet - Assets

(In thousands of reais)

Account code	Account description	Current quarter 03/31/2014	Prior year 12/31/2013
1	Total assets	1,089,166	1,184,094
1.01	Current assets	695,925	782,672
1.01.01	Cash and cash equivalents	232,809	281,119
1.01.01.01	Cash and banks	101,797	206,664
1.01.01.02	Short-term investments	131,012	74,455
1.01.03	Accounts receivable	132,083	161,660
1.01.03.01	Customers	132,083	161,660
1.01.04	Inventories	222,824	218,269
1.01.06	Taxes recoverable	33,151	35,785
1.01.06.01	Current taxes recoverable	33,151	35,785
1.01.07	Prepaid expenses	8,732	9,059
1.01.08	Other current assets	66,326	76,780
1.01.08.01	Noncurrent assets for sale	5,446	5,588
1.01.08.03	Other	60,880	71,192
1.01.08.03.01	Derivative financial instruments	32,734	45,212
1.01.08.03.02	Other receivables	28,146	25,980
1.02	Noncurrent assets	393,241	401,422
1.02.01	Long-term receivables	51,512	50,814
1.02.01.06	Deferred taxes	45,459	44,364
1.02.01.06.01	Deferred income and social contribution taxes	45,459	44,364
1.02.01.09	Other noncurrent assets	6,053	6,450
1.02.01.09.03	Taxes recoverable	1,786	2,179
1.02.01.09.04	Other	4,267	4,271
1.02.02	Investments	14,221	14,543
1.02.02.01	Investments	14,221	14,543
1.02.02.01.01	Investments in affiliates	13,872	14,194
1.02.02.01.04	Other investments	349	349
1.02.03	Property, plant and equipment	261,888	268,484
1.02.03.01	Property, plant and equipment in use	234,961	242,456
1.02.03.03	Construction in progress	26,927	26,028
1.02.04	Intangible assets	65,620	67,581
1.02.04.01	Intangible assets	65,620	67,581

## Consolidated financial statements / Balance sheet – Liabilities and equity

(In thousands of reais)

Account code	Account description	Current quarter 03/31/2014	Prior year 12/31/2013
2	Total liabilities and equity	1,089,166	1,184,094
2.01	Current liabilities	679,449	737,474
2.01.01	Social and labor liabilities	24,471	29,768
2.01.01.01	Social security obligations	6,525	9,324
2.01.01.02	Labor obligations	17,946	20,444
2.01.02	Trade accounts payable	21,455	32,978
2.01.02.01	Domestic suppliers	13,647	19,571
2.01.02.02	Foreign suppliers	7,808	13,407
2.01.03	Tax liabilities	16,583	18,287
2.01.03.01	Federal tax liabilities	12,247	12,131
2.01.03.01.01	Income and social contribution taxes payable	10,365	10,992
2.01.03.01.02	Other taxes	1,882	1,139
2.01.03.02	State tax obligations	4,320	6,139
2.01.03.03	Municipal tax obligations	16	17
2.01.04	Loans and financing	412,993	446,095
2.01.04.01	Loans and financing	358,633	388,530
2.01.04.01.01	In local currency	169,467	178,136
2.01.04.01.02	In foreign currency	189,166	210,394
2.01.04.02	Debentures	54,360	57,565
2.01.05	Other payables	190,280	196,451
2.01.05.02	Other	190,280	196,451
2.01.05.02.01	Dividends and interest on equity payable	7	7
2.01.05.02.04	Derivative financial instruments	13,074	9,595
2.01.05.02.05	Foreign exchange payable	62,322	0
2.01.05.02.06	Advance on real estate credits	17,015	19,606
2.01.05.02.08	Advance on receivables	53,914	115,972
2.01.05.02.09	Other payables	43,948	51,271
2.01.06	Provisions	13,667	13,895
2.01.06.01	Tax, social security, labor and civil provisions	7,049	6,897
2.01.06.01.02	Social security and labor provisions	7,049	6,897
2.01.06.02	Other provisions	6,618	6,998
2.01.06.02.01	Provision for warranty	6,618	6,998
2.02	Noncurrent liabilities	274,975	300,627
2.02.01	Loans and financing	250,490	273,151
2.02.01.01	Loans and financing	250,490	273,151
2.02.01.01.01	In local currency	108,061	134,273
2.02.01.01.02	In foreign currency	142,429	138,878
2.02.02	Other payables	11,164	9,495
2.02.02.02	Other	11,164	9,495
2.02.02.02.04	Taxes payable	3,921	4,371
2.02.02.02.05	Other payables	7,243	5,124
2.02.03	Deferred taxes	8,226	12,872
2.02.03.01	Deferred income and social contribution taxes	8,226	12,872
2.02.04	Provisions	5,095	5,109
2.02.04.01	Tax, social security, labor and civil provisions	5,095	5,109
2.02.04.01.01	Tax provisions	4,946	4,944

## Consolidated financial statements / Balance sheet – Liabilities and equity

(In thousands of reais)

Account code	Account description	Current quarter 03/31/2014	Prior year 12/31/2013
2.02.04.01.02	Social security and labor provisions	149	165
2.03	Consolidated equity	134,742	145,993
2.03.01	Realized capital	257,797	257,797
2.03.02	Capital reserves	-73,891	-73,891
2.03.02.05	Treasury shares	-32,895	-32,895
2.03.02.09	Capital transactions	-40,996	-40,996
2.03.05	Retained earnings (accumulated losses)	-104,014	-99,659
2.03.06	Equity valuation adjustments	37,298	37,483
2.03.07	Cumulative translation adjustments	17,552	24,263

## Consolidated financial statements / Income statement

(In thousands of reais)

Account code	Account description	YTD	Same prior-year period
		01/01/2014 to 03/31/2014	01/01/2013 to 03/31/2013
3.01	Revenue from sale of products and/or services	168,126	228,695
3.02	Cost of goods sold and/or services rendered	-122,418	-150,744
3.03	Gross profit	45,708	77,951
3.04	Operating income (expenses)	-41,171	-40,918
3.04.01	Selling expenses	-22,448	-22,208
3.04.02	General and administrative expenses	-16,085	-16,866
3.04.04	Other operating income	1,759	1,513
3.04.05	Other operating expenses	-4,075	-3,430
3.04.06	Equity pickup	-322	73
3.05	Income before financial income (expenses) and taxes	4,537	37,033
3.06	Financial income (expenses)	-9,884	-13,026
3.06.01	Financial income	37,081	13,841
3.06.02	Financial expenses	-46,965	-26,867
3.07	Income (loss) before income taxes	-5,347	24,007
3.08	Income and social contribution taxes	807	-14,813
3.08.01	Current	-4,656	-9,615
3.08.02	Deferred	5,463	-5,198
3.09	Net income (loss) from continuing operations	-4,540	9,194
3.11	Net income (loss) for the period	-4,540	9,194
3.11.01	Attributed to shareholders of parent company	-4,540	9,194
3.99	Earnings (loss) per share – (Reais/Share)		
3.99.01	Basic earnings (loss) per share		
3.99.01.01	ON	-0.03210	0.06502
3.99.01.02	PN	-0.03210	0.06502
3.99.02	Diluted earnings (loss) per share		
3.99.02.01	ON	-0.03210	0.06502
3.99.02.02	PN	-0.03210	0.06502

## Consolidated financial statements / Statement of comprehensive income

(In thousands of reais)

Account code	Account description	YTD	Same prior-year period
		01/01/2014 to 03/31/2014	01/01/2013 to 03/31/2013
4.01	Consolidated net income (loss) for the period	-4,540	9,194
4.02	Other comprehensive income (loss)	-6,711	-1,108
4.02.01	Translation adjustments for the period	-6,711	-2,074
4.02.02	Adjustments to financial instruments	0	966
4.03	Consolidated comprehensive income (loss) for the period	-11,251	8,086
4.03.01	Attributed to shareholders of parent company	-11,251	8,086



## Consolidated financial statements / Cash flow statement – Indirect method

(In thousands of reais)

Account code	Account description	YTD	Same prior-year period
		01/01/2014 to 03/31/2014	01/01/2013 to 03/31/2013
6.01	Net cash from operating activities	12,973	89,919
6.01.01	Cash from operations	11,865	38,347
6.01.01.01	Income (loss) before income and social contribution taxes	-5,347	24,007
6.01.01.02	Depreciation and amortization	8,078	8,083
6.01.01.03	Cost of permanent assets written off	1,116	1,145
6.01.01.05	Equity pickup	322	-73
6.01.01.06	Provision for derivative financial instruments	7,969	-964
6.01.01.07	Allowance for doubtful accounts	-665	1,045
6.01.01.10	Provision for interest on loans and financing	254	4,288
6.01.01.19	Provision for contingencies	138	816
6.01.02	Changes in assets and liabilities	2,212	53,610
6.01.02.01	Decrease (increase) in customers	30,241	-13,805
6.01.02.02	Decrease (increase) in inventories	-4,555	33,825
6.01.02.03	Decrease (increase) in other accounts receivable	-3,338	532
6.01.02.04	(Decrease) increase in suppliers	-11,523	-3,307
6.01.02.05	Increase (decrease) in accounts payable and provisions	-8,613	36,365
6.01.03	Other	-1,104	-2,038
6.01.03.01	Profits and dividends received from subsidiaries	0	262
6.01.03.04	Payment of income and social contribution taxes	-1,104	-2,300
6.02	Net cash used in investing activities	-2,675	-10,964
6.02.02	Other receivables	397	-109
6.02.04	In property, plant and equipment	-2,566	-10,799
6.02.05	In intangible assets	-506	-56
6.03	Net cash from financing activities	-58,608	-12,398
6.03.02	Loans raised	34,339	9,945
6.03.03	Repayment of loans	-77,279	-8,824
6.03.07	Interest paid on real estate credit	-626	-923
6.03.08	Real estate credits	-2,591	-2,155
6.03.10	Payment of interest on loans	-12,451	-10,114
6.03.11	Other	0	-327
6.05	Increase (decrease) in cash and cash equivalents	-48,310	66,557
6.05.01	Opening balance of cash and cash equivalents	281,119	180,781
6.05.02	Closing balance of cash and cash equivalents	232,809	247,338

## Consolidated financial statements / Statements of changes in equity (SCE) - 01/01/2014 to 03/31/2014

(In thousands of reais)

Account code	Account description	Paid-in capital	Capital reserve, options granted and treasury stock	Income reserve	Retained earnings/ accumulated losses	Other comprehensive income/ loss	Equity	Non-controlling interest	Consolidated equity
5.01	Opening balances	257,797	-73,891	0	-99,659	61,746	145,993	0	145,993
5.03	Adjusted opening balances	257,797	-73,891	0	-99,659	61,746	145,993	0	145,993
5.05	Total comprehensive income (loss)	0	0	0	-4,355	-6,896	-11,251	0	-11,251
5.05.01	Net income (loss) for the period	0	0	0	-4,540	0	-4,540	0	-4,540
5.05.02	Other comprehensive income (loss)	0	0	0	185	-6,896	-6,711	0	-6,711
5.05.02.04	Translation adjustments for the period	0	0	0	0	-6,711	-6,711	0	-6,711
5.05.02.06	Realization of equity valuation adjustments	0	0	0	185	-185	0	0	0
5.07	Closing balances	257,797	-73,891	0	-104,014	54,850	134,742	0	134,742

## Consolidated financial statements / Statement of changes in equity (SCE) - 01/01/2013 to 03/31/2013

(In thousands of reais)

Account code	Account description	Paid-in capital	Capital reserve, options granted and treasury stock	Income reserve	Retained earnings/ accumulated losses	Other comprehensive income/ loss	Equity	Non-controlling interest	Consolidated equity
5.01	Opening balances	257,797	-73,891	321	-20,604	38,157	201,780	0	201,780
5.03	Adjusted opening balances	257,797	-73,891	321	-20,604	38,157	201,780	0	201,780
5.05	Total comprehensive income (loss)	0	0	0	9,667	-1,581	8,086	0	8,086
5.05.01	Net income (loss) for the period	0	0	0	9,194	0	9,194	0	9,194
5.05.02	Other comprehensive income (loss)	0	0	0	473	-1,581	-1,108	0	-1,108
5.05.02.01	Adjustments to financial instruments	0	0	0	0	966	966	0	966
5.05.02.04	Translation adjustments for the period	0	0	0	0	-2,074	-2,074	0	-2,074
5.05.02.06	Realization of equity valuation adjustments	0	0	0	473	-473	0	0	0
5.07	Closing balances	257,797	-73,891	321	-10,937	36,576	209,866	0	209,866

## Consolidated financial statements / Statement of value added

(In thousands of reais)

Account code	Account description	YTD	Same prior-year period
		01/01/2014 to 03/31/2014	01/01/2013 to 03/31/2013
7.01	Revenues	200,413	264,315
7.01.01	Sales of goods, products and services	198,773	263,776
7.01.02	Other revenues	975	1,584
7.01.04	Set up/reversal of allowance for doubtful accounts	665	-1,045
7.02	Inputs acquired from third parties	-126,710	-168,338
7.02.01	Cost of products, goods and services sold	-84,610	-101,570
7.02.02	Materials, energy, third-party services and others	-42,100	-66,768
7.03	Gross value added	73,703	95,977
7.04	Retentions	-8,078	-8,083
7.04.01	Depreciation, amortization and depletion	-8,078	-8,083
7.05	Net value added produced by the entity	65,625	87,894
7.06	Value added received in transfer	36,759	13,914
7.06.01	Equity pickup	-322	73
7.06.02	Financial income	37,081	13,841
7.07	Total value added to be distributed	102,384	101,808
7.08	Distribution of value added	102,384	101,808
7.08.01	Personnel	40,927	50,232
7.08.01.01	Direct compensation	33,549	41,593
7.08.01.02	Benefits	5,070	6,362
7.08.01.03	Unemployment compensation fund (FGTS)	2,308	2,277
7.08.02	Taxes, charges and contributions	18,724	9,255
7.08.02.01	Federal	16,791	6,380
7.08.02.02	State	1,932	2,557
7.08.02.03	Municipal	1	318
7.08.03	Remuneration of third-party capital	47,273	33,127
7.08.03.01	Interest	46,965	26,375
7.08.03.02	Rents	308	3,117
7.08.03.03	Other	0	3,635
7.08.04	Equity remuneration	-4,540	9,194
7.08.04.03	Retained earnings (accumulated losses) for the period	-4,540	9,194



RELEASE

1Q14



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**Porto Alegre, May 15, 2014** - Forjas Taurus S.A. (**BM&FBOVESPA: FJTA3, FJTA4**), which operates in the **(i) Defense and Security** industry – as the largest weapons manufacturer in Latin America and one of the largest in the world; and in the **(ii) Metallurgy and Plastics** industry – as a market leader in the production of motorcycle helmets, and also manufactures bullet proof vests, antiriot shields, plastic containers and forged and injected parts (M.I.M – Metal Injection Molding), reports hereby its results for the **1st quarter of 2014 (1Q14)** in comparison with the **4th quarter of 2013 (4Q13)** and the **first quarter of 2013 (1Q13)**. The Company's operating and financial information was consolidated in accordance with International Financial Reporting Standards – IRFS and amounts are expressed in millions of reais, unless otherwise stated.

## HIGHLIGHTS FOR THE 1st QUARTER OF 2014 (1Q14)

- ✓ **Approval of capitalization of the Company in the Extraordinary General Meeting of April 29, 2014**, with capital increase through subscription of shares of up to R\$ 201 million, in the proportion of 1/3rd ON and 2/3rd PN, with partial subscription of at least R\$ 50 million;
- ✓ **Communication to Shareholders disclosed on May 6, 2014** about capital increase of up to R\$ 201 million, through issue of up to 48,528,020 common and 97,056,038 preferred shares, at issue price of R\$1.38 per share. Shareholders trading on stock exchange will still have right of first refusal until May 27, 2014 (cut-off date); the shares will be traded without right of first refusal (ex-subscription) as from May 28, 2014, with 2 apportionments of remaining shares, after exercise of right of first refusal until June 27, 2014;
- ✓ **Approval of the Financial Statements of 2013 and also for 2012**, due to the voluntary restatement thereof in the Common General Meeting/Extraordinary General Meeting of April 30, 2014;
- ✓ **Election of Supervisory Board members** in the Ordinary General Meeting/Extraordinary General Meeting of 04/30/14;
- ✓ **Resignation of Board of Directors member** Fernando José Soares Estima on 04/25/14, determining election of the whole Board since its members were elected by multiple voting (art. 141 of Brazilian Corporation Law);
- ✓ **Obtaining of waiver of accelerated maturity enforcement on 04/30/14** by Banco Itaú Unibanco S.A., related to the total Bank Credit Bill of R\$ 93 million at 03/31/2014. This waiver is granted due to the noncompliance with the covenants related to financial indices at 12/31/13. In view of this, approximately R\$ 49.5 million currently stated under the short term portion will be stated under the long term portion in 2Q14;
- ✓ **Obtaining of waiver of accelerated maturity enforcement on 05/14/14** by Banco Citibank S.A., related to the total Export Credit Bill (NCE) of R\$ 20.3 million at 03/31/2014. This waiver is granted due to the noncompliance with the covenants related to financial indices at 12/31/13. In view of this, approximately R\$ 6.8 million currently stated under the short term portion will be stated under the long term portion in 2Q14;
- ✓ **General Debenture Holders Meeting convened for 06/03/2014** to address non-enforcement of accelerated maturity of 2<sup>nd</sup> issue debentures. Upon obtaining of waiver, considering the position at 03/31/2014, approximately R\$23.1 million will be transferred to long-term portion in 2Q14;



- ✓ **Settlement of 1<sup>st</sup> series debentures on 04/15/14**, in the amount of R\$15 million;
- ✓ **Working capital stability compared to Dec/13**, of approximately R\$290 million, with 1% decrease in inventories, especially of products in process, which decreased 4%;
- ✓ **Gradual operating improvements**, resulting in increase in sales in the domestic market by 11% compared to 1Q13, both in Brazil and abroad in relation to 4Q13;
- ✓ **Recovery of margins** of helmets compared to 1Q13 and 4Q13;
- ✓ **Decrease in the number of portfolio products** (SKUs) from 5,000 in December/13 to approximately 800 in March/14, with the target of reduction to 400 until the end of 2Q14, focusing on products with higher margins and cost adjustments;
- ✓ **Speeding up the manufacture management process** (implementation of lean manufacturing), hiring a specialized consulting firm;
- ✓ **Consolidated net revenue amounted to R\$ 168.1 million, up 7.7%** compared to R\$ 156.1 million in 4Q13, thanks to an increase in the foreign market, even though there was a 26.5% decrease when compared to 1Q13, explained by the decrease in exports, especially to the USA due to more aggressive operation of competitors (promotions, price discounts) in a less kindled market when compared to 1Q13;
- ✓ **Net revenue in the foreign market of R\$ 105.8 million**, up 8.9% compared to 4Q13 and down 38.7% compared to 1Q13, when there was high demand in the USA;
- ✓ **The share of revenue from sales to other countries** doubled, from 4% (1Q13) to 8% in 1Q14;
- ✓ **Total net revenue in the domestic market of R\$ 62.4 million, increased 11% compared to 1Q13 and 5.8% compared to 4Q13**, with increased demand in the public security and private sectors in the period;
- ✓ **Revenue from the weapons segment reaches R\$124 million in 1Q14**, up 5.2% compared to 4Q13, accounting for 73.8% of net revenue;
- ✓ **Revenue from the helmets segment reaches R\$32.6 million in 1Q14**, up 9.1% compared to 1Q13 and up 7.6% compared to 4Q13, accounting for 19.4% of net revenue;
- ✓ **Gross profit amounted to R\$ 45.7 million, up 28.8% compared to 4Q13**, with gross margin increase from 22.7% to 27.2% in 1Q14, with a reduced portfolio focused on products with higher margin; and down 41.4% compared to 1Q13, when production and sales were above historical average for the period due to high demand in the USA market;
- ✓ **Stable operating expenses** in 1Q14 compared to 1Q13 and down 53.1% compared to 4Q13, due to non-recurring expenses;
- ✓ **Gross profit for the weapons segment** amounted to R\$ 30.2 million, up 0.5% compared to 4Q13, with gross margin of 24.3%;
- ✓ **Gross profit for the helmets segment** totaled R\$ 11.6 million, up 32.4% compared to 4Q13 and up 12.7% compared to 1Q13, with gross margin of 35.6%, higher than the 28.9% margin for 4Q13;
- ✓ **Adjusted EBITDA of R\$ 14.3 million**, a recovery in relation to negative adjusted EBITDA of R\$ 12.6 million in 4Q13;



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- ✓ **Net financial expenses** were down 24.1% compared to 1Q13 and down 51% compared to 4Q13;
- ✓ **Significant decrease in loss** of R\$ 4.5 million in 1Q14, compared to loss of R\$ 70.2 million in 4Q13;
- ✓ **Investments (CAPEX)** of R\$ 3.1 million in 1Q14, compared to R\$ 10.9 million in 1Q13 and R\$ 7.6 million in 4Q13, also CAPEX of R\$55.2 million for 2014 was approved in the Ordinary General Meeting of 04/30/14;
- ✓ **Equity** of R\$135 million; and
- ✓ **Total assets** of R\$ 1,089 million at 03/31/14.

## 1– Economic and Financial Performance

### 1.1 - Main Economic and Financial Indicators

Consolidated amounts in millions of Brazilian reais, except where otherwise indicated

Ratios	1Q14	4Q13	1Q13	Variation %	
				1Q14/1Q13	1Q14/4Q13
<b>Net revenue</b>	<b>168.1</b>	<b>156.1</b>	<b>228.7</b>	<b>-26.5%</b>	<b>7.7%</b>
Domestic market	62.4	59.0	56.2	11.0%	5.8%
Foreign market	105.8	97.1	172.5	-38.7%	8.9%
COGS	122.4	120.6	150.7	-18.8%	1.5%
Gross Profit	45.7	35.5	78.0	-41.4%	28.8%
<b>Gross Margin - %</b>	<b>27.2%</b>	<b>22.7%</b>	<b>34.1%</b>	<b>-6.9 p.p.</b>	<b>4.4 p.p.</b>
Operating Expenses	-41.2	-87.8	-40.9	0.6%	-53.1%
Operating Profit (EBIT)	4.5	-52.3	37.0	-87.7%	-108.7%
<b>EBIT Margin - %</b>	<b>2.7%</b>	<b>-33.5%</b>	<b>16.2%</b>	<b>-13.5 p.p.</b>	<b>36.2 p.p.</b>
Net Financial Income	-9.9	-20.2	-13.0	-24.1%	-51.0%
Depreciation and amortization (1)	8.1	9.1	8.1	0.0%	-11.3%
Net Income - Continuing Operations	-4.5	-70.2	9.2	-149.4%	-93.5%
<b>Net Income Margin - Cont. Operations</b>	<b>-2.7%</b>	<b>-45.0%</b>	<b>4.0%</b>	<b>-6.7 p.p.</b>	<b>42.3 p.p.</b>
Net Income - Discontinuing Operations	0.0	0.0	0.0	-	-
Net Income - Consolidated	-4.5	-70.2	9.2	-149.4%	-93.5%
<b>Net Income Margin - Consolidated</b>	<b>-2.7%</b>	<b>-45.0%</b>	<b>4.0%</b>	<b>-6.7 p.p.</b>	<b>42.3 p.p.</b>
Adjusted EBITDA (2)	14.3	-12.6	47.0	-69.5%	-213.8%
<b>Adjusted EBITDA Margin - %</b>	<b>8.5%</b>	<b>-8.1%</b>	<b>20.5%</b>	<b>-12.0 p.p.</b>	<b>16.6 p.p.</b>
Total Assets	1,089.2	1,184.1	1,150.9	-5.4%	-8.0%
Equity	134.7	146.0	209.9	-35.8%	-7.7%
Investments (CAPEX)	3.1	7.6	10.9	-71.7%	-59.4%

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

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

### 1.2 – Consolidated net revenue





Total consolidated net revenue for 1Q14 totaled R\$ 168.1 million, up 7.7% compared to R\$ 156.1 million in 4Q13 and down 26.5% compared to R\$ 228.7 million in 1Q13. This increase compared to prior quarter is mainly due to 5.8% increase in sales in the domestic market and 8.9% increase in exports, which accounted for 37.1% and 62.9%, respectively of net revenue in 1Q14.

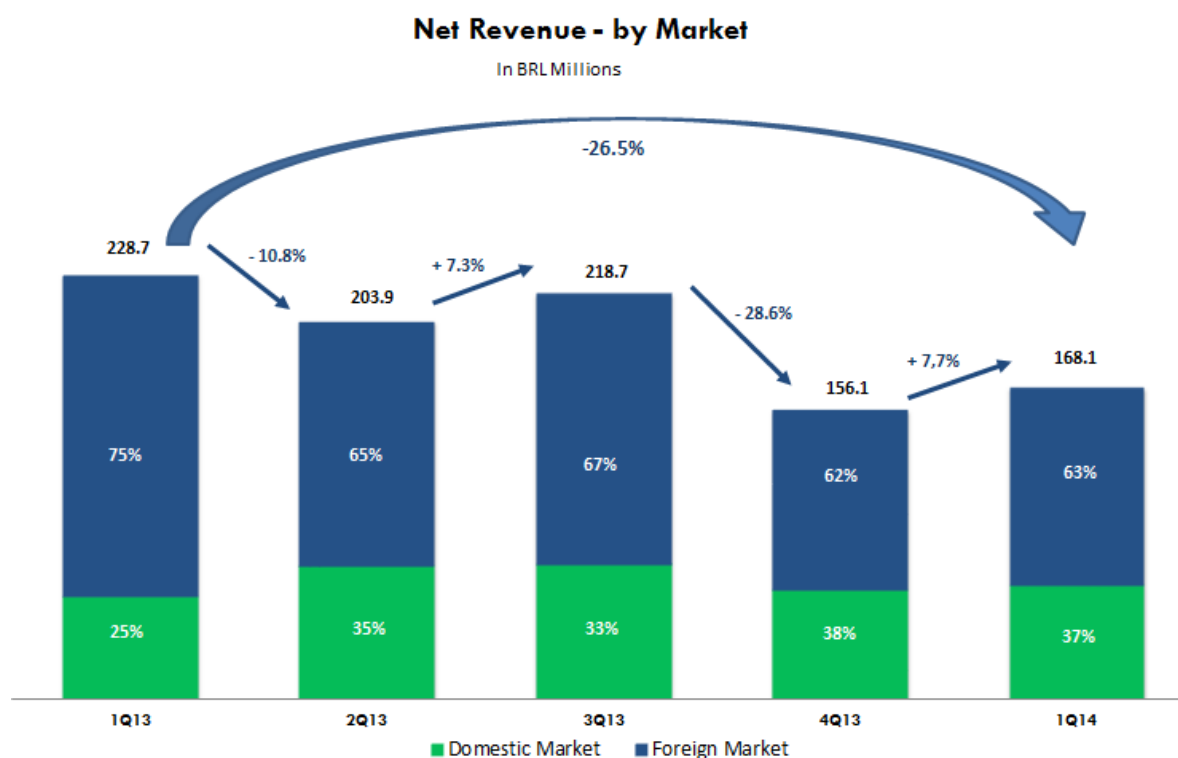
Demand in the North American market was well below that in 1Q13, when it accounted for 72% of net revenue, compared to 55% in 1Q14.

Demand in 1Q13 was quite high due to the reaction of US consumers to the 23 measures restricting use of special and non-automatic guns for civilians announced by President Barack Obama in early 2013, which led to increase in weapon sales to this market. Although the measures have not been approved by the US Congress, the fear of new restrictions against use of weapons as well as other events that took place at the end of 2012 and 2013, such as the massacre at the elementary school in Newtown, the bomb scares in Boston and Washington, among others, generated fear and uncertainties in the population, thus increasing demand for weapons and ammunitions in that period.

This phenomenon was not recurrent in 1Q14, leading to a quite fierce competition, with promotions and price discounts among the main competitors in the consumer market.

However, this decrease in consumption in the US was offset by increase in the share in the domestic market from 24% in 1Q13 to 37% in 1Q14, besides the positive factor of increase in the share of exports to other countries to 8% of revenue in 1Q14 (4% in 1Q13).

We illustrate below the Company's net revenue, by market, in millions of Brazilian reais, of the quarters under analysis:



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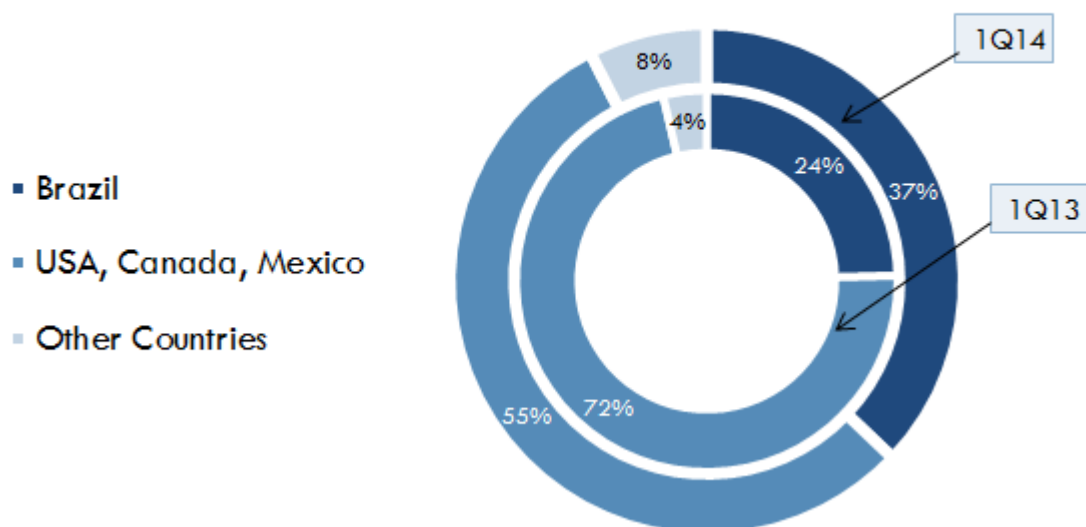
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**NÍVEL 3**  
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**NÍVEL 4**  
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## Net Sales - By Geography



### 1.3 - Segment information

#### I. Defense and Security Segment

##### (i) Weapons

This segment includes handguns (revolvers and pistols for military and civil use), long guns (rifles and carbines) and submachine guns. The table below sets out consolidated financial highlights by segment:

RESULTS BY BUSINESS SEGMENT  
Consolidated amount in millions of reais

##### Comparative Quarter - Year over Year

	Net Revenue					Gross Income			Gross Margin			Income before taxes		
	1Q14	Part. %	1Q13	Part. %	Var.	1Q14	1Q13	Var.	1Q14	1Q13	Var.p.p	1Q14	1Q13	Var.
Firearms	124.0	73.8%	181.4	79.3%	-31.6%	30.2	63.8	-52.6%	24.3%	35.1%	-10.8	(12.3)	20.6	NS
Helmets	32.6	19.4%	29.9	13.1%	9.1%	11.6	10.3	12.7%	35.6%	34.5%	1.1	7.3	5.9	23%
Others	11.5	6.8%	17.4	7.6%	-33.9%	3.9	3.9	0.0%	34.0%	22.4%	11.5	(0.3)	(2.4)	-89%
<b>Total</b>	<b>168.1</b>	<b>100.0%</b>	<b>228.7</b>	<b>100.0%</b>	<b>-26.5%</b>	<b>45.7</b>	<b>78.0</b>	<b>-41.4%</b>	<b>27.2%</b>	<b>34.1%</b>	<b>-6.9</b>	<b>(5.3)</b>	<b>24.0</b>	<b>-122%</b>

##### Comparative Quarter - Current Quarter x Previous Quarter

	Net Revenue					Gross Income			Gross Margin			Income before taxes		
	1Q14	Part. %	4Q13	Part. %	Var.	1Q14	4Q13	Var.	1Q14	4Q13	Var.p.p	1Q14	4Q13	Var.
Firearms	124.0	73.8%	117.9	75.5%	5.2%	30.2	30.0	0.5%	24.3%	25.5%	-1.1	(12.3)	(50.0)	-75%
Helmets	32.6	19.4%	30.3	19.4%	7.6%	11.6	8.8	32.4%	35.6%	28.9%	6.7	7.3	1.4	NS
Others	11.5	6.8%	7.9	5.0%	46.0%	3.9	(3.3)	NS	34.0%	-42.1%	76.1	(0.3)	(23.9)	-99%
<b>Total</b>	<b>168.1</b>	<b>100.0%</b>	<b>156.1</b>	<b>100.0%</b>	<b>7.7%</b>	<b>45.7</b>	<b>35.5</b>	<b>28.8%</b>	<b>27.2%</b>	<b>22.7%</b>	<b>4.4</b>	<b>(5.3)</b>	<b>(72.5)</b>	<b>-93%</b>

- (i) Weapons – operations conducted by Forjas Taurus S.A. and Taurus Holdings, Inc. (USA);
- (ii) Helmets for motorcyclists – operations conducted by Taurus Blindagens Ltda., Taurus Helmets Indústria Plástica Ltda. and Taurus Blindagens Nordeste Ltda.;
- (iii) Others- segments of forging (until 2013),MIM, containers, anti-riot shields, motorcycle trucks, boiler making, bulletproof vests and plastic products.



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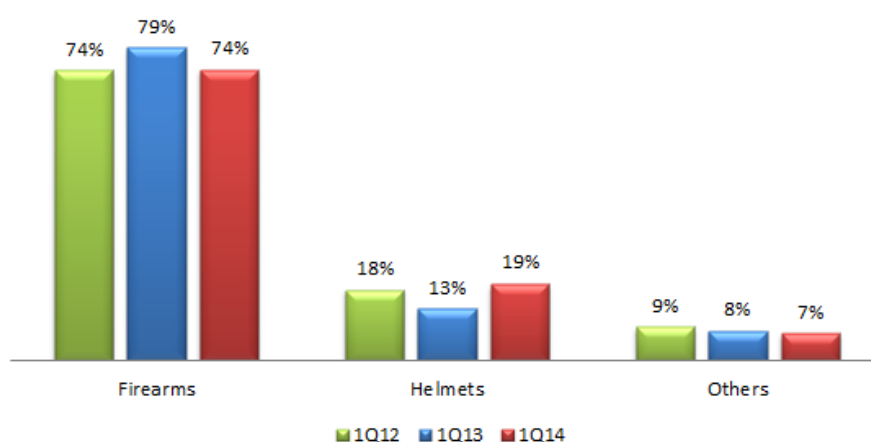
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**FJTA3**  
**NÍVEL 2**  
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**FJTA4**  
**NÍVEL 2**  
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## Net Revenue by Segment



The Company's main segment is that of Defense & Security, accounting for 74% of consolidated net revenue. Weapon sales in 1Q14 totaled R\$124 million, up 5.2% compared to 4Q13 (R\$ 117.9 million, equivalent to 73.8% of total consolidated net revenue) and down 31.6% compared to 1Q13, in which export sales were atypical, as explained heretofore.

Gross profit amounted to R\$ 30.2 million, up 0.5% compared to 4Q13 with gross margin of 24.3% due to increase in sales in the domestic market and in exports to other countries, although lower than in 1Q13, but slightly higher than in 4Q13.

The performance of the weapons segment is mainly due to the following: (i) change in products mix; (ii) decrease in inventories was not significant due to slowdown in consumption in the US market, however, with increase in export to other countries; and (iii) without significant changes in industrial labor and raw materials.

## II. Metallurgy and Plastics Segment

This segment accounts for 26.2% of net revenue, including the operations of Polimetal in the São Leopoldo unit (in the Rio Grande do Sul state) of forging and M.I.M.- *Metal Injection Molding*, as well as the activities of the helmet for motorcyclists plants (in the Paraná and Bahia states) and production of bulletproof vests and plastic containers (in the Paraná state).

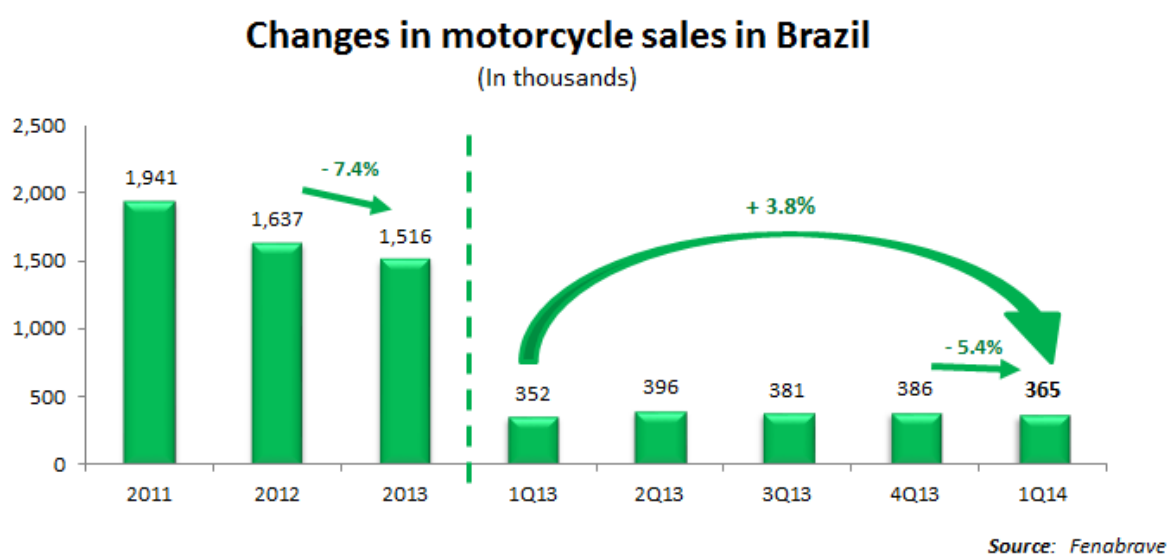
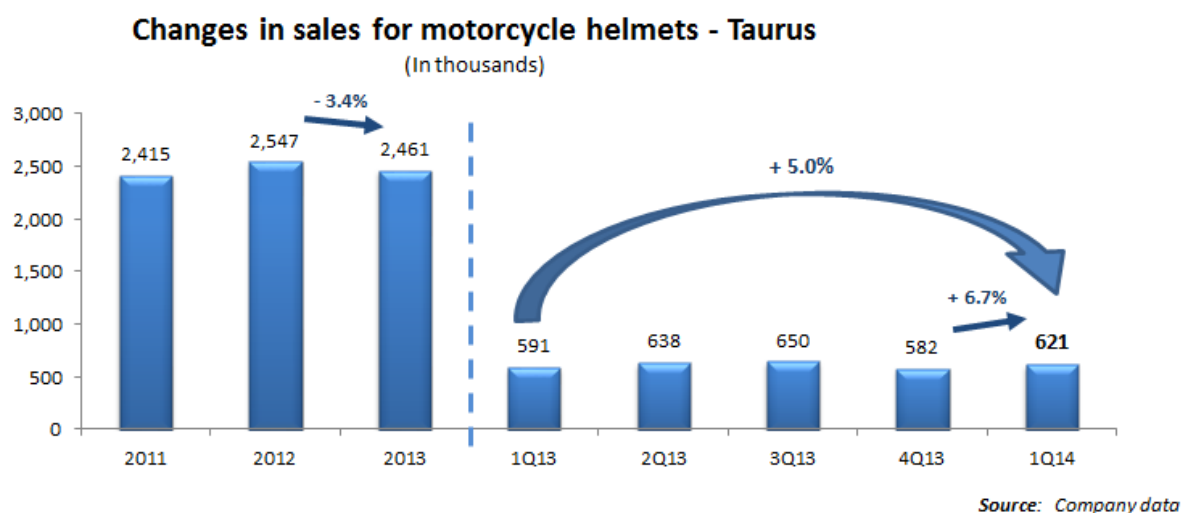
### (ii) Helmets for motorcyclists

Sales of motorcyclist helmets accounted for 19.4% of net revenue, totaling R\$ 32.6 million in 1Q14, up 9.1% compared to 1Q13 (R\$ 29.9 million and 13.1% of net revenue), due to the 5% increase in sales of TAURUS helmets in 1Q14 compared to 1Q13 and up 6.7% compared to 4Q13.

Motorcycle sales in Brazil, according to FENABRAVE, increased 3.8% in 1Q14 compared to 1Q13, but decreased 5.4% compared to 4Q13. Since there was increase in the Company's helmet sales in both periods, there was increase in market share to approximately 58%.

We illustrate below evolution of motorcycle sales and helmet for motorcyclists sales in Brazil by Taurus:





### (iii) Other products from the Metallurgy and Plastics segment

Consolidated net revenue from other products totaled R\$ 11.5 million, accounting for 6.8% of net revenue in 1Q14, up 46% compared to R\$ 7.9 million and 5% of net revenue in 4Q13, however down 33.9% compared to 7.6% in 1Q13.

Gross profit amounted to R\$ 3.9 million, stable in relation to 1Q13, with margin of 34%, an increase in relation to 22.4% margin of the same prior year period, due to the performance of products of this segment, which includes bullet-proof vests, anti-riot shields, plastic containers and M.I.M. parts sold to third parties. It should be highlighted that decommissioning of the forging activity was concluded in November/13, being present in P&L for 1Q13 but no longer in 1Q14.

## 1.4 – Gross profit and gross margin

Consolidated gross profit increased 28.8%, having reached R\$ 45.7 million in 1Q14 compared to R\$ 35.5 million in 4Q13) (compared to R\$78 million in atypical 1Q13), with gross margin increase to 27.2% (compared to 22.7% in 4Q13), but still lower than margin of 34.1% in 1Q13. Gross profit and gross margin were mainly affected by the following factors: (i) increase in sales in the domestic market and other countries; (ii) change in the products portfolio; and (iii) adjustment of costs and industrial labor to low production levels.



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## 1.5 - Operating Expenses

### Administrative and selling expenses

Selling and administrative expenses in 1Q14 were down 47.1% compared to 4Q13 and down 1.4% compared to 1Q13, since non-recurrent expenses were recorded in 4Q13 which did not repeat in 1Q14. Administrative expenses were down 4.6% in 1Q14 compared to prior year due to necessary adjustment to labor related to production capacity and due to decommissioning of forging to third parties.

Other net operating expenses were down 82.5% in 1Q14 compared to 4Q13 due to non-recurrent entries in the last quarter of the year, which did not repeat in 1Q14.

Total operating expenses were up 0.6% in 1Q14 compared to 1Q13, despite the 53.1% decrease compared to 4Q13.

## 1.6 – Adjusted EBITDA and adjusted EBITDA Margin

Adjusted EBITDA in 1Q14 amounted to 14.3 million, an increase in relation to negative EBITDA of R\$ 12.6 million in 4Q13, but lower than that in 1Q13 of R\$ 47 million. Adjusted EBITDA margin was of 8.5% in 1Q14 (20.5% in 1Q13), a significant improvement compared to negative margin of 8.1% margin in 4Q13.

The table below sets out the calculation methodology for adjusted EBITDA, in accordance with CVM Rule No. 527/12 and the reconciliation with adjusted EBITDA adopted by us:

### CONSOLIDATED EBITDA

In thousands of BRL

PERIOD	1Q13	1Q14
= NET PROFIT	9,194	(4,540)
(+) IR/CSLL	14,813	(807)
(+) Net Financial Expenses	26,867	46,965
(-) Net Interest Income	(13,841)	(37,081)
(+) Depreciation/Amortization	8,083	8,078
= EBITDA CVM Reg. 527/12	45,116	12,615
(+) Loss of Taurus Máquinas-Ferramenta Ltda. <sup>(1)</sup>	1,850	1,702
= ADJUSTED EBITDA	46,966	14,317

<sup>(1)</sup> Loss of Taurus Máquinas-Ferramenta Ltda., since in these periods the operation was not discontinued.

## 1.7 – Financial income (expenses)

Net financial expenses in 1Q14 totaled R\$ 9.9 million, 51% down compared to net financial expenses of R\$ 20.2 million in 4Q13, and 24.1% down compared to net financial expenses in 1Q13 of R\$ 13 million. This



decrease in net financial expenses is mainly due to net exchange gains, net positive interest income and the net positive swap result in financial transactions in 1Q14 compared to 1Q13.

### 1.8 – Net income (loss)

Loss in 1Q14 amounted to R\$4.5 million, an improvement in relation to loss of R\$ 70.2 million in 4Q13. Net income in 1Q13 amounted to R\$9.2 million, with net margin of 4%.

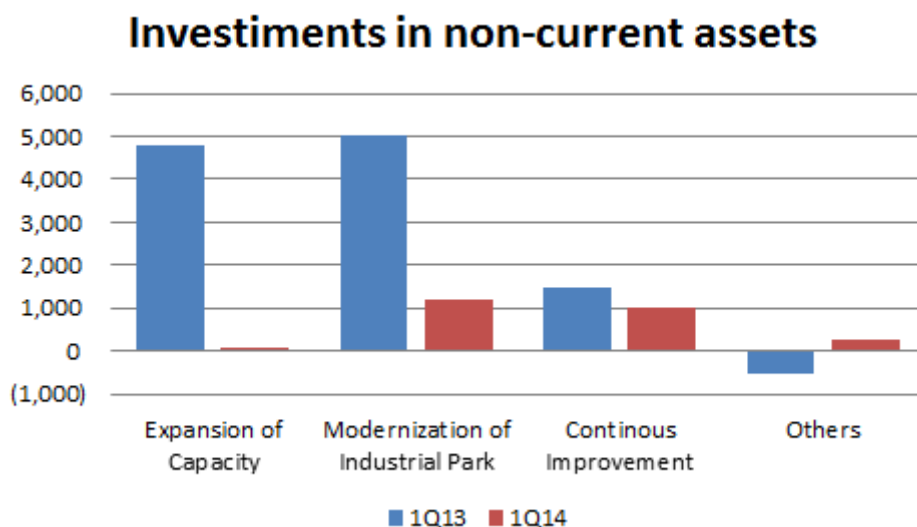
Loss for the period is due to the following: (a) 26.5% decrease in revenue; (b) 41.4% decrease in gross profit; and (c) 0.6% increase in operating expenses.

### 1.9 Consolidated investments

Consolidated investments in property, plant and equipment in 1Q14 totaled R\$ 3.1 million (R\$ 10.9 million in 1Q13). Depreciation and amortization totaled R\$ 8.1 million in the quarter, equal to those in 1Q13.

The Company's capital budget of R\$ 55.2 million proposed by management for 2014 was approved by the Ordinary and Extraordinary Shareholders' Meeting of April 30, 2014. These amounts did not consider any opportunities for acquisitions.

The graphs below illustrate investments in property, plant and equipment in 1Q14 and 1Q13, with the following distribution:



### 1.10 – Financial position

**Cash and short-term investments** totaled R\$ 232.8 million at Mar/31/14, down 17% compared to R\$281.1 million at Dec/31/13 and down 6% compared to R\$ 247.3 million at March /31/13. Short-term investments earn interest at rates varying from 98% to 103% of CDI at Mar/31/14, and are made with first tier financial institutions.

Taurus' **consolidated gross indebtedness** totaled R\$ 777.1 million at Mar/31/14, down 5% compared to R\$ 819.2 million at Dec/31/13. The funds are destined mainly to finance: (i) working capital; (ii) investments for modernization of industrial premises; and (iii) exports.

**Long-term loans and financing** totaled R\$250.5 million at Mar/31/14, down 8% compared to Dec/31/13 and up 9% compared to Mar/31/13.



Despite higher pressure of short-term debt to carry operations, **net debt** at Mar/31/14 totaled R\$ 544.3 million, practically stable compared to net debt of R\$ 538.1 million at Dec/31/13.

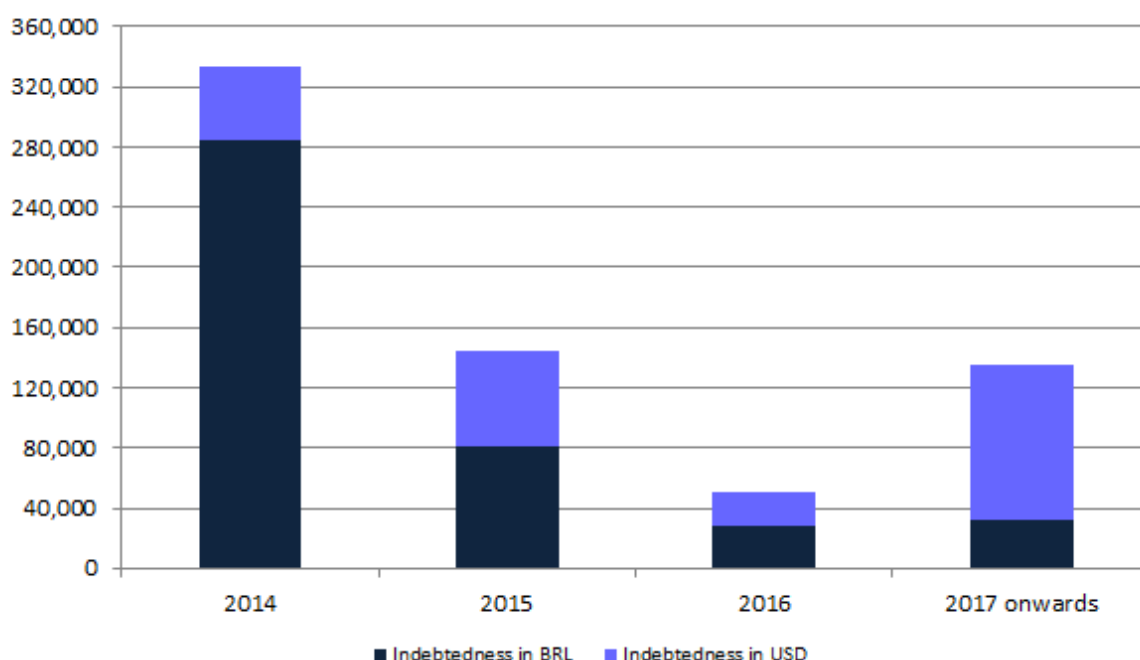
The Company continues endeavoring to **extend payment terms** and reduce financial costs as well as to optimize working capital.

In addition, debt from advances on receivables started to be considered, even without right of refund for damages.

**Loans and financing maturing in 2013**, both in local currency and US dollar, are part of the Company's structural working capital, with lines renewed on a routine basis. We highlight that the 1st debenture issue was settled on April 15, 2014, with payment of the last installment.

In relation to 2<sup>nd</sup> issue debentures, a General Debenture Holders Meeting was convened for 06/03/2014 to address the non-enforcement of accelerated maturity. In obtaining a related waiver of such, considering the position at 03/31/2014, approximately R\$23.1 million will be transferred to long-term portion in 2Q14, with final maturity in 2016 and quarterly payments of R\$ 3.8 million.

#### Maturity of consolidated debt – In thousands of reais



We set out below the changes at Mar/31/14 compared to Dec/31/13 and Mar/31/13 and the main accounts related to the Company's financial position, as well as the main related indicators for certain contracts, which will require new waiver negotiations:



In millions BRL

	<u>03/31/2014</u>	<u>12/31/2013</u>	<u>03/31/2013</u>	<u>Var. Mar/14 x Dec/13</u>	<u>Var. Mar/14 x Mar/13</u>
Short term indebtedness	358.6	388.5	341.5	-8%	5%
Long term indebtedness	250.5	273.2	228.8	-8%	9%
Exchange Serves	62.3	0.0	5.1	N/A	1125%
Debentures	54.4	57.6	95.9	-6%	-43%
Anticipation Mortgages	17.0	19.6	26.6	-13%	-36%
Advance on Receivables	53.9	116.0	60.3	-54%	-11%
Derivatives	-19.7	-35.6	-29.8	-45%	-34%
Gross Indetbetedness	777.1	819.2	728.4	-5%	7%
(-) Cash available and financial investments	232.8	281.1	247.3	-17%	-6%
Net Indebtedness	544.3	538.1	481.1	1%	13%
Adjusted EBITDA	67.4	100.0	141.0	-33%	-52%
Net Indebtedness/Adjusted EBITDA	8.08x	5.38x	3.41x		
Adjusted EBITDA/Financial Expenses Net	0.96x	1.36x	2.58x		

Waiver from Banco Itaú Unibanco S.A. was obtained on 04/30/14, for the Bank Credit Bill, in order to avoid enforcement of accelerated maturity thereof due to noncompliance by Taurus with the obligation in clause 13, item (i) and (ii), exclusively in relation to compliance with obligations at 12/31/13.

## 2 – Capital market

### Performance of shares of Forjas Taurus S.A. - Bovespa

The Company has been listed at Level 2 of BM&FBovespa since Jul/07/11 and as a listed company for more than 30 years. The Company's articles of incorporation have been fully amended and consolidated addressing adoption of differentiated corporate governance practices provided for this corporate governance level and the Ordinary and Extraordinary Meeting of 04/26/13 approved amendment to article 56 of the articles of incorporation in order to include the updating occurred in Level 2 related regulations, referring to the Arbitration Chamber.

The Company's capital comprises the following number of shares at Mar/31/14:

**Common shares:** 47,137,539 representing **33.3%** of capital

**Preferred shares:** 94,275,078 representing **66.7%** of capital

**Total issued shares:** 141,412,617 representing **100%** of capital



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The table below shows the recent evolution of the main aspects related to liquidity, such as number of trades, financial volume and quantity of traded shares, as well as the market value, based on certain information about Taurus shares on BM&FBovespa in 1Q14 and at the end of 2013 and 2012:



	1Q14	2013	2012	1Q14 x 2013	1Q14 x 2012	2013 x 2012
<b>1. Stock Price</b>						
ON - FJTA3*	R\$ 2.10	R\$ 2.66	R\$ 3.25	-21%	-35%	-18%
PN - FJTA4*	R\$ 1.51	R\$ 2.28	R\$ 2.90	-34%	-48%	-21%
IBOVESPA*	50,415	51,507	60,952	-2%	-17%	-15%
* last quotation						
<b>2. Market Cap - in thousands of BRL</b>						
ON - FJTA3	R\$ 98,989	R\$ 125,386	R\$ 153,197	-21%	-35%	-18%
PN - FJTA4	R\$ 142,355	R\$ 214,947	R\$ 273,398	-34%	-48%	-21%
TOTAL	R\$ 241,344	R\$ 340,333	R\$ 426,595	-29%	-43%	-20%
<b>3. Liquidity Indicators</b>						
<b>ON - FJTA3</b>						
Trades*	7	9	12	-28%	-43%	-21%
Financial Volume*	13,319	29,640	26,004	-55%	-49%	14%
Shares traded*	6,367	10,067	10,931	-37%	-42%	-8%
* period average						
<b>PN - FJTA4</b>						
Trades*	162	233	163	-30%	-1%	42%
Financial Volume*	379,379	540,736	639,017	-30%	-41%	-15%
Shares traded*	218,308	220,992	274,407	-1%	-20%	-19%
* period average						

## 3- Subsequent Events

### 3.1. Creation of Special Committee

**04/10/14:** Communication to Market about full organization of independent committee ("Independent Committee" or "Committee"), not statutory, approved by the Board of Directors in the meeting of 03/28/2014, with the mission of recommending to the Board of Directors, after hearing the Supervisory Board, the measures deemed by it to be necessary and in the interest of the Company and its shareholders, subsequently to the republication of the financial statements for 2012 and 2013 and the reissue of the report of independent auditor and the Supervisory Board, disclosed on March 28, 2014, in CVM systems. It comprises 3 (three) members, without any link with the Company or its shareholders or other stakeholders, with duration of up to 90 days, with the possibility of being extended for the same period, at the discretion of the Board of Directors, as from April 9, 2014, date of the Board of Directors 'meeting that elected the Special Committee members.

**Special Committee Members:** José Estevam de Almeida Prado, as Coordinator, Iran Siqueira Lima and Luíz Spínola.

### 3.2. Election of Supervisory Board Members



The Supervisory Board members elected in the Ordinary and Extraordinary General Meeting of 04/30/14 were inaugurated in the first Board meeting held on 05/15/2014, with the election of a new chairman, Mr. Amoreti Franco Gibbon. The Supervisory Board composition is as follows:

**Effective Members:** Amoreti Franco Gibbon; Marcelo de Deus Saweryn; Mauro César Medeiros de Mello; Juliano Puchalski Teixeira; and Reinaldo Fujimoto

**Alternate Members:** Carlos Eduardo Bandeira de Mello Franscesconi; Edgar Panceri; José Airton Veras Carvalho; Lisiane Miguel Wilke; and Roberto Hesketh.

### **3.3. Resignation of board of directors member, election of new members and statutory reform**

**04/25/14:** member Fernando José Soares Estima resigned and since he was elected through multiple voting on April 26, 2013, a new election of all board members is necessary, under article 141 of Brazilian Corporation Law.

**05/02/14:** Board of Director's meeting decides by majority to convene the Extraordinary General Meeting for 06/27/14 to address resignation of shareholder Luis Fernando Costa Estima, on 04/25/14, statutory reform and election of new board of directors member.

**05/21/14:** Extraordinary General Meeting convened by shareholders Luis Fernando Costa Estima and Estimapar Investimentos e Participações Ltda. with 16.05%, due to the aforementioned resignation, on the terms of article 123, sole paragraph, letter "c", of Law No. 6404/1976, with the following agenda: (i) examine, discuss and vote the proposal of amendment to articles 20 and 29, paragraph 3, of the Company's articles of incorporation, in order to increase the number of board of directors members from 7 (seven) to 9 (nine); and (ii) elect the Company's board of directors members, with the following candidates: Luis Fernando Costa Estima, Fernando José Soares Estima, Eduardo Caldas Bianchessi, Jorio Dauster, Carlos Eduardo Franceschini Lobato, Ruy Lopes Filho and André Ricardo Balbi Cerviño.

**27/06/14:** Extraordinary General Meeting convened by the majority of Board Members (Danilo Angst, Manuel Jeremias Leite Caldas, Carlos Augusto Leite Junqueira de Siqueira and Marcos Tadeu de Siqueira) with the following agenda: **I – Items proposed by the Company's Board of Directors, by majority voting, according to the minutes of the Board of Directors meeting held on May 2, 2014:** (i) Become aware of the recommendations, to be presented by the Independent Special Committee to the Board of Directors, as defined in the Company's Board of Directors meeting held on March 28, 2014, in the year of its attributions; and (ii) Examine, discuss and vote management accounts for the years ended December 31, 2012 and 2013.

**II – Items proposed in reply to the request by shareholder Mr. Luis Fernando Costa Estima, on April 25, 2014, on the terms of article 123, sole paragraph, letter "c", of Law No. 6404/1976:** (iii) Examine, discuss and vote the proposal of amendment to articles 20 and 29, paragraph 3, of the Company's articles of incorporation, in order to increase the number of board of directors members from 7 (seven) to 9 (nine); and (ii) elect the Company's board of directors members.

### **3.4. Ordinary General Meeting/Extraordinary General Meeting Held / Communication to Shareholders**

**04/29/14:** Extraordinary General Meeting convened by shareholders Luis Fernando Costa Estima and Estimapar Investimentos e Participações Ltda. with 16.05%, on the terms of article 123, sole paragraph, letter "c", of Law No. 6404/1976, approving (i) capital increase by up to R\$ 200,906,000.04, through issue of up to 48,528,020 common shares and 97,056,038 preferred shares, all registered book entry shares with no par value, for issue price of R\$1.38, for private subscription of shares; and (ii) reduction of board of directors



members remuneration to R\$ 5,000.00 per month each.

**04/30/14: Ordinary General Meeting:** (i) approved the Complete Annual Financial Statements for the year ended December 31, 2013 as well as the restated Complete Annual Financial Statements for the year ended December 31, 2012; (ii) suspended for 90 days the approval of management accounts; (iii) approved Capex of R\$ 55 million for 2014; (iv) approved the overall remuneration of management for 2014, of up to R\$ 10,333,521.65; (v) elected supervisory board members and their remuneration for 2014.

**04/30/14: Extraordinary General Meeting:** Approved, by majority voting, the proposed amendment to article 37 of the Company's articles of incorporation in order to clarify the lack of limitation of annual remuneration, when the participation results from remuneration to be paid under incentive or participation plans.

**05/06/14:** Communication to shareholders about capital increase decided by the Extraordinary General Meeting of 04/29/14.



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## 1. Operations

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

At March 31, 2014, the Company and its subsidiaries operated with six industrial plants, three of which are located in the state of Rio Grande do Sul, one in the state of Paraná, one in the state of Bahia and one located in the United States of America.

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

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

## 2. Basis of consolidation

	Country	Investment interest	
		03-31-2014	12-31-2013
Taurus Blindagens Ltda.*	Brazil	100.00%	100.00%
Taurus Blindagens Nordeste Ltda.*	Brazil	100.00%	100.00%
Taurus Holdings, Inc.	USA	100.00%	100.00%
Taurus Security Ltda.	Brazil	100.00%	100.00%
Taurus Máquinas-Ferramenta Ltda.*	Brazil	100.00%	100.00%
Taurus Investimentos Imobiliários Ltda.*	Brazil	100.00%	100.00%
Famastil Taurus Ferramentas S.A.**	Brazil	35.00%	35.00%
Taurus Helmets Indústria Plástica Ltda.*	Brazil	100.00%	100.00%
Polimetal Metalurgia e Plásticos Ltda.	Brazil	100.00%	100.00%

(\*) The investments reported represent the percentage interest held by the investing Company directly or indirectly in the capital of the subsidiary companies.

(\*\*) Not consolidated.

### 3. Basis for preparation

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

These financial statements include the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) issued by the *International Accounting Standards Board* (IASB) and also in accordance with accounting practices adopted in Brazil (BR GAAP) and the individual financial statements of the Company prepared in accordance with BR GAAP.

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

b) Basis for measurement

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

c) Functional and reporting currency

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

d) Use of estimates and judgments

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

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

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

### **3. Basis for preparation (Continued)**

#### **d) Use of estimates and judgments (Continued)**

Authorization to conclude the preparation of these financial statements was provided at the Executive Board meeting held on May 13, 2014.

### **4. Significant accounting practices**

The calculation policies and method adopted in this quarterly information are the same as those adopted for preparation of the annual financial statements for the year ended December 31, 2013, described in Note 4 therein.

### **5. Determination of fair value**

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

#### **(i) *Trade accounts receivable and other receivables***

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

#### **(ii) *Derivatives***

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

## 5. Determination of fair value (Continued)

### (iii) *Non-derivative financial liabilities*

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

## 6. Financial risk management

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

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

### (i) Risk management structure

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

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

### (ii) Credit risk

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

## 6. Financial risk management (Continued)

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

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each client. The Company and its subsidiaries adopt the practice to analyze the financial situation of its counterparties, and also define credit limits and permanently accompany outstanding balances. The Company's sales income is not concentrated with a single client, and there is no concentration of credit risk.

The Company established a credit policy where the credit worthiness of every new client is analyzed individually before the Company's standard payment and delivery terms and conditions are offered. This analysis includes external evaluations, when available, and in some cases references from banking institutions. Purchase limits are established for each client, which represent the maximum amount available without prior approval being required, with these limits revised quarterly. Clients that fail to comply with the credit limit established can only operate with the Company based on advance payments. For public bodies Company management individually evaluates the ability to pay and the bid requirements for making the sales. The Company does not have customers that individually represent more than 5% of sales.

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

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

### (iv) Liquidity risk

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



## 6. Financial risk management (Continued)

### (iv) Liquidity risk (Continued)

Typically, the Company ensures that it has sufficient cash to meet its expected operating expenses for approximately 60 days, including fulfilling financial obligations; this does not include the potential impact from extreme circumstances that cannot be reasonably forecast, such as natural disasters. In addition, the Company has approved credit lines, but not yet contracted, from the largest banks that operate in Brazil, for approximately R\$ 300 million, at market rates and terms.

Subsidiary Taurus Holdings, Inc. has a credit line of USD 75 million and, at March 31, 2014, it had used USD 38.3 million.

### (v) Market risk

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

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

### (vi) Currency risk

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

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

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

## 6. Financial risk management (Continued)

### (vii) Interest rate risk

The Company adopts a policy to guarantee that approximately 30% of its exposure to changes in interest rates for loans is based on a fixed rate.

### (viii) Operational risk

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

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

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

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

## 6. Financial risk management (Continued)

### (ix) Capital management

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

The Company's consolidated liabilities in relation to adjusted capital at the end of the period are presented below:

	03-31-2014	12-31-2013
Total liabilities	954,424	1,038,101
Less: Cash and cash equivalents	(232,809)	(281,119)
Net debt (A)	721,615	756,982
Total equity (B)	134,742	145,993
Net debt to equity ratio at March 31, 2014 and December 31, 2013 (A/B)	5.36	5.19

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

## 7. Operating segments

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

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

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

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

Others – the result of the forging segment (Polimetal Metalurgia e Plásticos Ltda.); bulletproof vests and plastic products (Taurus Blindagens Ltda.). These also include other operations such as the manufacture and sale of glasses, anti-riot shields and providing services. None of these operating segments reached any of the quantitative limits for determining reportable segments at March 31, 2014 and 2013.

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

## 7. Operating segments (Continued)

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

	Weapons		Helmets		Machinery		Other		Total
	03-31-2014	03-31-2013	03-31-2014	03-31-2013	03-31-2014	03-31-2013	03-31-2014	03-31-2013	03-31-2013
External income	124,029	181,419	32,612	29,888	-	-	11,485	17,388	168,126
Inter-segment income	12,744	-	-	-	-	-	1,020	1,574	13,764
Cost of sales	(93,834)	(117,669)	(21,002)	(19,589)	-	-	(7,582)	(13,486)	(122,418)
Gross profit (loss)	42,939	63,750	11,610	10,299	-	-	4,923	5,476	59,472
Selling expenses	(16,733)	(15,863)	(4,973)	(4,481)	(63)	(193)	(655)	(1,109)	(22,424)
General and administrative expenses	(13,053)	(14,512)	(625)	(574)	(924)	(138)	(202)	(527)	(14,804)
Depreciation and amortization	(1,255)	(1,259)	(44)	(50)	-	-	(339)	(368)	(1,638)
Other operating income (expenses), net	(1,278)	(628)	378	801	(1,060)	(968)	(23)	(1,122)	(1,983)
Equity pickup	-	-	-	-	-	-	(322)	73	(322)
	(32,319)	(32,262)	(5,264)	(4,304)	(2,047)	(1,299)	(1,541)	(3,053)	(41,171)
Operating profit (loss)	10,620	31,488	6,346	5,995	(2,047)	(1,299)	3,382	2,423	18,301
Financial income	33,705	10,747	2,049	1,396	1,047	1,145	280	553	37,081
Financial expenses	(43,927)	(21,662)	(1,134)	(1,509)	(702)	(1,628)	(1,202)	(2,068)	(46,965)
Financial income (expenses), net	(10,222)	(10,915)	915	(113)	345	(483)	(922)	(1,515)	(9,884)
Profit (loss) per reportable segment before income and social contribution taxes	398	20,573	7,261	5,882	(1,702)	(1,782)	2,460	908	8,417
Elimination of inter-segment income	(12,744)	-	-	-	-	-	(1,020)	(1,574)	(13,764)
Income (loss) before income and social contribution taxes	(12,346)	20,573	7,261	5,882	(1,702)	(1,782)	1,440	(666)	(5,347)
Income and social contribution taxes	2,294	(13,491)	(1,160)	(1,347)	-	(68)	(327)	93	807
Net income (loss) for the period	(10,052)	7,082	6,101	4,535	(1,702)	(1,850)	1,113	(573)	(4,540)
Assets of reportable segments	647,675	729,096	160,288	166,724	4,128	32,273	277,075	222,775	1,089,166
Liabilities of reportable segments	759,439	727,791	52,653	70,543	(4,192)	70,046	146,524	72,622	954,424

## 7. Operating segments (Continued)

### Geographic segments

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

	<b>Weapons</b>	
	<b>03-31-2014</b>	<b>03-31-2013</b>
<b>Domestic market</b>		
Southeast	3,480	3,488
South	7,558	4,112
Northeast	4,166	2,064
North	2,818	1,142
Mid-West	1,406	2,249
	<b>19,428</b>	<b>13,055</b>
<b>Foreign market</b>		
USA	91,996	160,089
South Africa	280	-
Chile	1,134	24
Colombia	-	1,982
Philippines	2,889	-
Haiti	-	4,070
Pakistan	215	550
Peru	444	325
Dominican Republic	584	1,092
Honduras	1,138	-
El Salvador	1,192	-
Djibouti	2,845	-
Other countries	1,884	232
	<b>104,601</b>	<b>168,364</b>
	<b>124,029</b>	<b>181,419</b>

	<b>Helmets</b>	
	<b>03-31-2014</b>	<b>03-31-2013</b>
<b>Domestic market</b>		
Southeast	8,482	8,527
South	1,479	1,737
Northeast	11,795	8,710
North	5,915	5,717
Mid-West	4,894	5,029
	<b>32,565</b>	<b>29,720</b>
<b>Foreign market</b>		
Paraguay	47	168
	<b>47</b>	<b>168</b>
	<b>32,612</b>	<b>29,888</b>

## **7. Operating segments (Continued)**

### Geographic segments (Continued)

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

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

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

## **8. Assets and liabilities held for sale and discontinued operations**

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

In September 2013, the Company renegotiated the sales price and payment conditions, adjusting the overall value of the Contract related to disposal of subsidiary SML, from R\$115,350 to R\$ 57,520, payable as follows:

- (a) First installment, in the amount of R\$ 1,960, duly restated by Long-Term Interest Rate (TJLP) and increased by interest of 1.8% p.a., shall be paid by RPL, through SML, with the supply of parts used in the rendering of warranty services for machines manufactured by TMFL, as well as supply of parts and components to any company of the Taurus Group;
- (b) Two installments in the amount of R\$ 2,055 each, duly restated by TJLP and increased by interest of 1.8% p.a., one maturing on 06/30/2014 and another on 12/30/2014; and

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

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

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

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

The Company recorded an additional provision for loss at March 31, 2014 in the amount of R\$64,039 due to the following: i) it believes that there has been deterioration of the credit conditions; ii) it has not yet concluded full formalization of guarantees of the operation; iii) since buyer is a limited liability company there is no updated information available to evaluate its current financial situation.

At March 31, 2014 and December 31, 2013, the balance receivable for sale of the operations of TMFL was recorded as follows:

	<b>03-31-2014</b>	<b>12-31-2013</b>
Renegotiated value	<b>57,520</b>	57,520
Amortization	<b>(873)</b>	-
Contractual monetary restatement	<b>7,392</b>	6,052
Balance receivable	<b>64,039</b>	63,572
Additional provision for loss	<b>(64,039)</b>	(62,991)
Total *	<b>-</b>	581

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

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

At the end of 2013, Company management, aligned with the structural changes in the strategies of focusing on higher value added segments, decided to decommission the production line and forging services to third parties of subsidiary Polimetal. The machines and equipment were made available for sale and recorded in a specific account in the financial statements as “noncurrent assets for sale”. The balance at March 31, 2014 totals R\$ 5,446 (R\$5,588 at December 31, 2013), represented by the lower of book and fair value less costs to sell. Revenues from forging services to third parties represent less than 5% of Company sales. The other industrial activities of Polimetal continue being normally carried out.



## 9. Cash and cash equivalents

	Consolidated		Company	
	03-31-2014	12-31-2013	03-31-2014	12-31-2013
Cash balance	70	1,226	10	1,165
Demand deposits	101,727	205,438	14,101	2,937
Short-term investments	131,012	74,455	90,936	23,772
<b>Cash and cash equivalents</b>	<b>232,809</b>	<b>281,119</b>	<b>105,047</b>	<b>27,874</b>

Short-term investments are remunerated at rates that vary between 98% and 103% of CDI at March 31, 2014 (98% to 104% of CDI at December 31, 2013) and are made with top line banks.

## 10. Trade accounts receivable

	Consolidated		Company	
	03-31-2014	12-31-2013	03-31-2014	12-31-2013
Customers – domestic	79,045	75,930	16,038	17,534
Customers – domestic related parties (Note 22)	-	-	4,289	3,088
Customers - foreign	69,035	103,884	11,425	6,406
Customers – foreign related parties (Note 22)	-	-	23,832	148,215
	<b>148,080</b>	<b>179,814</b>	<b>55,584</b>	<b>175,243</b>
Allowance for doubtful accounts- domestic	(11,990)	(14,853)	(2,263)	(3,589)
Allowance for doubtful accounts- foreign	(4,007)	(3,301)	(808)	(6)
	<b>(15,997)</b>	<b>(18,154)</b>	<b>(3,071)</b>	<b>(3,595)</b>
<b>Total</b>	<b>132,083</b>	<b>161,660</b>	<b>52,513</b>	<b>171,648</b>

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

Changes in the allowance for doubtful accounts:

	Consolidated	Company
Balance at December 31, 2013	(18,154)	(3,595)
Additions	(24)	-
Reversal of the allowance for doubtful accounts	689	496
Realization of allowance for doubtful accounts	1,374	-
Exchange variation	118	28
<b>Balance at March 31, 2014</b>	<b>(15,997)</b>	<b>(3,071)</b>

## 11. Inventories

	Consolidated		Company	
	03-31-2014	12-31-2013	03-31-2014	12-31-2013
Finished products	133,358	121,861	34,628	35,946
Products in process	39,524	47,412	23,272	25,980
Raw materials	45,097	42,166	15,107	13,575
Ancillary and maintenance materials	5,365	7,350	3,330	5,201
Provision for inventory losses	(520)	(520)	-	-
Total	222,824	218,269	76,337	80,702

There was no movement in the provision for inventory losses in 1Q14.

## 12. Taxes recoverable

	Consolidated		Company	
	03-31-2014	12-31-2013	03-31-2014	12-31-2013
ICMS	7,113	6,742	1,268	1,260
IPI	1,988	1,242	256	328
PIS	3,319	3,910	3,110	3,636
COFINS	15,690	19,075	14,326	17,536
Income and social contribution taxes	6,827	6,995	4,697	3,294
Total	34,937	37,964	23,657	26,054
Current	33,151	35,785	22,945	25,195
Noncurrent	1,786	2,179	712	859

### State VAT (ICMS)

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

### PIS and COFINS

The balance consists of credits originated in non-cumulative PIS and COFINS levy, calculated mainly on the purchases of fixed asset items, which are offset in successive monthly installments, in accordance with legislation. The balance also comprises PIS and COFINS credits arising from the Reintegra Tax Incentive – Law No. 12546/2011, in force until December 31, 2013. Credits from the favorable decision to the companies, referring to the legal proceeding filed in 2005 claiming the unenforceability of PIS and COFINS taxes under Law No. 9718/98 and subsequent amendments are also recognized.

### Federal VAT (IPI)

The balance refers mainly to amounts originating in trade operations.

## 12. Taxes recoverable (Continued)

### Income and social contribution taxes

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

## 13. Deferred tax assets and liabilities

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

Deferred tax assets and liabilities were calculated as follows:

	<b>Consolidated</b>	
	<b>03-31-2014</b>	<b>12-31-2013</b>
<b>On temporary asset differences and income and social contribution tax losses</b>		
Provision for sales commissions	602	586
Present value adjustment	295	432
Provision for labor claims	1,943	2,094
Provision for losses on insurance claims	782	782
Allowance for doubtful accounts	2,047	2,677
Provision for product warranty	3,452	2,775
Provision for contingencies	842	842
Adjustment of deferred revenues	1,172	1,183
Derivative financial instruments	4,448	3,338
Income and social contribution tax losses	42,665	42,665
Inventories – unrealized profits	5,433	5,433
Other items	2,126	2,111
	<b>65,807</b>	<b>64,918</b>
<b>On temporary liability differences</b>		
Equity valuation adjustment	(1,998)	(3,097)
Depreciation base difference	(6,815)	(7,772)
Goodwill allocation	(6,510)	(6,058)
Financial charges	(1,190)	(1,155)
Derivative financial instruments	(12,061)	(15,344)
	<b>(28,574)</b>	<b>(33,426)</b>
<b>Total asset (liability) balance, net</b>	<b>37,233</b>	<b>31,492</b>
Classified in noncurrent assets	45,459	44,364
Classified in noncurrent liabilities	(8,226)	(12,872)

### 13. Deferred tax assets and liabilities (Continued)

	<b>Company</b>	
	<b>03-31-2014</b>	<b>12-31-2013</b>
<b>On temporary asset differences and income and social contribution tax losses</b>		
Provision for sales commissions	558	547
Present value adjustment	217	342
Provision for labor claims	1,147	1,390
Provision for losses on insurance claims	782	782
Allowance for doubtful accounts	597	598
Provision for product warranty	1,609	1,217
Adjustment of deferred revenues	1,172	-
Derivative financial instruments	4,235	3,064
Income and social contribution tax losses	7,000	7,000
Inventories – unrealized profits	-	1,183
	<b>17,317</b>	<b>16,123</b>
<b>On temporary liability differences</b>		
Equity valuation adjustment	(1,358)	(1,454)
Depreciation base difference	(1,735)	(1,663)
Financial charges	(1,184)	(1,128)
Derivative financial instruments	(11,111)	(15,334)
	<b>(15,388)</b>	<b>(19,579)</b>
<b>Total asset (liability) balance, net</b>	<b>1,929</b>	<b>(3,456)</b>
Classified in noncurrent assets (liabilities)	<b>1,929</b>	<b>(3,456)</b>

#### Changes in deferred taxes:

	<b>Consolidated</b>	<b>Company</b>
Opening balance of deferred taxes, net	31,492	(3,456)
Posted to P&L (Note 26)	5,463	5,385
Allocated to consolidation goodwill	(154)	-
Effect from exchange variation	432	-
Closing balance of deferred taxes, net	<b>37,233</b>	<b>1,929</b>

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

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

### 13. Deferred tax assets and liabilities (Continued)

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

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

The amount of income and social contribution tax losses on which deferred taxes are not recorded totaled R\$304,897 - Consolidated (R\$296,978 in 2013) and R\$44,025 – Company (R\$45,708 in 2013).

The main balances of income and social contribution tax losses refer to subsidiary Taurus Máquinas-Ferramenta Ltda. The tax credits arising from income and social contribution tax losses not recognized by this subsidiary totaled R\$ 77,781 (R\$ 76,988 in 2013). Income and social contribution taxes on the balance of income and social contribution tax losses will be recognized as there is evidence that realization thereof is probable in the foreseeable future.

### 14. Advance on real estate credits

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

To represent the real estate credits arising from the aforementioned hire contracts, the Company issued Real Estate Credit Notes – CCI, and assigned them, onerously, to CIBRASEC – Companhia Brasileira de Securitização, which used them as the basis for issuing two series of Certificates of Real Estate Receivables – CRI. The terms and maturity dates for these certificates are fixed monthly, with the first falling due on September 15, 2008 and the last on July 15, 2015. At March 31, 2014, the total restated balance was R\$ 17,015 and is fully classified in current liabilities due to the noncompliance with the covenants. At December 31, 2013, the balance was R\$ 19,606, also classified in current liabilities. The amount reclassified to current liabilities for noncompliance with covenants totals R\$2,797 at March 31, 2014 (R\$8,548 in 2013).

## 15. Investments - Equity interest in subsidiaries and affiliates

									Company	
	Taurus Blindagens Ltda.	Taurus Blindagens Nordeste Ltda.	Taurus Holdings, Inc.	Taurus Security Ltda. (1)	Taurus Investimentos Imobiliários Ltda.	Polimetal Metalurgia e Plásticos Ltda.	Taurus Máquinas- Ferramenta Ltda.(1)	Famastil Taurus Ferramentas S.A. (2)	2014	2013
Current assets	68,264	23,639	268,619	60	6,196	84,880	5,368	80,433		
Noncurrent assets	95,253	17,305	68,476	241	64,051	276,505	362	36,896		
Current liabilities	19,819	9,104	55,215	3	27,701	91,461	20,286	39,964		
Noncurrent liabilities	15,584	8,651	92,613	547	12,742	48,957	44,822	44,058		
Capital	80,209	9,400	690	100	39,917	210,000	233,000	20,000		
Equity	128,114	23,189	189,267	(249)	29,804	220,967	(59,378)	33,307		
Net revenue	19,686	6,601	92,954	-	2,880	15,328	-	25,657		
Net income (loss) for the period	6,447	1,474	2,977	-	1,187	(1,365)	(1,702)	(366)		
Number of shares/units of interest	648	1	302,505	100,000	21,414,136	209,999,999	124,368,143	-		
Direct ownership interest (%)	0,01%	0,10%	100%	100%	75,50%	100%	53,38%	-		
Opening balances	1	22	186,699	-	20,464	220,886	-	2,215	<b>430,287</b>	296,369
Capital payment (4)	-	-	-	-	<b>458</b>	-	-	-	<b>458</b>	126,054
Equity pickup (3)	-	<b>1</b>	<b>3,733</b>	-	<b>875</b>	<b>(2,113)</b>	<b>(907)</b>	-	<b>1,589</b>	(488)
Loss on investments	-	-	-	-	<b>(36)</b>	-	-	-	<b>(36)</b>	(106)
Exchange variation on investments	-	-	<b>(6,711)</b>	-	-	-	-	-	<b>(6,711)</b>	23,879
Dividends received	-	-	-	-	-	-	-	-	-	(17,000)
Reclassified to provision for capital deficiency (1)	-	-	-	-	-	-	<b>907</b>	-	<b>907</b>	1,579
Closing balances (3)	<b>1</b>	<b>23</b>	<b>183,721</b>	<b>-</b>	<b>21,761</b>	<b>218,773</b>	<b>-</b>	<b>2,215</b>	<b>426,494</b>	<b>430,287</b>

(1) Capital deficiency of the subsidiary Taurus Security Ltda. in the amount of R\$ 249 and of subsidiary Taurus Máquinas-Ferramenta Ltda. in the amount of R\$31,694 is recorded in "Other accounts payable" in current liabilities.

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

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

(4) Capital increase in subsidiary Taurus Investimentos Imobiliários Ltda. amounting to R\$ 458 was made in cash.

## 15. Investments - Equity interest in subsidiaries and affiliates (Continued)

The consolidated financial statements of Taurus Holdings, Inc., an overseas subsidiary, reported total assets of R\$ 337,095 at March 31, 2014 (R\$ 491,169 in 2013) and current and noncurrent liabilities of R\$ 147,828 at March 31, 2014 (R\$ 298,170 in 2013). Taurus Holdings, Inc., located in the State of Florida, United States, is the parent company of Taurus International Manufacturing Inc., Braztech International L.C. and other subsidiaries also located in North America, operating mainly in the resale of weapons imported from Forjas Taurus S.A., aimed at the wholesale market. Total consolidated net revenue of Taurus Holdings Inc. reported at March 31, 2014 was equivalent to R\$ 92,954 (R\$ 160,615 at March 31, 2013) and net income equivalent to R\$ 2,977 at March 31, 2014 (R\$ 12,034 at March 31, 2013).

The Company has investments in affiliate Famastil Taurus Ferramentas S.A. that are not consolidated. The balances are as follows:

	<b>Consolidated Famastil Taurus Ferramentas S.A.</b>
Current assets	80,433
Noncurrent assets	36,896
Current liabilities	39,964
Noncurrent liabilities	44,058
Capital	20,000
Equity	33,307
Net revenue	25,657
Net income (loss) for the period	(366)
Number of shares/units of interest	7,000,000
Direct ownership interest (%)	35%
Opening balances (1)	14,194
Equity pickup	<b>(322)</b>
Closing balances (1)	<b>13,872</b>

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

## 16. Property, plant and equipment

	Consolidated							
	Land, buildings and premises	Machinery and equipment	Casts and tooling	Furniture and computers	Vehicles	Construction in progress	Advances to suppliers	Total
<b>Cost or deemed cost</b>								
Balance at December 31, 2013	114,910	190,724	48,165	18,523	3,312	28,473	6,049	410,156
Additions	270	809	37	268	240	948	(6)	2,566
Disposals	-	(76)	-	(39)	(75)	-	-	(190)
Transfers of assets under construction	7,956	604	38	(61)	-	(2,907)	(5,630)	-
Effect from exchange variation	(1,324)	(968)	-	(156)	(4)	-	-	(2,452)
Balance at March 31, 2014	<b>121,812</b>	<b>191,093</b>	<b>48,240</b>	<b>18,535</b>	<b>3,473</b>	<b>26,514</b>	<b>413</b>	<b>410,080</b>
<b>Depreciation</b>								
Balance at December 31, 2013	15,365	83,174	29,110	11,615	2,408	-	-	141,672
Depreciation in the period	762	4,451	1,681	481	138	-	-	7,513
Disposals	-	(42)	-	(23)	(39)	-	-	(104)
Effect from exchange variation	(234)	(521)	-	(129)	(5)	-	-	(889)
Balance at March 31, 2014	<b>15,893</b>	<b>87,062</b>	<b>30,791</b>	<b>11,944</b>	<b>2,502</b>	<b>-</b>	<b>-</b>	<b>148,192</b>
<b>Book value</b>								
At December 31, 2013	99,545	107,550	19,055	6,908	904	28,473	6,049	268,484
At March 31, 2014	<b>105,919</b>	<b>104,031</b>	<b>17,449</b>	<b>6,591</b>	<b>971</b>	<b>26,514</b>	<b>413</b>	<b>261,888</b>



## 16. Property, plant and equipment (Continued)

	Company							
	Land, buildings and premises	Machinery and equipment	Casts and tooling	Furniture and computers	Vehicles	Construction in progress	Advances to suppliers	Total
<b>Cost or deemed cost</b>								
Balance at December 31, 2013	3,140	62,977	24,225	8,121	1,857	5,199	6	105,525
Additions	1	4	37	20	240	326	(6)	622
Disposals	-	(1,043)	-	(17)	(75)	-	-	(1,135)
Transfers of assets under construction	-	7	11	23	-	(41)	-	-
Balance at March 31, 2014	<b>3,141</b>	<b>61,945</b>	<b>24,273</b>	<b>8,147</b>	<b>2,022</b>	<b>5,484</b>	<b>-</b>	<b>105,012</b>
<b>Depreciation</b>								
Balance at December 31, 2013	734	27,399	14,100	4,667	1,246	-	-	48,146
Depreciation in the period	77	1,347	902	212	83	-	-	2,621
Disposals	-	(408)	-	(5)	(39)	-	-	(452)
Balance at March 31, 2014	<b>811</b>	<b>28,338</b>	<b>15,002</b>	<b>4,874</b>	<b>1,290</b>	<b>-</b>	<b>-</b>	<b>50,315</b>
<b>Book value</b>								
At December 31, 2013	2,406	35,578	10,125	3,454	611	5,199	6	57,379
At March 31, 2014	<b>2,330</b>	<b>33,607</b>	<b>9,271</b>	<b>3,273</b>	<b>732</b>	<b>5,484</b>	<b>-</b>	<b>54,697</b>

### Construction in progress

The balance of assets under construction of R\$5,484 – Company and R\$ 26,514 – Consolidated at March 31, 2014 (R\$ 5,199 and R\$28,473 at December 31, 2013, respectively) refers to machinery and equipment still in the phase of being implemented and construction in progress. Capitalized interest in 1Q14 amounted to R\$ 166 – Company and R\$ 220 – Consolidated (R\$ 149 and R\$ 212, respectively in 1Q13). These assets will start being used in 2014.

### Guarantee

Loans raised by the Company from financial institutions are guaranteed by its assets. Although a significant portion of fixed assets is used to guarantee loans and financings, historically the Company has settled its liabilities within the established contractual terms thus it was never necessary to enforce such guarantees. At March 31, 2014, guarantees provided by the Company amounted to R\$73,171 (R\$82,090 at December 31, 2013).

## 17. Intangible assets

	Consolidated					
	Goodwill	Trademarks and patents	Development of products	Systems implementation	Other intangible assets	Total
<b>Cost</b>						
Balance at December 31, 2013	39,855	11,378	12,445	2,544	10,657	76,879
Acquisitions	-	-	477	29	-	506
Write-offs	-	-	(1,030)	-	-	(1,030)
Effect from exchange variation	(246)	(251)	(94)	(281)	-	(872)
Balance at March 31, 2014	<b>39,609</b>	<b>11,127</b>	<b>11,798</b>	<b>2,292</b>	<b>10,657</b>	<b>75,483</b>
 Balance at December 31, 2013	-	185	5,614	1,672	1,827	9,298
Amortization for the period	-	24	179	101	261	565
Balance at March 31, 2014	-	<b>209</b>	<b>5,793</b>	<b>1,773</b>	<b>2,088</b>	<b>9,863</b>
 <b>Book value</b>						
 At December 31, 2013	39,855	11,193	6,831	872	8,830	67,581
At March 31, 2014	<b>39,609</b>	<b>10,918</b>	<b>6,005</b>	<b>519</b>	<b>8,569</b>	<b>65,620</b>

	Company			
	Trademarks and patents	Development of products	Systems implementation	Total
<b>Cost</b>				
Balance at December 31, 2013	238	9,385	1,055	10,678
Additions	-	-	29	29
Balance at March 31, 2014	<b>238</b>	<b>9,385</b>	<b>1,084</b>	<b>10,707</b>
Balance at December 31, 2013	-	5,614	422	6,036
Amortization for the period	-	171	53	224
Balance at March 31, 2014	-	<b>5,785</b>	<b>475</b>	<b>6,260</b>
<b>Book value</b>				
At December 31, 2013	238	3,771	633	4,642
At March 31, 2014	<b>238</b>	<b>3,600</b>	<b>609</b>	<b>4,447</b>

Goodwill is allocated to the Group's operational divisions, as follows:

Cash generating unit	03-31-2014	12-31-2013
Forjas Taurus S.A.	<b>21,194</b>	21,194
Taurus Holdings, Inc.	<b>9,876</b>	10,122
Taurus Blindagens Ltda.	<b>6,823</b>	6,823
Taurus Helmets Indústria Plástica Ltda.	<b>1,045</b>	1,045
Famastil Taurus Ferramentas S.A.	<b>544</b>	544
Polimetal Metalurgia e Plásticos Ltda.	<b>127</b>	127
<b>Total</b>	<b>39,609</b>	39,855

The impairment testing of the aforementioned CGUs is performed annually based on the fair value less selling expenses, which is estimated based on discounted cash flows. Management estimates quarterly if there are changes in assumptions that could indicate the need of setting up a provision for impairment. At March 31, 2014 no such indication was identified. The assumptions adopted by the Company are disclosed in the annual financial statements for the year ended December 31, 2013.

## 18. Loans and financing

	Consolidated		Company	
	03-31-2014	12-31-2013	03-31-2014	12-31-2013
<b>Current liabilities</b>				
Guaranteed bank loans				
Working capital	120,838	133,257	120,838	133,257
Discount of receivables	-	85	-	-
FINAME	2,853	3,249	1,381	1,686
FINEP	9,780	9,946	1,343	1,919
BNDES	37	5	37	5
FNE	1,452	1,457	-	-
BNDES Progeren	34,445	30,136	-	-
Working capital USD	158,387	176,931	157,005	161,001
Financing for acquisition of fixed assets	62	196	62	196
Investment in USD	1,071	1,104	-	-
FINIMP	29,708	32,164	24,560	26,339
	<b>358,633</b>	<b>388,530</b>	<b>305,226</b>	<b>324,403</b>
<b>Noncurrent liabilities</b>				
Guaranteed bank loans				
Working capital	37,500	52,500	37,500	52,500
FINAME	5,930	6,504	2,213	2,427
FINEP	25,994	28,401	-	-
BNDES	5,205	5,206	5,205	5,205
FNE	6,654	7,004	-	-
BNDES Progeren	26,662	34,658	-	-
Working capital USD	126,412	121,801	57,459	49,688
Financing for acquisition of fixed assets	114	-	114	-
Investment in USD	15,435	16,141	-	-
FINIMP	584	936	584	605
	<b>250,490</b>	<b>273,151</b>	<b>103,075</b>	<b>110,425</b>
	<b>609,123</b>	<b>661,681</b>	<b>408,301</b>	<b>434,828</b>

## 18. Loans and financing (Continued)

### Terms and schedule for debt amortization

The terms and conditions for loans outstanding were as follows:

				<b>Consolidated</b>			
				<b>03-31-2014</b>		<b>12-31-2013</b>	
	<b>Currency</b>	<b>Nominal interest rate</b>	<b>Year of maturity</b>	<b>Face value</b>	<b>Book value</b>	<b>Face value</b>	<b>Book value</b>
Guaranteed bank loans							
Working capital	R\$	CDI +2.25 to 3.00% p.a.	2018	162,000	<b>158,338</b>	162,000	185.757
Discount of receivables	R\$	15.36% p.a.	2014	-	-	-	85
FINAME	R\$	TJLP + 4.40 to 5.40% p.a.	2014	-	-	3,625	96
FINAME	R\$	2.50 to 8.70% p.a.	2021	15,352	<b>8,783</b>	15,479	9.657
FINEP	R\$	TJLP + 0.16 p.a.	2014	11,645	<b>1,343</b>	11,645	1.919
FINEP	R\$	400 to 5.25% p.a.	2020	58,672	<b>34,431</b>	58,672	36.428
BNDES	R\$	3.50% p.a.	2020	5,205	<b>5,243</b>	5,205	5.210
BNDES Progeren	R\$	TJLP + 4.00 to 4.50% p.a.	2016	63,977	<b>61,107</b>	63,977	64.796
FNE	R\$	950% p.a.	2019	9,806	<b>8,107</b>	9,806	8.461
Working capital	USD	Libor + 1.55 to 5.60% p.a.	2017	40,300	<b>146,006</b>	55,697	149.530
Working capital	USD	3.05 to 5.20% p.a.	2016	73,849	<b>117,553</b>	63,849	127.389
Working capital	USD	80 to 90% of CDI	2016	29,135	<b>21,237</b>	29,135	21.812
Financing for acquisition of fixed	R\$	15.52% p.a.	2017	150	<b>176</b>	824	196
Investments	USD	5.33% p.a.	2017	6,035	<b>12,327</b>	6,035	12.889
Investments	USD	Libor + 2.25% p.a.	2017	1,731	<b>3,713</b>	1,731	3.886
FINIMP	USD	Libor + 2.23 to 4.41% p.a.	2016	13,083	<b>30,292</b>	13,937	33.100
Dell financing	USD	Cost 0%	2016	201	<b>467</b>	201	470
Total liabilities subject to interest					<b>609,123</b>		<b>661,681</b>
				<b>Company</b>			
				<b>03-31-2014</b>		<b>12-31-2013</b>	
	<b>Currency</b>	<b>Nominal interest rate</b>	<b>Year of maturity</b>	<b>Face value</b>	<b>Book value</b>	<b>Face value</b>	<b>Book value</b>
Guaranteed bank loans							
Working capital	R\$	CDI + 2.42 to 3.00% p.a.	2018	162,000	<b>158,338</b>	162,000	185.757
FINAME	R\$	TJLP + 4.40% p.a.	2014	-	-	1,117	42
FINAME	R\$	2.50 to 5.50% p.a.	2021	8,478	<b>3,594</b>	8,798	4.071
FINEP	R\$	TJLP + 0.16% p.a.	2014	11,645	<b>1,343</b>	11,645	1.918
BNDES	R\$	3.50% p.a.	2020	5,205	<b>5,243</b>	5,205	5.210
Working capital	USD	Libor + 3.41 to 5.60% p.a.	2017	40,300	<b>77,808</b>	30,000	64.077
Working capital	USD	3.05 to 3.91% p.a.	2016	73,849	<b>115,417</b>	63,849	124.801
Working capital	USD	85 to 90% of CDI	2016	29,135	<b>21,237</b>	29,135	21.812
Financing for acquisition of fixed	R\$	15.52% p.a.	2017	150	<b>176</b>	824	196
FINIMP	USD	Libor + 2.23 to 4.41%p.a.	2016	10,890	<b>25,145</b>	11,578	26.944
Total liabilities subject to interest					<b>408,301</b>		<b>434,828</b>

## 18. Loans and financing (Continued)

Maturity dates of noncurrent liabilities:

<u>Year of maturity</u>	<u>Consolidated</u>		<u>Company</u>	
	<u>03-31-2014</u>	<u>12-31-2013</u>	<u>03-31-2014</u>	<u>12-31-2013</u>
2015	<b>64,691</b>	100,576	<b>33,759</b>	57,871
2016	<b>50,738</b>	43,643	<b>30,558</b>	23,258
2017	<b>105,035</b>	100,411	<b>28,115</b>	20,607
2018 onwards	<b>30,026</b>	28,521	<b>10,643</b>	8,689
	<b>250,490</b>	273,151	<b>103,075</b>	110,425

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

The loan and financing contracts agreed between the Company and its subsidiaries include covenants that limit certain corporate alterations, as under: change in direct or indirect controlling interest in the Company, reduction of capital of the Company and/or its subsidiary, distribution of dividends, payment of interest on equity or any other payments to shareholders of the Company and/or its controlling company in case of delay to fulfill any obligation, reduction of Company capital. In addition to these points, they require maintenance of certain financial ratios: indebtedness (net financial debt/EBITDA) lower than 3.5; interest coverage index (EBITDA/net financial expenses) equal to or higher than 2.75. If such restrictions are not met, creditors may claim accelerated maturity. All the above ratios are calculated quarterly based on the last twelve months. At March 31, 2014 these covenants were not met. Thus, part of the loans, in the amount of R\$56,328 (R\$82,431 at December 31, 2013) was reclassified to current liabilities.

## 19. Debentures

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

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

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

		03-31-2014			
	Index	Current	Transaction costs incurred	Transaction costs appropriated	Transaction costs to appropriate
Debentures					
1st issue	DI rate + 4.1%	15,590	1,424	1,402	22
2nd issue	DI rate + 2.8%	38,770	876	735	141
		54,360	2,300	2,137	163

		31-12-2013			
	Index	Current	Transaction costs incurred	Transaction costs appropriated	Transaction costs to appropriate
Debentures					
1st issue	DI rate + 4.1%	15,008	1,424	1,335	89
2nd issue	DI rate + 2.8%	42,557	856	598	258
		57,565	2,280	1,933	347

Effective interest rates of the 1st and 2nd issues are of 12.13% and 11.82%, respectively. Measurement of the effective rate was based on contractual index rate in force on the reporting date. The debentures are guaranteed by the subsidiaries Forjas Taurus S.A. in Brazil, constituted in the form of bonds granted jointly.



## 19. Debentures (Continued)

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

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

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

Management from the Company and its subsidiaries monitors these indices on a systematic and constant basis, to ensure that the terms are met. At March 31, 2014, the Company did not meet the minimum financial ratios and thus transferred the amount of R\$23,077 (R\$26,923 at December 31, 2013) to current liabilities due to the contractually provided for clauses.



## 20. Tax, social security, labor and civil provisions

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

<b>Consolidated</b>				
		<b>03-31-2014</b>	<b>12-31-2013</b>	
	<b>Provision</b>	<b>Judicial deposit (1)</b>	<b>Net</b>	<b>Net</b>
Labor	7,198	2,874	4,324	4,179
Tax				
Federal	4,558	423	4,135	4,099
State	388	761	(373)	(338)
	<b>12,144</b>	<b>4,058</b>	<b>8,086</b>	<b>7,940</b>
Classified in current liabilities	7,049			
Classified in noncurrent liabilities	5,095			

<b>Company</b>				
		<b>03-31-2014</b>	<b>12-31-2013</b>	
	<b>Provision</b>	<b>Judicial deposit (1)</b>	<b>Net</b>	<b>Net</b>
Labor	3,375	1,322	2,053	1,830
Tax				
Federal	-	423	(423)	(423)
State	388	724	(336)	(338)
	<b>3,763</b>	<b>2,469</b>	<b>1,294</b>	<b>1,069</b>
Classified in current liabilities	3,375			
Classified in noncurrent liabilities	388			

(1) Recorded in other liabilities in noncurrent liabilities.

## 20. Tax, social security, labor and civil provisions (Continued)

Changes in provisions are as follows:

	Consolidated		
	Civil and labor	Tax	Total
Balance at December 31, 2013	7,061	4,945	12,006
Provisions made in the period	280	1	281
Provisions used in the period	(143)	-	(143)
Balance at March 31, 2014	<b>7,198</b>	<b>4,946</b>	<b>12,144</b>

	Company		
	Civil and labor	Tax	Total
Balance at December 31, 2013	3,135	388	3,523
Provisions made in the period	240	-	240
Balance at March 31, 2014	<b>3,375</b>	<b>388</b>	<b>3,763</b>

The Company and its subsidiaries have other proceedings that have been assessed by the legal advisors as involving possible or remote unfavorable outcome, for the consolidated amount of approximately R\$ 22,366 - Company and R\$66,943 - Consolidated (R\$ 21,840 and R\$65,368, respectively at December 31, 2013) for which no provision has been registered, given that accounting practices adopted in Brazil do not require this. The main individual case refers to the proceeding filed by Hunter Douglas NV against Wotan Máquinas Ltda. related to collection of amount resulting from intercompany loan to finance exports entered into by the parties in 2001. Subsidiary Taurus Máquinas-Ferramenta Ltda. is defendant in the proceeding due to the rent of an industrial unit by Wotan Máquinas Ltda. in 2004. The case amount was estimated at R\$ 20 million and the chances of an unfavorable outcome are assessed by the Company's legal advisors as possible.

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

## 21. Financial instruments

### i) Derivatives

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

We summarize below our positions with derivative instruments:

	Consolidated		Company	
	03-31-2014	12-31-2013	03-31-2014	12-31-2013
Derivative financial instruments assets	32,734	45,212	32,680	45,096
Derivative financial instruments liabilities	(13,074)	(9,595)	(12,456)	(9,010)
	19,660	35,617	20,224	36,086

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

Instrument	Counterparty	Contract currency with respect to notional value	03-31-2014		12-31-2013	
			Notional – in thousands	Fair value	Notional – in thousands	Fair value
<b>Swap Fixed x Libor</b>						
Taurus Holdings, Inc.	TD Bank	US dollars - USD	5,711	(594)	5,711	(585)
<b>Swap Fixed x CDI</b>						
Forjas Taurus S.A.	Banco Itaú BBA	Reais – BRL	37,356	277	37,356	440
Taurus Blindagens Ltda.	Banco Itaú BBA	Reais – BRL	9,652	54	9,652	80
Taurus Helmets Ltda.	Banco Itaú BBA	Reais – BRL	4,355	(24)	4,355	36
<b>Swap Interest + E.V. USD x CDI + R\$</b>						
Forjas Taurus S.A.	Banco Itaú BBA	Reais – BRL	100,000	29,269	100,000	40,964
Forjas Taurus S.A.	Banco Citibank	Reais – BRL	30,391	2,015	30,391	3,692
Forjas Taurus S.A.	Banco Pine	Reais – BRL	40,000	(5,913)	40,000	(7,617)
Forjas Taurus S.A.	Banco Santander	Reais – BRL	23,200	(786)	-	-
<b>Non-deliverable forward (exports)</b>						
Forjas Taurus S.A.	Bes Investimentos	US dollars - USD	20,000	1,118	20,000	(1,393)
<b>Non-deliverable forward</b>						
Forjas Taurus S.A.	Banco ABC	US dollars - USD	24,900	(1,792)	-	-
Forjas Taurus S.A.	Banco Pine	US dollars - USD	49,384	(3,964)	-	-
				19,660		35,617

## 21. Financial instruments (Continued)

### i) Derivatives (Continued)

The fair value does not represent the obligation for immediate disbursement or receiving of cash, given that this effect will only occur on the contractual dates or maturity dates of each operation, when the results are determined, depending on the case and the market conditions on these dates. It should be noted that all of the contracts outstanding at March 31, 2014 refer to operations on the over the counter market, registered with the CETIP, without any type of guarantee margin or accelerated maturity clause forced by Mark to Market (MtM) variations.

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

#### Swap Fixed x Libor

The Company has conventional currency swap position from fixed rate to Libor rate for the purpose of fixing the flow for debt payments tied to a fixed rate, to a post fixed rate on the domestic market.

#### Swap Fixed x CDI

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

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

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

#### Non-deliverable forward (exports)

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

#### Non-deliverable forward

The Company took out NDF transactions for hedge against the foreign exchange effects on the financial flow of loans and financing in foreign currency.

## 21. Financial instruments (Continued)

### i) Derivatives (Continued)

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

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

### ii) Risks

#### a) *Credit risk*

##### Exposure to credit risk

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

	<b>Consolidated</b>	
	<b>Book value</b>	
	<b>03-31-2014</b>	<b>12-31-2013</b>
Financial assets held to maturity		
Trade accounts receivable	<b>148,080</b>	179,814
Other loans and receivables	<b>26,909</b>	20,691
Cash and cash equivalents	<b>232,809</b>	281,119
Foreign exchange forward and interest rate swap contracts used for asset hedging	<b>32,734</b>	45,212
Total	<b>440,532</b>	526,836

	<b>Company</b>	
	<b>Book value</b>	
	<b>03-31-2014</b>	<b>12-31-2013</b>
Financial assets held to maturity		
Trade accounts receivable	<b>55,584</b>	175,243
Other loans and receivables	<b>14,611</b>	16,905
Cash and cash equivalents	<b>105,047</b>	27,874
Foreign exchange forward and interest rate swap contracts used for asset hedging	<b>32,680</b>	45,096
Total	<b>207,922</b>	265,118

## 21. Financial instruments (Continued)

### ii) Risks (Continued)

#### a) Credit risk (Continued)

##### Exposure to credit risk (Continued)

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

	Consolidated		Company	
	Book value		Book value	
	03-31-2014	12-31-2013	03-31-2014	12-31-2013
Domestic-trade accounts receivable	72,559	84,788	20,327	20,622
United States – trade accounts receivable	60,713	79,346	31,731	142,465
Other	14,808	15,680	3,526	12,156
Total	148,080	179,814	55,584	175,243

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

	Consolidated		Company	
	Book value		Book value	
	03-31-2014	12-31-2013	03-31-2014	12-31-2013
Customers – public bodies	33,318	33,745	15,304	27,971
Customers - distributors	106,618	135,153	38,601	146,276
End customers	8,144	10,916	1,679	996
Total	148,080	179,814	55,584	175,243

##### Impairment losses

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

	Consolidated			
	Gross	Gross	Impairment	Impairment
	03-31-2014	12-31-2013	03-31-2014	12-31-2013
Falling due	121,787	158,818	-	-
Overdue between 0-30 days	2,661	990	-	-
Overdue between 31-360 days <sup>(1)</sup>	6,797	2,813	(865)	(1,883)
Overdue for more than one year	16,835	17,193	(15,132)	(16,271)
Total	148,080	179,814	(15,997)	(18,154)

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

## 21. Financial instruments (Continued)

### ii) Risks (Continued)

#### a) *Credit risk* (Continued)

##### Impairment losses (Continued)

			<b>Company</b>	
	<b>Gross</b>	<b>Gross</b>	<b>Impairment</b>	<b>Impairment</b>
	<b>03-31-2014</b>	<b>12-31-2013</b>	<b>03-31-2014</b>	<b>12-31-2013</b>
Falling due	<b>47,999</b>	169,540	-	-
Overdue between 0-30 days	<b>353</b>	569	-	-
Overdue between 31-360 days <sup>(1)</sup>	<b>4,457</b>	1,603	<b>(865)</b>	(399)
Overdue for more than one year	<b>2,775</b>	3,531	<b>(2,206)</b>	(3,196)
Total	<b>55,584</b>	175,243	<b>(3,071)</b>	(3,595)

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

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

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

#### b) *Liquidity risk*

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

## 21. Financial instruments (Continued)

### ii) Risks (Continued)

#### b) *Liquidity risk* (Continued)

Consolidated 03-31-2014					
Book value	Contractual cash flow	Up to 1 year	1-2 years	2-5 years	Over 5 years
<b>Non-derivative financial liabilities</b>					
Trade accounts payable	21,455	21,455	21,455	-	-
Guaranteed bank loans	609,123	677,458	378,665	74,032	200,571
Debt securities issued	54,360	59,863	59,863	-	-
Certificates of real estate receivables	17,015	18,876	18,876	-	-
Foreign exchange payable	62,322	63,603	63,603	-	-
Advance on receivables	53,914	53,914	53,914	-	-
<b>Derivative financial instruments</b>					
Derivative instruments (assets)	(32,734)	(32,734)	(32,734)	-	-
Derivative instruments (liabilities)	13,074	13,074	13,074	-	-
	<b>798,529</b>	<b>875,509</b>	<b>576,716</b>	<b>74,032</b>	<b>200,571</b>

Consolidated 12-31-2013					
Book value	Contractual cash flow	Up to 1 year	1-2 years	2-5 years	Over 5 years
<b>Non-derivative financial liabilities</b>					
Trade accounts payable	32,978	32,978	32,978	-	-
Guaranteed bank loans	661,681	744,177	416,440	117,318	186,083
Debt securities issued	57,565	64,997	64,997	-	-
Certificates of real estate receivables	19,606	22,516	22,516	-	-
Advance on receivables	115,972	115,972	115,972	-	-
<b>Derivative financial instruments</b>					
Derivative instruments (assets)	(45,212)	(45,212)	(45,212)	-	-
Derivative instruments (liabilities)	9,595	9,595	9,595	-	-
	<b>852,185</b>	<b>945,023</b>	<b>617,286</b>	<b>117,318</b>	<b>186,083</b>

Company 03-31-2014					
Book value	Contractual cash flow	Up to 1 year	1-2 years	2-5 years	Over 5 years
<b>Non-derivative financial liabilities</b>					
Trade accounts payable	55,937	55,937	55,937	-	-
Guaranteed bank loans	408,301	450,684	322,167	38,721	86,813
Debt securities issued	54,360	59,863	59,863	-	-
Foreign exchange payable	62,322	63,603	63,603	-	-
Advance on receivables	7,333	7,333	7,333	-	-
<b>Derivative financial instruments</b>					
Derivative instruments (assets)	(32,680)	(32,680)	(32,680)	-	-
Derivative instruments (liabilities)	12,456	12,456	12,456	-	-
	<b>568,029</b>	<b>617,196</b>	<b>488,679</b>	<b>38,721</b>	<b>86,813</b>



## 21. Financial instruments (Continued)

### ii) Risks (Continued)

#### b) *Liquidity risk* (Continued)

	<b>Company</b>				
	<b>12-31-2013</b>				
	<b>Book</b>	<b>Contractual</b>	<b>Up to</b>	<b>1-2</b>	<b>2-5</b>
	<b>value</b>	<b>cash</b>	<b>1 year</b>	<b>years</b>	<b>years</b>
		<b>cash flow</b>			<b>Over</b>
					<b>5 years</b>
<b>Non-derivative financial liabilities</b>					
Trade accounts payable	63,487	63,487	63,487	-	-
Guaranteed bank loans	434,828	486,876	348,332	67,598	67,935
Debt securities issued	57,565	64,997	64,997	-	-
Advance on receivables	71,040	71,040	71,040	-	-
<b>Derivative financial instruments</b>					
Derivative instruments (assets)	(45,096)	(45,096)	(45,096)	-	-
Derivative instruments (liabilities)	9,010	9,010	9,010	-	-
	<b>590,834</b>	<b>650,314</b>	<b>511,770</b>	<b>67,598</b>	<b>67,935</b>
					<b>3,011</b>

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

## 21. Financial instruments (Continued)

### ii) Risks (Continued)

#### c) *Currency risk*

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

	<b>Consolidated</b>	
	<b>USD 000</b>	
	<b>03-31-2014</b>	<b>12-31-2013</b>
Accounts receivable	<b>34,035</b>	45,914
Foreign exchange payable	<b>(27,540)</b>	-
Guaranteed bank loans	<b>(146,529)</b>	(149,096)
Foreign suppliers	<b>(3,450)</b>	(5,723)
Net balance sheet exposure	<b>(143,484)</b>	(108,905)

The exposure to consolidated foreign exchange risk includes the guaranteed bank loans from Taurus Holdings, Inc. for the amount of USD 38,374 at March 31, 2014 (USD 45,381 at December 31, 2013).

	<b>Company</b>	
	<b>USD 000</b>	
	<b>03-31-2014</b>	<b>12-31-2013</b>
Accounts receivable	<b>5,049</b>	4,302
Accounts receivable from foreign related parties	<b>10,531</b>	63,269
Foreign exchange payable	<b>(27,540)</b>	-
Guaranteed bank loans	<b>(105,881)</b>	(101,524)
Foreign suppliers	<b>(707)</b>	(738)
Net balance sheet exposure	<b>(118,548)</b>	(34,691)

The following exchange rates were used during the period ended March 31 , 2014 and the year of 2013:

	<b>Average rate</b>		<b>Spot rate</b>	
	<b>03-31-2014</b>	<b>12-31-2013</b>	<b>03-31-2014</b>	<b>12-31-2013</b>
R\$/USD	<b>2.3409</b>	<b>2.1741</b>	<b>2.2630</b>	<b>2.3426</b>

## 21. Financial instruments (Continued)

### ii) Risks (Continued)

#### c) *Currency risk* – (Continued)

##### *Sensitivity analysis*

The devaluation of the Real to the US dollar, at March 31, 2014 decreased equity and net income as reported below. This analysis is based on the expected exchange rate of period end, which is of R\$2.40 (probable scenario), based on the Focus report of April 04, 2014, issued by the Central Bank of Brazil. The analysis considered that all the other variables, particularly interest rates, would remain constant.

	<b>Consolidated</b>		<b>Company</b>	
	<b>Equity</b>	<b>Net income (loss) for the year</b>	<b>Equity</b>	<b>Net income (loss) for the year</b>
<b>March 31, 2014</b>				
R\$/USD (forecast rate 2.40)	(19,657)	(19,657)	(16,241)	(16,241)
R\$/USD (25% - forecast rate 3.00)	(105,748)	(105,748)	(87,370)	(87,370)
R\$/USD (50% - forecast rate 3.60)	(191,838)	(191,838)	(158,499)	(158,499)

#### d) *Interest rate risk*

##### *Sensitivity analysis of the fair value for fixed rate instruments*

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

## 21. Financial instruments (Continued)

### ii) Risks (Continued)

#### d) *Interest rate risk* (Continued)

##### *Sensitivity analysis of cash flows for variable rate instruments*

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

	<b>Consolidated</b>	
	<b>Book value</b>	
	<b>03-31-2014</b>	<b>12-31-2013</b>
<b>Fixed rate instruments</b>		
Financial liabilities	117,535	127,012
<b>Variable rate instruments</b>		
Financial assets	163,746	119,667
Financial liabilities	638,358	621,435
	<b>Company</b>	
	<b>Book value</b>	
	<b>03-31-2014</b>	<b>12-31-2013</b>
<b>Fixed rate instruments</b>		
Financial liabilities	33,175	35,220
<b>Variable rate instruments</b>		
Financial assets	123,616	68,868
Financial liabilities	504,262	466,183

A variation of 10 percentage points in interest rates, on the reporting date of the financial statements, would increase (reduce) equity and net income for the year on the balance for interest not liquidated, by the amounts presented below. The analysis considers that all variables, particularly foreign currency, would remain stable. The analysis was made considering the same base for March 31, 2014 and December 31, 2013.

## 21. Financial instruments (Continued)

### ii) Risks (Continued)

#### d) *Interest rate risk* (Continued)

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

	<b>Consolidated</b>	
	<b>Equity and net income for the year</b>	
	<b>03-31-2014</b>	<b>12-31-2013</b>
Change in interest rate on financing	(2,602)	(2,741)
Change in interest rate on short-term investments	689	363
	<b>Company</b>	
	<b>Equity and net income for the year</b>	
	<b>03-31-2014</b>	<b>12-31-2013</b>
Change in interest rate on financing	(2,059)	(2,082)
Change in interest rate on short-term investments	478	116

### iii) Fair value versus book value

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

	<b>Consolidated</b>			
	<b>03-31-2014</b>		<b>12-31-2013</b>	
	<b>Book value</b>	<b>Fair value</b>	<b>Book value</b>	<b>Fair value</b>
<b>Assets stated at fair value</b>				
Forward exchange contracts and interest rate swap contracts used for <i>hedge</i> operations	32,734	32,734	45,212	45,212
<b>Assets stated at amortized cost</b>				
Cash and cash equivalents	232,809	232,809	281,119	281,119
Accounts receivable	132,083	132,083	161,660	161,660
Bills receivable	-	-	580	580
	364,892	364,892	443,359	443,359
<b>Liabilities stated at fair value</b>				
Forward exchange contracts and interest rate swap contracts used for <i>hedge</i> operations	13,074	13,074	9,595	9,595
<b>Liabilities stated at amortized cost</b>				
Guaranteed bank loans	609,123	573,741	661,681	621,487
Issue of debt securities	54,360	55,821	57,565	59,212
Foreign exchange payable	62,322	59,309	-	-
Suppliers and other accounts payable	75,369	75,369	148,950	148,950
Advance on real estate credits	17,015	17,601	19,606	20,512
	818,189	781,841	887,802	850,161

## 21. Financial instruments (Continued)

### iii) Fair value versus book value (Continued)

	03-31-2014		Company 12-31-2013	
	Book value	Fair value	Book value	Fair value
<b>Assets stated at fair value</b>				
Forward exchange contracts and interest rate swap contracts used for <i>hedge</i> operations	32,680	32,680	45,096	45,096
<b>Assets stated at amortized cost</b>				
Cash and cash equivalents	105,047	105,047	27,874	27,874
Trade accounts receivable and other receivables	52,513	52,513	175,243	175,243
	157,560	157,560	203,117	203,117
<b>Liabilities stated at fair value</b>				
Forward exchange contracts and interest rate swap contracts used for <i>hedge</i> operations	12,456	12,456	9,010	9,010
<b>Liabilities stated at amortized cost</b>				
Guaranteed bank loans	408,301	397,938	434,828	423,207
Issue of debt securities	54,360	55,821	57,565	59,212
Foreign exchange payable	62,322	46,797	-	-
Suppliers and other accounts payable	63,270	63,270	134,527	134,527
	588,253	563,826	626,920	616,946

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

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

## 21. Financial instruments (Continued)

### iii) Fair value versus book value (Continued)

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

## 22. Related parties

	Outstanding balances of subsidiaries with the Company					Effect from result of operations of subsidiaries with the Company	
	Current assets	Noncurrent assets (receivables from related parties)	Total assets	Current liabilities (*)	Total liabilities	Revenue	Expenses
<b>December 31, 2013</b>							
Taurus Blindagens Ltda.	-	-	-	-	-	-	12
Taurus Holdings, Inc. (Note 10)	148,215	-	148,215	15,635	15,635	248,265	4,542
Taurus Security Ltda.	-	547	547	-	-	-	-
Taurus Investimentos Imobiliários Ltda. (**)	5,811	-	5,811	-	-	-	4,914
Taurus Máquinas-Ferramenta Ltda.	196	20,568	20,764	-	-	-	-
Polimetal Metalurgia e Plásticos Ltda. (***)	6,494	-	6,494	50,798	50,798	3,558	78,064
	<b>160,716</b>	<b>21,115</b>	<b>181,831</b>	<b>66,433</b>	<b>66,433</b>	<b>251,823</b>	<b>87,532</b>
<b>March 31, 2014</b>							
Taurus Blindagens Ltda.	2	-	2	-	-	-	-
Taurus Holdings, Inc. (Note 10)	23,832	-	23,832	17,497	17,497	43,457	958
Taurus Security Ltda.	-	547	547	-	-	-	-
Taurus Investimentos Imobiliários Ltda. (**)	5,832	-	5,832	-	-	-	1,262
Taurus Máquinas-Ferramenta Ltda.	414	24,201	24,615	-	-	-	-
Polimetal Metalurgia e Plásticos Ltda. (***)	4,410	8,603	13,013	47,720	47,720	380	12,744
	<b>34,490</b>	<b>33,351</b>	<b>67,841</b>	<b>65,217</b>	<b>65,217</b>	<b>43,837</b>	<b>14,964</b>

(\*) Recorded as accounts payable

(\*\*) Disposal of fixed assets by the Company to subsidiary.

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

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

## 22. Related parties (Continued)

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

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

Subsidiary Taurus Máquinas-Ferramentas Ltda. has intercompany loan payable to the controlling company Forjas Taurus S.A. in the amount of R\$ 24,201 at March 31, 2014 (R\$ 20,568 at December 31, 2013). Subsidiary Taurus Security Ltda. has intercompany loan payable to the controlling company Forjas Taurus S.A. in the amount of R\$ 547 at March 31, 2014 and at December 31, 2013. The loans are not subject to monetary restatement or interest.

### Remuneration of key management personnel

At March 31, 2014, remuneration paid to key management personnel amounted to R\$ 3,992 (R\$ 5,312 at March 31, 2013), and includes salaries, fees and benefits.

Remuneration of key management personnel includes:

	<b>Consolidated</b>		<b>Company</b>	
	<b>03-31-2014</b>	<b>03-31-2013</b>	<b>03-31-2014</b>	<b>03-31-2013</b>
Remuneration and benefits of statutory directors and board members	<b>1,734</b>	1,886	<b>1,734</b>	1,886
remuneration of key personnel	<b>2,258</b>	3,426	<b>1,029</b>	1,634
Total	<b>3,992</b>	5,312	<b>2,763</b>	3,520

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



## 22. Related parties (Continued)

### Operations of directors and key management personnel

The directors and key management personnel directly control 48.83% of the Company's voting capital.

Some of the key management personnel hold units of interest in other entities, resulting in them having control or significant influence over the financial or operating policies of these companies. There were no transactions between the Company and these parties in the period ended March 31, 2014 and year ended December 31, 2013, excepting salaries.

### Sureties between related parties

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

	<b>03-31-2014</b>	<b>12-31-2013</b>
Polimetal Metalurgia e Plásticos Ltda.	<b>93,857</b>	118,950
Taurus Holdings, Inc.	<b>87,434</b>	106,309
Forjas Taurus S.A.	<b>5,104</b>	5,282
	<b>186,395</b>	230,541

## 23. Equity (Company)

### a) Capital

Capital at March 31, 2014 and December 31, 2013 amounted to R\$257,797.

#### *Preferred shares*

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

Under article 5, paragraph 4 of the Company's articles of incorporation, preferred shares are voting shares for purposes of resolutions in General Meetings about the following matters for which each share entitles shareholder to one vote:

I. transformation, takeover, merger or spin-off of the Company;

## 23. Equity (Company) (Continued)

a)

### Capital (Continued)

- II. approval of execution of contracts by and between the Company and its controlling shareholder, as defined in Level 2 Regulation, directly or through third parties, or other companies in which the controlling shareholder is interested, always by operation of legal or statutory provision, also such matters must be submitted to the General Meeting for approval;
- III. valuation of assets destined to payment of capital increase of the Company;
- IV. selection of specialized company to determine the Company's economic value, on the terms of Chapter VII of the Articles of Incorporation; and
- V. amendment to or revocation of statutory provisions that amend or change any requirements provided for in item 4.1 of Level 2 Regulation, highlighting that this voting right shall prevail only while the Participation Contract at Corporate Governance Level 2 is in force.

#### *Authorized shares (in thousands of shares)*

	<b>03-31-2014</b>	<b>12-31-2013</b>
Common shares	<b>51,851</b>	51,851
Preferred shares	<b>103,702</b>	103,702
	<b>155,553</b>	155,553

## 23. Equity (Company) (Continued)

### *Shares issued and fully paid up*

	Common		Preferred	
	Number in thousands	R\$ 000	Number in thousands	R\$ 000
<b>At December 31, 2013</b>				
ON - R\$ 2.66 - PN - R\$ 2.28*	<b>47,138</b>	<b>125,387</b>	<b>94,275</b>	<b>214,947</b>
<b>At March 31, 2014</b>				
ON - R\$ 2.10 - PN - R\$ 1.51*	47,138	98,990	94,275	142,355

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

### b) Treasury shares

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

### c) Reserves

#### *Legal reserve*

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

#### *Statutory reserve and profit retention*

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

#### *Equity valuation adjustments*

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

#### *Cumulative translation adjustments*

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

## 23. Equity (Company) (Continued)

### d) Earnings (loss) per share

Basic earnings (loss) per share were calculated based on profit (loss) for the period attributable to controlling and non-controlling shareholders of the Company up to March 31, 2014, and the respective average number of common outstanding shares in this period, compared to the period ended March 31, 2013, as presented below:

	<b>31-03-2014</b>	<b>31-03-2013</b>
Net income (loss) for the period	<b>(4,540)</b>	9,194
Net income (loss) attributable to shareholders	<b>(4,540)</b>	9,194
Basic and diluted earnings (loss) per share – in R\$	<b>(0.0321)</b>	0.0650

Basic earnings per share are calculated based on net income (loss) for the period attributable to Company shareholders divided by the weighted average of outstanding in the period. At March 31, 2014, the Company's basic and diluted earnings per share have the same amount since there are no financial instruments convertible into shares and its common shares are not entitled to differentiated participation in profits.

## 24. Operating income

	<b>Consolidated</b>		<b>Company</b>	
	<b>03-31-2014</b>	<b>03-31-2013</b>	<b>03-31-2014</b>	<b>03-31-2013</b>
Product sales	<b>191,937</b>	258,891	<b>83,230</b>	85,281
Services rendered	<b>12</b>	5	<b>12</b>	5
Total gross revenue	<b>191,949</b>	258,896	<b>83,242</b>	85,286
Sales taxes	<b>(23,543)</b>	(28,938)	<b>(7,314)</b>	(4,530)
Sales returns and rebates	<b>(280)</b>	(1,263)	<b>(58)</b>	(2,777)
Total net operating revenue	<b>168,126</b>	228,695	<b>75,870</b>	77,979

## 25. Financial income (expenses)

	Consolidated		Company	
	03-31-2014	03-31-2013	03-31-2014	03-31-2013
<b>Financial expenses</b>				
Interest	(14,456)	(13,548)	(10,682)	(9,695)
Capitalized interest on fixed assets	109	149	109	149
Exchange variation	(19,047)	(3,622)	(18,719)	(3,382)
Tax on Financial Transactions - IOF	(133)	(402)	(26)	(54)
Swap on financial operations	(10,216)	(8,054)	(10,216)	(7,897)
Other expenses	(3,222)	(1,390)	(1,295)	(273)
	(46,965)	(26,867)	(40,829)	(21,152)
<b>Financial income</b>				
Interest	4,278	2,582	1,927	1,576
Exchange variation	25,592	5,764	24,833	5,566
Swap on financial operations	6,065	3,625	6,065	3,515
Other revenues	1,146	1,870	38	85
	37,081	13,841	32,863	10,742
<b>Financial income (expenses), net</b>	(9,884)	(13,026)	(7,966)	(10,410)

## 26. Income and social contribution tax expense

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

	Consolidated		Company	
	03-31-2014	03-31-2013	03-31-2014	03-31-2013
Income/loss before income and social contribution taxes	(5,347)	24,007	(8,619)	10,324
Combined tax rate	34%	34%	34%	34%
Income and social contribution taxes: At combined tax rate	1,818	(8,162)	2,930	(3,510)
Permanent additions:				
Non-deductible expenses	(27)	(24)	(27)	(24)
Permanent exclusions:				
Tax exempt income – equity pickup	(109)	-	540	7,161
Other – Law No. 11196/05	32	39	-	-
Unrecognized tax loss	(3,264)	(5,524)	-	(4,346)
Tax losses offsetting	572	-	572	-
Effects from differentiated rates on profit computed as a percentage of gross revenue (“ <i>lucro presumido</i> ”)	1,264	436	-	-
Other items	521	(1,578)	64	(411)
Income and social contribution taxes in the P&L for the year	807	(14,813)	4,079	(1,130)
Income and social contribution taxes in the P&L for the year:				
Current	(4,656)	(9,615)	(1,306)	-
Deferred (Note 13)	5,463	(5,198)	5,385	(1,130)
	807	(14,813)	4,079	(1,130)
Effective rate	-15.09%	61.70%	-47.33%	10.95%

## 27. Insurance coverage

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

At March 31, 2014, the Company's insurance coverage was as follows:

	<b>03-31-2014</b>	
	<b>Consolidated</b>	<b>Company</b>
Property damage	204,637	83,225
Civil liability	38,653	8,000
Loss of profits	5,874	-

## 28. Expenses by nature

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

	<b>Consolidated</b>		<b>Company</b>	
	<b>03-31-2014</b>	<b>03-31-2013</b>	<b>03-31-2014</b>	<b>03-31-2013</b>
<b>Expenses by function</b>				
Cost of goods sold	(122,418)	(150,744)	(62,132)	(63,720)
Selling expenses	(22,448)	(22,208)	(8,070)	(6,030)
General and administrative expenses	(16,085)	(16,866)	(6,707)	(7,859)
Other operating expenses	(4,075)	(3,430)	(1,947)	(745)
	<b>(165,026)</b>	<b>(193,248)</b>	<b>(78,856)</b>	<b>(78,354)</b>
<b>Expenses by nature</b>				
Depreciation and amortization	(8,078)	(8,083)	(2,845)	(2,985)
Personnel expenses	(27,783)	(18,223)	(31,324)	(28,878)
Raw materials and use and consumption materials	(84,285)	(129,666)	(21,125)	(35,420)
Freight	(4,592)	(4,441)	(1,011)	(1,924)
Commissions	(5,929)	(7,122)	(1,979)	(1,325)
Third-party services	(5,779)	(4,653)	(2,502)	(2,427)
Advertising and publicity	(3,908)	(3,532)	(470)	(585)
Research and development	(92)	(335)	(64)	(335)
Provision for loss on Renill notes	(1,047)	(968)	-	-
Product warranty expenses	(2,669)	(179)	(2,665)	(58)
Water and energy	(2,582)	(2,218)	(1,600)	(1,229)
Rent	(243)	(27)	(243)	(27)
Travel and lodging	(829)	(564)	(787)	(542)
Taxes and charges	(506)	(792)	(400)	(587)
Cleaning and hygiene	(745)	(694)	(440)	(421)
Environmental management	(512)	(447)	(384)	(323)
Idle capacity	(914)	(710)	(914)	-
Cost of fixed assets sold	(821)	-	(678)	-
Other expenses	(13,712)	(10,594)	(9,425)	(1,288)
	<b>(165,026)</b>	<b>(193,248)</b>	<b>(78,856)</b>	<b>(78,354)</b>

## **29. Subsequent events**

### **a) Extraordinary General Meeting – April 29, 2014**

On April 29, 2014, in the Company's head office, the shareholders met in an Extraordinary General Meeting and after examining and discussing the matters in the meeting agenda decided to do the following:

(i) Approve increase of Company capital, on the proposed terms by up to R\$ 200,906,000.04 (two hundred million, nine hundred and six thousand and four cents), through issue of up to 48,528,020 (forty-eight million, five hundred and twenty-eight thousand and twenty) common shares and 97,056,038 (ninety-seven million, fifty-six thousand and thirty-eight) preferred shares, all registered book-entry shares with no par value, for issue price of R\$1.38 (one real and thirty-eight cents).

(ii) Authorize the Company's Executive Board to perform all acts and adopt all necessary measures to increase capital, under the conditions described in item (i) above, including publication of communication to shareholders, preparation of subscription list and contact with the subscription agent ,among others.

(iii) Approve reduction of remuneration of the Company's board of directors members to R\$5,000.00 (five thousand reais) per month for each member.

Issue and publication of the summary meeting minutes were approved omitting shareholders signatures, on the terms of law, recording in writing the votes for and against of shareholders and board members, which were numbered and kept on file at the Company's head office.

### **b) Common and Extraordinary General Meeting – April 30, 2014**

On April 30, 2014, in the Company's head office, the shareholders met in a Common and Extraordinary General Meeting and after examining and discussing the matters in the meeting agenda decided as follows:

(i) In the Common General Meeting:

1. Before deciding about the matters in the meeting agenda, the present shareholders decided, by majority voting, to remove from the meeting agenda the items referring to the Company's management accounts related to 2013 and 2012, to be discussed in a new General Meeting to be held within up to 90 (ninety) days from that date.
2. Approve, by majority voting and with abstention of those legally impeded, the Financial Statements, the Independent Auditor's Report on the Financial Statements, the Report of Supervisory Board and other documents for the year ended December 31, 2013.
3. Approve, by unanimous voting, the proposed Capex for 2014, in the amount of R\$ 55,182 thousand.

## 29. Subsequent events (Continued)

### **b) Common and Extraordinary General Meeting – April 30, 2014 (Continued)**

#### **(i) In the Common General Meeting (Continued)**

4. Approve, by majority voting, with abstention of shareholders, the proposed overall annual remuneration of board members for 2014, of up to R\$ 10,333,521.65, amount that will be apportioned among the management bodies of the Company, as decided by the Company's Board of Directors, as prescribed by article 27, item 23 of its articles of incorporation.
5. Election, by majority voting of common shareholders, of Supervisory Board members with term of office until the next Common General Meeting;
6. Establish, by unanimous voting, the remuneration of the Company's Supervisory Board members for 2014 in the amount of R\$503,196.00, equivalent to 10% of the Company's overall statutory remuneration.
7. Approve, by majority voting and with abstention of those legally impeded, the audited Financial Statements for the year ended December 31, 2012, the Independent Auditor's Report on the Financial Statements, the Report of the Audit and Risk Committee and the Report of Supervisory Board, for the year ended December 31, 2012, also all reports were reissued without any qualification or modification.

#### **(ii) In the Extraordinary General Meeting:**

1. Approve, by majority voting, the proposed amendment to article 37 of the Company's articles of incorporation in order to clarify the lack of limitation of annual remuneration, when the participation results from remuneration to be paid under incentive or participation plans, said article being now in force with the following wording:  
Issue and publication of the summary meeting minutes were approved omitting shareholders signatures, on the terms of law, recording in writing the votes for and against of shareholders and board members, which were numbered and kept on filed at the Company's head office.

### **c) Waiver – Bank credit bill No. AGE352746/1 and AGE 352750/1.**

In the correspondence dated April 30, 2014, Banco Itaú Unibanco S.A. expressed the position in favor of not enforcing accelerated maturity of the Bank Credit Bill due to noncompliance by Taurus of the obligation in clause 13, items (i) and (ii). Waiver of accelerated maturity exclusively applies to fulfillment of obligations at December 31, 2013.



A free translation from Portuguese into English of independent auditor's review report on individual interim financial information prepared in Brazilian currency in accordance with accounting practices adopted in Brazil and on consolidated interim financial information prepared in Brazilian currency in accordance with accounting practices adopted in Brazil, International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board – IASB and specific CVM rules

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## **Independent auditor's review report on interim financial information**

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

### **Introduction**

We have reviewed the accompanying individual and consolidated interim financial information of Forjas Taurus S.A. (Company), contained in the Quarterly Information Form (ITR) for the quarter ended March 31, 2014, comprising the balance sheet as at March 31, 2014 and the related income statement, statement of comprehensive income, of changes in equity and cash flow statement for the three-month period then ended, including the explanatory notes.

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

### **Scope of review**

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

### **Conclusion on the individual interim financial information**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying individual interim financial information included in the quarterly financial information referred to above is not prepared, in all material respects, in accordance with CPC 21 (R1) applicable to the preparation of Quarterly Information (ITR), consistently with the rules issued by the Brazilian Securities and Exchange Commission (CVM).

### **Conclusion on the consolidated interim financial information**

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim financial information included in the quarterly financial information referred to above is not prepared, in all material respects, in accordance with CPC 21 (R1) and IAS 34 applicable to the preparation of the Quarterly Information (ITR), consistently with the rules issued by the Brazilian Securities and Exchange Commission (CVM).

### **Other matters**

#### **Statements of value added**

We have also reviewed the individual and consolidated statements of value added (SVA) for the three-month period ended March 31, 2014, prepared under the responsibility of the Company's management, of which presentation in the interim financial information is required by CVM rules applicable to preparation of Quarterly Information (ITR) and considered as supplementary information for IFRS purposes, which do not require SVA presentation. These statements have been subject to the same review procedures previously described and, based on our review, nothing has come to our attention that causes us to believe that they were not prepared, in all material respects, consistently with the overall individual and consolidated interim financial information.

Porto Alegre, May 13, 2014.

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

Américo F. Ferreira Neto  
Accountant CRC-1SP192685/O-9

## **Representation of Supervisory Board**

The Supervisory Board of Forjas Taurus S.A., abiding by legal and statutory provisions, examined the Quarterly Information - ITR, for the period from the first quarter of 2014. Based on the analysis performed, and further considering the report of independent auditor Ernst & Young Auditores Independentes S.S., dated May 13, 2014, as well as information and clarification received in the period, represents hereby that the referred to documents are in condition of being submitted to the Brazilian Securities and Exchange Commission - CVM

Porto Alegre - May 15, 2014.

Amoreti Franco Gibbon

Mauro César Medeiros de Mello

Marcelo de Deus Saweryn

Reinaldo Fujimoto

Juliano Puchalski Teixeira

## **REPRESENTATION LETTER OF FORJAS TAURUS S.A. OFFICERS ON THE FINANCIAL STATEMENTS FOR THE FIRST QUARTER OF 2014**

Mr. André Ricardo Balbi Cerviño, Eduardo Ermida Moretti, Eduardo Feldmann Costa and Mrs. Dóris Beatriz França Wilhelm, Officers of Forjas Taurus S.A., a company headquartered at Avenida do Forte, nº 511, Vila Ipiranga, Porto Alegre, Rio Grande do Sul (RS) state, enrolled with Brazilian IRS Registry of Legal Entities under No. 92.781.335/0001-02, for the purpose of items V and VI of article 25 of Brazilian Securities and Exchange Commission (CVM) Ruling No. 480, of December 7, 2009, do hereby represent that they have reviewed, discussed and agreed with the Financial Statements of Forjas Taurus S.A. and consolidated companies for the period from January 1, 2014 to March 31, 2014.

Porto Alegre, May 13, 2014.

André Ricardo Balbi Cerviño  
Chief Executive Officer

Eduardo Ermida Moretti  
Sales and Marketing Vice President Officer

Eduardo Feldmann Costa  
Administrative and Finance Vice President Officer

Doris Beatriz França Wilhelm  
Investor Relations Officer

## **REPRESENTATION LETTER OF FORJAS TAURUS S.A. OFFICERS ON INDEPENDENT AUDITOR'S REPORT**

Mr. André Ricardo Balbi Cerviño, Eduardo Ermida Moretti, Eduardo Feldmann Costa and Mrs. Dóris Beatriz França Wilhelm, Officers of Forjas Taurus S.A., a company headquartered at Avenida do Forte, nº 511, Vila Ipiranga, Porto Alegre, Rio Grande do Sul (RS) state, enrolled with Brazilian IRS Registry of Legal Entities under No. 92.781.335/0001-02, for the purpose of items V and VI of article 25 of Brazilian Securities and Exchange Commission (CVM) Ruling No. 480, of December 7, 2009, do hereby represent that they have reviewed, discussed and agreed with the opinions expressed by Ernst & Young Auditores Independentes S.S., dated May 13, 2014, in the Independent Auditor's Report on the Financial Statements for the period from January 1, 2014 to March 31, 2014.

Porto Alegre, May 13, 2014.

André Ricardo Balbi Cerviño  
Chief Executive Officer

Eduardo Ermida Moretti  
Sales and Marketing Vice President Officer

Eduardo Feldmann Costa  
Administrative and Finance Vice President Officer

Doris Beatriz França Wilhelm  
Investor Relations Officer