Financial statements

Forjas Taurus S.A.

December 31, 2012 and 2011
with Independent Auditor’s Report.

Forjas Taurus S.A.

Financial statements

December 31, 2012 and 2011

Contents

Forjas Taurus S.A.

Balance sheets
December 31, 2012 and 2011
(In thousands of reais)

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

		Consolidated		Company	
	Note	2012 (restated)	2011	2012 (restated)	2011
Assets					
Current assets					
Cash and cash equivalents	9	**180,781**	162,226	**101,560**	71,320
Trade accounts receivable	10	**148,847**	148,881	**57,803**	144,879
Inventories	11	**261,527**	237,578	**103,951**	86,216
Other financial instruments, including derivatives	21	**33,513**	18,262	**32,925**	17,778
Prepaid expenses		**9,086**	7,154	**2,368**	2,301
Taxes recoverable	12	**39,428**	17,141	**29,567**	9,950
Assets held for sale	8	**-**	137,785	**-**	-
Other accounts receivable		**29,093**	20,991	**19,769**	18,315
		702,275	750,018	**347.943**	350,759
Noncurrent assets					
Receivables from related parties	22	**-**	219	**114,580**	59,087
Deferred tax assets	13	**44,049**	43,767	**-**	-
Taxes recoverable	12	**4,925**	3,553	**1,645**	3,210
Other accounts receivable		**7,496**	3,048	**2,430**	1,986
		56,470	50,587	**118,655**	64,283
Investments					
Subsidiaries	15	**-**	-	**296,369**	321,852
Associated companies	15	**15,543**	15,216	**-**	-
Other investments		**350**	289	**190**	130
Property, plant and equipment	16	**278,485**	256,476	**62,334**	120,967
Intangible assets	17	**61,181**	41,741	**4,832**	5,378
		355,559	313,722	**363,725**	448,327
Total assets		**1,114,304**	1,114,327	**830,323**	863,369

	Note	Consolidated		Company	
		2012 (restated)	2011	2012 (restated)	2011
Liabilities and equity					
Current liabilities					
Suppliers		**34,958**	26,291	**40,742**	15,823
Loans and financing	18	**322,555**	99,043	**294,113**	85,112
Debentures	19	**94,698**	75,791	**94,698**	75,791
Foreign exchange drafts		**5,128**	39,626	**5,128**	39,626
Payroll and related charges		**27,263**	28,349	**16,506**	23,514
Taxes, charges and contributions		**24,631**	31,159	**7,065**	13,312
Advance on receivables		**26,375**	17,530	**-**	-
Advances from customers		**16,567**	3,577	**12,147**	3,449
Derivative financial instruments	21	**7,750**	19,358	**6,576**	19,358
Advance on real estate credits	14	**28,711**	7,417	**-**	-
Commissions payable		**3,885**	5,655	**2,829**	4,874
Dividends payable		**7,040**	15,270	**7,040**	15,270
Liabilities held for sale	8	**-**	81,728	**-**	-
Other accounts payable		**38,952**	14,774	**14,725**	9,568
		638,513	465,568	**501,569**	305,697
Noncurrent liabilities					
Loans and financing	18	**255,485**	232,653	**88,97**	176,322
Debentures	19	**-**	49,539	**-**	49,539
Payables to related parties		**-**	219	**-**	-
Advance on real estate credits	14	**-**	28,710	**-**	-
Taxes payable		**4,276**	2,796	**-**	738
Deferred tax liabilities	13	**5,777**	6,112	**2,348**	2,105
Other accounts payable		**8,473**	3,495	**35,656**	3,633
		274,011	323,524	**126,974**	232,337
Total liabilities		**912,524**	789,092	**628,543**	538,034
Equity	23				
Capital		**257,797**	257,797	**257,797**	257,797
Treasury shares		**(32,895)**	(32,895)	**(32,895)**	(32,895)
Capital transactions		**(40,996)**	(40,996)	**(40,996)**	(40,996)
Income reserves		**-**	107,296	**-**	107,296
Dividends to be assigned		**321**	469	**321**	469
Accumulated loss		**(20,604)**	-	**(20,604)**	-
Equity valuation adjustments		**37,773**	44,807	**37,773**	44,807
Cumulative translation adjustments		**384**	(11,143)	**384**	(11,143)
Equity of controlling shareholders		**201,780**	325,335	**201,78**	325,335
Noncontrolling shareholders		**-**	(100)	**-**	-
Total equity		**201,780**	325,235	**201,78**	325,335
Total liabilities and equity		**1,114,304**	1,114,327	**830,323**	863,369

See accompanying notes,

Forjas Taurus S.A.

Statements of comprehensive income
Years ended December 31, 2012 and 2011
(In thousands of reais)

		Consolidated		Company	
	Note	**2012 (restated)**	**2011**	**2012 (restated)**	**2011**
Net operating revenue	24	**700,971**	617,968	**383,144**	390,960
Cost of sales		**(434,237)**	(353,700)	**(275,683)**	(269,306)
Gross profit		**266,734**	264,268	**107,461**	121,654
Operating income (expenses)					
Selling expenses		**(89,419)**	(90,494)	**(32,249)**	(37,440)
Administrative and general expenses		**(60,730)**	(65,706)	**(32,594)**	(43,628)
Other operating expenses, net	25	**(33,297)**	(8,999)	**(9,169)**	(7,689)
		(183,446)	(165,199)	**(74,012)**	(88,757)
Income before net financial expenses, equity pickup and income taxes		**83,288**	99,069	**33,449**	32,897
Financial income	26	**90,348**	49,185	**78,338**	46,580
Financial expenses	26	**(134,897)**	(96,824)	**(119,125)**	(91,025)
Net financial expenses		**(44,549)**	(47,639)	**(40,787)**	(44,445)
Equity pickup	15	**875**	1,906	**25,787**	69,288
Income before income taxes		**39,614**	53,336	**18,449**	57,740
Income and social contribution taxes	27	**(21,833)**	19,667	**(668)**	948
Income from continuing operations		**17,781**	73,003	**17,781**	58,688
Loss from discontinued operations	8	**(134,991)**	(35,666)	**(134,991)**	(21,373)
Income for the year before non-controlling shareholders		**(117,210)**	37,337	**(117,210)**	37,315
Non-controlling shareholders		**-**	(22)	**-**	-
Net income for the year		**(117,210)**	37,315	**(117,210)**	37,315
Earnings per common share – basic and diluted (in R$)	23.d			**-0.8288**	0.2826
Earnings per preferred share – basic and diluted (in R$)	23.d			**-0.8288**	0.2826
Earnings per common share – basic and diluted – from continuing operations (in R$)	23.d			**0.1257**	0.4445
Earnings per preferred share – basic and diluted – from continuing operations (in R$)	23.d			**0.1257**	0.4445

See accompanying notes,

Forjas Taurus S.A.

Statements of comprehensive income
Years ended December 31, 2012 and 2011
(In thousands of reais)

	Consolidated		Company	
	2012 (restated)	2011	2012 (restated)	2011
Net income for the year	**(117,210)**	37,315	**(117,210)**	37,315
Other comprehensive income				
Cumulative translation adjustment	**11,527**	12,726	**11,527**	12,726
Adjustments of financial instruments	**(965)**	-	**(965)**	-
Total comprehensive income	**(106,648)**	50,041	**(106,648)**	50,041
Comprehensive income attributable to:				
Controlling shareholders	**(106,648)**	50,011	**(106,648)**	50,011
Non-controlling shareholders	**-**	30	**-**	30
Total comprehensive income	**(106,648)**	50,041	**(106,648)**	50,041

See accompanying notes.

Forjas Taurus S.A.

Statements of changes in equity
Years ended December 31, 2012 and 2011
(In thousands of reais)

	Capital	Treasury shares	Income reserves		Capital transactions	Equity valuation adjustments	Cumulative translation adjustments	Dividends to be assigned	Retained earnings	Equity of controlling shareholders	Noncontrolling shareholders	Total equity
			Legal reserve	Reserve for investments								
Balances at December 31, 2010	201,000	-	23,852	208,672	-	49,105	(23,869)	1,766	-	460,526	53	460,579
Approval of prior year proposed dividends	-	-	-	-	-	-	-	(1,766)	-	(1,766)	-	(1,766)
Changes in noncontrolling shareholders	-	-	-	-	-	-	-	-	-	-	(153)	(153)
Cumulative translation adjustment	-	-	-	-	-	-	12,726	-	-	12,726	-	12,726
Realization of equity valuation adjustment – appreciation of assets, net of tax effects	-	-	-	-	-	(2,066)	-	-	2,066	-	-	-
Realization of equity valuation adjustment – appreciation of assets of subsidiaries, net of tax effects	-	-	-	-	-	(1,866)	-	-	1,866	-	-	-
Acquisition of treasury shares	-	(32,895)	-	-	-	-	-	-	-	(32,895)	-	(32,895)
Corporate restructuring	-	-	-	(132,801)	(40,996)	-	-	-	-	(173,797)	-	(173,797)
Capital increase	56,797	-	-	(18,000)	-	-	-	-	-	38,797	-	38,797
Other	-	-	-	-	-	(366)	-	-	1,093	727	-	727
Net income for the year	-	-	-	-	-	-	-	-	37,315	37,315	-	37,315
Proposed allocations:												
Setting up of reserves	-	-	1,866	23,707	-	-	-	-	(25,573)	-	-	-
Dividends and interest on equity (Note 23,e)	-	-	-	-	-	-	-	-	(16,767)	(16,767)	-	(16,767)
Proposed dividends in addition to minimum mandatory dividends	-	-	-	-	-	-	-	469	-	469	-	469
Balances at December 31, 2011	257,797	(32,895)	25,718	81,578	(40,996)	44,807	(11,143)	469	-	325,335	(100)	325,235
Approval of prior year proposed dividends	-	-	-	-	-	-	-	(469)	-	(469)	-	(469)
Cumulative translation adjustment	-	-	-	-	-	-	11,527	-	-	11,527	-	11,527
Realization of equity valuation adjustment – appreciation of assets, net of tax effects	-	-	-	-	-	(4,318)	-	-	4,318	-	-	-
Realization of equity valuation adjustment – appreciation of assets of subsidiaries, net of tax effects	-	-	-	-	-	(1,751)	-	-	1,751	-	-	-
Unrealized gains with hedge instruments, net of tax effects	-	-	-	-	-	(965)	-	-	-	(965)	-	(965)
Other	-	-	-	-	-	-	-	-	(75)	(75)	100	25
Net income for the year	-	-	-	-	-	-	-	-	(117,210)	(117,210)	-	(117,210)
Proposed allocations:												
Setting up of reserves	-	-	(25,718)	(81,578)	-	-	-	-	107,296	-	-	-
Dividends and interest on equity (Note 23,e)	-	-	-	-	-	-	-	-	(16,363)	(16,363)	-	(16,363)
Proposed dividends in addition to minimum mandatory dividends	-	-	-	-	-	-	- -	321	(321)	-	-	- -
Balances at December 31, 2012	**257,797**	**(32,895)**	**-**	**-**	**(40,996)**	**37,773**	**384**	**321**	**(20,604)**	**201,780**	**-**	**201,780**

See accompanying notes,

Forjas Taurus S.A.

Cash flow statements
Years ended December 31, 2012 and 2011
(In thousands of reais)

	Consolidated		Company	
	2012 (restated)	2011	2012 (restated)	2011
Cash flow from operating activities				
Income before income and social contribution taxes	**(95,377)**	17,648	**(116,542)**	36,367
Adjustments to reconcile net income for the year to cash and cash equivalents provided by operating activities:				
Depreciation and amortization	**31,241**	27,605	**11,810**	17,597
Cost of fixed asset disposals	**6,599**	1,849	**2,321**	1,822
Cost of intangible asset disposals	**385**	1,894	**-**	779
Provision for impairment of fixed assets	**13,522**	-	**-**	-
Write-off of assets held for sale	**2,527**	-	**-**	-
Contract renegotiation	**57,830**	-	**-**	-
Allowance for doubtful accounts	**14,894**	(907)	**75**	11
Provision for inventory losses	**9,566**	-	**-**	-
Additional provision for losses	**59,746**	-	**-**	-
Equity pickup	**(875)**	(1,906)	**(25,787)**	(47,915)
Equity pickup from discontinued operations	**-**	-	**134,991**	21,373
Loss from change in investment in subsidiaries	**-**	-	**450**	98
Provision for interest on loans and financing	**64,155**	38,860	**50,763**	30,290
Derivative financial instruments	**(20,450)**	3,680	**(21,520)**	4,164
Noncontrolling shareholders	**100**	22	**-**	-
	239,24	71,097	**153,103**	6,846
Changes in assets and liabilities				
(Increase) in inventories	**(13,617)**	(31,998)	**(33,263)**	(8,519)
Decrease (increase) in trade accounts receivable	**10,547**	(24,835)	**87,001**	(39,377)
(Increase) decrease in other accounts receivable	**(24,566)**	9,604	**(20,460)**	(1,243)
Increase (decrease) in suppliers	**4,632**	(9,110)	**24,904**	1,038
(Decrease) increase in accounts payable and provisions	**(40,481)**	51,528	**(43,214)**	26,116
Dividends and interest on equity received	**589**	553	**29,975**	28,202
Payment of income and social contribution taxes	**(20,087)**	(10,418)	**-**	-
Assets and liabilities held for sale	**-**	3,775	**-**	-
	(82,983)	(10,901)	**44,940**	6,217
Net cash provided by operating activities	**60,880**	77,844	**81,501**	49,430
Cash flow from investing activities				
Receivables from related companies	**219**	-	**(55,493)**	(31,702)
Investments	**(34,118)**	(4)	**(1,819)**	(4,115)
Property, plant and equipment	**(58,780)**	(46,484)	**(13,497)**	(28,598)
Intangible assets	**(3,187)**	(966)	**(763)**	(459)
Net cash used in investing activities	**(95,866)**	(47,454)	**(71,572)**	(64,874)
Cash flow from financing activities				
Treasury shares	**-**	(32,895)	**-**	(32,895)
Repayment of loans resulting from corporate restructuring	**-**	(169,377)	**-**	(165,000)
Dividends and interest on equity paid	**(21,130)**	(15,791)	**(21,130)**	(15,791)
Borrowings	**329,682**	321,981	**216,727**	287,154
Loans and financing repayment	**(216,309)**	(126,525)	**(152,560)**	(99,357)
Interest paid	**(38,619)**	(33,276)	**(24,819)**	(25,369)
Other	**(219)**	(819)	**2,093**	(348)
Net cash provided by (used in) financing activities	**53,405**	(56,702)	**20,311**	(51,606)
Increase (decrease) in cash and cash equivalents	**18,419**	(26,312)	**30,240**	(67,050)
(Decrease) increase in cash and cash equivalents				
At the beginning of the year	**162,226**	184,216	**71,320**	138,370
Changes in cash from discontinued operations	**136**	(4,322)	**-**	-
At the end of the year	**180,781**	162,226	**101,560**	71,320
Increase (decrease) in cash and cash equivalents	**18,419**	(26,312)	**30,240**	(67,050)

Forjas Taurus S.A.

Cash flow statements
Years ended December 31, 2012 and 2011
(In thousands of reais)

See accompanying notes,

Forjas Taurus S.A.

Statements of value added
Years ended December 31, 2012 and 2011
(In thousands of reais)

	Note	Consolidated		Company	
		2012 (restated)	2011	2012 (restated)	2011
Revenues					
Sales of goods, products and services		**850,071**	736,122	**458,385**	481,125
Other revenues	25	**7,986**	4,276	**2,497**	1,985
Allowance for doubtful accounts		**(14,894)**	907	**(75)**	(11)
		843,163	741,305	**460,807**	483,099
Inputs acquired from third parties, including the amount of taxes – ICMS, IPI, PIS and COFINS					
Cost of products, goods and services sold		**225,378**	148,893	**202,977**	78,829
Materials, electricity, third-party services and other		**176,852**	157,659	**48,605**	87,261
		402,230	306,552	**251,582**	166,090
Gross value added		**440,933**	434,753	**209,225**	317,009
Depreciation and amortization		**31,241**	27,605	**11,810**	17,597
Net value added produced by the Company		**409,692**	407,148	**197,415**	299,412
Value added received in transfer					
Equity pickup		**875**	1,906	**25,787**	69,288
Equity pickup – discontinued operations		**(134,991)**	-	**(134,991)**	(21,373)
Financial income		**90,600**	49,185	**78,338**	46,580
		(43,516)	51,091	**(30,866)**	94,495
Total value added to be distributed		**366,176**	458,239	**166,549**	393,907
Distribution of value added					
Employees					
Direct remuneration		**138,205**	146,671	**75,322**	100,290
Benefits		**18,488**	18,603	**9,493**	7,296
Government Severance Indemnity Fund for Employees - FGTS		**9,124**	11,547	**5,821**	11,688
		165,817	176,821	**90,636**	119,274
Government					
Federal		**132,876**	67,663	**46,781**	71,267
State		**28,463**	40,460	**12,817**	30,877
Municipal		**249**	292	**168**	164
		161,588	108,415	**59,766**	102,308
Financing agents					
Interest		**135,311**	96,459	**119,098**	90,675
Rents		**11,886**	14,527	**5,262**	8,778
Other		**8,784**	24,702	**8,997**	35,557
		155,981	135,688	**133,357**	135,010
Interest on own capital					
Dividends and interest on equity		**16,684**	16,767	**16,684**	16,767
Retained earnings, net of realization of equity valuation adjustments		**(133,894)**	20,548	**(133,894)**	20,548
		(117,210)	37,315	**(117,210)**	37,315
		366,176	458,239	**166,549**	393,907

See accompanying notes,

(In thousands of reais, except where otherwise stated)

1. Operations

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

At December 31, 2012, the Company and its subsidiaries operated with seven industrial plants, four 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 dependence on government bodies or any other single customer. Given the specific characteristics of the weapons and ammunitions market, the Company and its subsidiaries are supervised and follow the rules issued by the national and foreign security bodies for part of their operations.

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

2. The Company's entities

		Investment interest	
	Country	**2012**	**2011**
Taurus Blindagens Ltda.*	Brazil	**100.00%**	99.86%
Taurus Blindagens Nordeste Ltda.*	Brazil	**100.00%**	99.86%
Taurus Holdings, Inc.	United States	**100.00%**	100.00%
Taurus Security Ltda.	Brazil	**100.00%**	60.00%
Taurus Máquinas-Ferramenta Ltda.	Brazil	**100.00%**	99.98%
Taurus Investimentos Imobiliários Ltda.*	Brazil	**100.00%**	99.96%
Famastil Taurus Ferramentas S.A.**	Brazil	**35.00%**	35.00%
Taurus Helmets Indústria Plástica Ltda.	Brazil	**100.00%**	99.86%
Polimetal Metalurgia e Plásticos Ltda.	Brazil	**100.00%**	100.00%
Steelinject – Injeção de Aços Ltda.*	Brazil	**100.00%**	-

(*) The investments reported represent the percentage interest held by the investing Company directly or indirectly in the capital of the subsidiary companies.
(**) Not consolidated.

2. The Company's entities (Continued)

Disposal of operations of subsidiary Taurus Máquinas-Ferramenta Ltda.

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

3. Basis of 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.

3. Basis of preparation (Continued)

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

Preparation of individual and consolidated financial statements in accordance with IFRS and Brazilian FASB (CPC) pronouncements requires Management to make judgments, estimates and assumptions that affect the application of accounting practices and the amounts reported for assets, liabilities, income and expenses. The actual results could differ from these estimates.

Estimates and assumptions are revised on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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

e) Restatement of financial statements

On June 21, 2012 Forjas Taurus S/A completed the sale of the operations of Taurus Máquinas-Ferramenta Ltda. (“TMFL”) to Renill Participações Ltda. (“RPL”) in the amount of R$115,350 as per the Share Purchase and Sale Agreement and Other Covenants (“Agreement”) signed between the parties.

As mentioned in Note 8, the parties renegotiated the selling price and payment terms, adjusting the total amount of the Agreement for sale of TMFL operations to R$57,520.

3. Basis of preparation (Continued)

e) Restatement of financial statements

The accounting effect of the renegotiation resulted in a reduction in the selling value from R$115,350 to R$57,520, corresponding to a loss of R$57,830.

The Company revisited all agreements and correspondence related to the sale and concluded, in line with the position expressed by the external auditors, that the events that led to the reduction of the original selling value were already present on June 20, 2012 and, as such, the loss should have been recognized on such date.

Given this, the Company decided, voluntarily, to retroactively adjust all effects in the financial statements, as set out in CPC 23 – Accounting Policies, Changes in Accounting Estimates and Correction of Errors (equivalent to IAS 8), as follows:

(In thousands of reais, except where otherwise stated)

3. **Basis of preparation** (Continued)

e) Restatement of financial statements (Continued)

						Consolidated
						At December 31, 2012
		Assets	Liabilities and equity			
	Current assets	Noncurrent assets	Current liabilities	Noncurrent liabilities	Equity	Net income for the year
Balance originally disclosed	**722,336**	**541,411**	**427,947**	**474,900**	**360,900**	**41,910**
Write-off of accounts receivable (a)	-	(57,830)	-	-	(57,830)	(57,830)
Supplementary provision for losses (b)	(3,590)	(57,154)	-	-	(60,744)	(60,744)
Provision for inventory losses (c)	(9,566)	-	-	-	(9,566)	(9,566)
Allowance for doubtful accounts (c)	(8,320)	-	-	-	(8,320)	(8,320)
Provision for impairment of PP&E (c)	-	(13,522)	-	-	(13,522)	(13,522)
Provision for tax and civil contingencies (c)	-	-	3,059	6,618	(9,677)	(9,677)
Deferred taxes	-	539	-	-	539	539
Transfer to current assets/liabilities (d)	1,415	(1,415)	207,507	(207,507)	-	-
Restated balance	**702,275**	**412,029**	**638,513**	**274,011**	**201,780**	**(117,210)**

						Company
						At December 31, 2012
		Assets	Liabilities and equity			Net income
		Noncurrent		Noncurrent		(loss) for
	Current assets	assets	rrent liabilities	liabilities	Equity	the year
Balance originally disclosed	**351,858**	**604,532**	**312,164**	**283,326**	**360,900**	**41,910**
Equity pickup	-	(125,645)	-	-	(125,645)	(125,645)
Provision for capital deficiency	-	-	-	29,207	(29,207)	(29,207)
Provision for tax and civil contingencies (c)	-	-	1,504	2,342	(3,846)	(3,846)
Provision for inventory losses (c)	(422)	-	-	-	(422)	(422)
Adjustments – transactions with subsidiaries	(3,493)	3,493	-	-	-	-
Transfer to current liabilities (d)	-	-	187,901	(187,901)	-	-
Restated balance	**347,943**	**482,380**	**501,569**	**126,974**	**201,780**	**(117,210)**

(a) Write-off of accounts receivable generated by the sale of the machinery operations, as a result of renegotiation, resulting in a reduction of the selling value, as mentioned in Note 8..

(b) In addition to write-off of accounts receivable generated by the sale of the machinery operations, as mentioned in item (a) above, management recorded a supplementary valuation allowance for the balance receivable from Renill Participações, due to deterioration of credit conditions, difficulties in fully implementing the guarantees and lack of updated information on the debtor's financial conditions. In accordance with CPC 24, which addresses subsequent events occurring between the financial statements date and the date of approval for restatements, such allowance was also recognized as of June 30, 2012.

3. **Basis of preparation** (Continued)

e) Restatement of financial statements (Continued)

(c) Because of the adjustments for restatement purposes, management undertook a new approval process for its financial statements. As part of this process and in accordance with CPC 24, the impacts of subsequent events occurring between the financial statements date and approval for their restatement were also considered. These events evidence conditions existing at the time the statements were adjusted for restatement purposes.

(d) Considering the record of losses, as indicated above, certain financial ratios (covenants) of loan and debenture agreements were not met, and the long-term portion was reclassified to current liabilities.

The above provisions and losses were substantially determined by the subsidiary Taurus Máquinas-Ferramenta Ltda., which has no capacity to recover tax credits from income and social contribution tax taxes on that date. As such, deferred income and social contribution tax losses were not recorded for these provisions and losses.

The statements of comprehensive income, statements of changes in equity, cash flow statements and statements of value added were adjusted to reflect the effects indicated.

Authorization to complete the preparation and restatement of interim financial statements occurred at the board meeting of February 27, 2014.

4. Significant accounting practices

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

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

a) Basis of consolidation

(i) *Business combinations*

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

Business combinations as from January 1, 2009 are accounted for by the acquisition method. Acquisition cost is measured by the sum of the consideration transferred, evaluated at fair value on the acquisition date, and the non-controlling interest in the acquired company.

In 2012, the Company acquired controlling interest in two companies, of which the fair value and amount paid are disclosed in Note 30.

(ii) *Subsidiaries*

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

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

4. Significant accounting practices (Continued)

a) Basis of consolidation (Continued)

(iii) *Investment in associated companies*

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

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

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

(iv) *Transactions eliminated in consolidation*

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

4. Significant accounting practices (Continued)

b) Foreign currency

(i) *Transactions in foreign currency*

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

(ii) *Foreign operations*

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

4. Significant accounting practices (Continued)

b) Foreign currency (Continued)

(ii) *Foreign operations* (Continued)

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

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

c) Financial instruments

(i) *Non-derivative financial assets*

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

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

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

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

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

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

4. Significant accounting practices (Continued)

c) Financial instruments (Continued)

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

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

(ii) *Non-derivative financial liabilities*

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

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

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

4. Significant accounting practices (Continued)

c) Financial instruments (Continued)

(iii) *Derivative financial instruments*

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

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

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

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

4. **Significant accounting practices** (Continued)

d) Property, plant and equipment

(i) *Recognition and measurement*

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

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

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

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

4. Significant accounting practices (Continued)

d) Property, plant and equipment (Continued)

(ii) *Subsequent costs*

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

(iii) *Depreciation*

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

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

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

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

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

e) Intangible assets

(i) *Goodwill*

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

4. Significant accounting practices (Continued)

e) <u>Intangible assets</u> (Continued)

(i) *Goodwill* (Continued)

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

<u>Subsequent measurement</u>

Goodwill is measured at cost, less accumulated impairment losses. In relation to investee stated by the equity method, book value of goodwill is included in the book value of investment and impairment loss on said investment is not allocated for any asset, including goodwill, which is part of the book value of investee stated by the equity method. No risk factors were identified that would lead to the understanding that it is necessary to set up provision for impairment of goodwill recognized in the balance sheet at December 31, 2012.

(ii) *Research and development*

Expenses with research activities, made with the possibility of gaining scientific or technological knowledge, are recognized in P&L as incurred. Development activities involve a plan or project for the manufacture of new or substantially improved products. Capitalized expenses include cost of materials, labor, manufacturing costs that are directly attributable to preparation of the use for its intended use, and loan costs for qualifying assets for which the date of beginning of capitalization is January 1, 2009 or a later date. Other development expenses are recognized in P&L as incurred. Capitalized expenses include cost of materials, labor, manufacturing costs that are directly attributable to preparation of the asset for its intended use, and loan costs for qualifying assets for which the date of beginning of capitalization is January 1, 2009 or a later date. Other development expenses are recognized in P&L as incurred.

4. Significant accounting practices (Continued)

e) Intangible assets (Continued)

(ii) *Research and development* (Continued)

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

(iii) *Other intangible assets*

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

(iv) *Subsequent expenses*

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

(v) *Amortization*

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

Development costs	5 years
Systems implementation	5 years

f) Trade accounts receivable

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

4. Significant accounting practices (Continued)

f) Trade accounts receivable (Continued)

Present value calculation is made for each transaction based on an interest rate that reflects the term, currency and risk of each transaction. In the period, the average rate used by the Company was of approximately 0.82% p.m. The balancing entry of present value adjustments of accounts is posted to gross revenue in the income statement. The difference between present value of a transaction and the face value of billing is considered financial income, which is recorded based on the amortized cost and effective interest rate methods along the transaction term.

Allowance for doubtful accounts is set up based on the evaluation of customers with portions in arrears and in amount considered sufficient by Management to cover any losses on realization of credits.

g) Inventories

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

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

4. **Significant accounting practices** (Continued)

h) Impairment

(i) *Financial assets (including receivables)*

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

(ii) *Nonfinancial assets*

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

4. Significant accounting practices (Continued)

h) Impairment (Continued)

(ii) *Nonfinancial assets* (Continued)

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

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

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

4. **Significant accounting practices** (Continued)

h) Impairment (Continued)

(ii) *Non-financial assets* (Continued)

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

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

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

i) Employee benefits

Plans for defined contribution

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

4. **Significant accounting practices** (Continued)

i) Employee benefits (Continued)

Short-term employee benefits

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

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

j) Provisions

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

Warranty

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

4. Significant accounting practices (Continued)

k) Revenue recognition

Sale of goods

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

Financial income

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

4. **Significant accounting practices** (Continued)

l) Taxes

Income and social contribution taxes

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

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

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

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

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

4. Significant accounting practices (Continued)

l) Taxes (Continued)

Income and social contribution taxes (Continued)

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

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

Sales taxes

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

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

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

m) Earnings per share

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

4. **Significant accounting practices** (Continued)

n) Information by segment

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

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

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

o) Statements of value added and cash flow statements

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

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

4. Significant accounting practices (Continued)

p) Noncurrent assets held for sale and result from discontinued operations

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

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

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

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

4. Significant accounting practices (Continued)

q) Standards and interpretations still not in force on December 31, 2012

Issued standards not yet in force

The standards and interpretations issued but still not yet in force at balance sheet date are described below. The Company intends to adopt the standards and interpretations, if applicable, when they become effective.

IAS 19- Employee benefits (Amendment)

IASB issued several amendments to IAS 19. These include fundamental changes, such as, for instance, the removal of the corridor mechanisms and the concept of expected return on plan assets, as well as simple clarifications and text reformulation. This standard is not applicable to the Company. The amendment applies to financial years started on or after January 1, 2013.

IAS 28 Investments in Associates and Joint Ventures (revised in 2011)

As a consequence of the new IFRS 11 Joint Ventures and of IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates was renamed to IAS 28 Investments in Associates and Joint Ventures, and describes application of the equity method to investments in joint ventures and in associates. The revised standard applies to financial years started on or after January 1, 2013. The Company is still evaluating the impacts of the standard but it does not expect that this change will cause a significant impact on its financial statements.

IAS 32 Offsetting Financial Assets and Financial Liabilities — Revisions of IAS 32

These changes clarify the meaning of the expression “currently has a legally enforceable right to offset”. The changes also clarify application of the offsetting criteria of IAS 32 for liquidation systems (such as, for instance, clearing house systems), which apply liquidation mechanisms for the gross amount that are not simultaneous. No significant impacts are expected on the Company’s financial position and performance. The standard applies to financial years started on or after January 1, 2014.

4. Significant accounting practices (Continued)

New standards and interpretations still not in force on December 31, 2012 --(Continued)

i) Issued standards not yet in force

IFRS 1 Loans granted by Government – Revisions of IFRS 1

These changes require from entities that adopt IFRS for the first time the application of the requirements in IAS 20 – *Accounting for Government Grants and Disclosure of Government Assistance,* on a prospective basis, to loans granted by Government existing on the date of transition to IFRS. The entities may opt for applying the requirements from IFRS 9 (or IAS 39, as applicable) and IAS 20 to loans granted by government on a retroactive basis, if information necessary for this has been obtained at the moment of initial accounting of this loan. The exception would grant to entities adopting IFRS for the first time exemption from the requirement of retroactive measurement of loans granted by government at interest rates below those prevailing in the market. The amendment applies to financial years started on or after January 1, 2013. The change does not generate any impact on the Company.

IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities — Revisions of IFRS 7

The changes require that an entity disclose information about offsetting rights and related agreements (for instance, guarantee contracts). The disclosures should provide to users information that is useful in the evaluation of the effect from offsetting agreement on the financial position of an entity. The new disclosures are required for all recognized financial instruments that are offset in accordance with IAS 32 Financial Instruments: Presentation.

The disclosures also apply to recognized financial instruments that are subject to an enforceable offsetting agreement or similar agreement, irrespective of being offset in accordance with IAS 32. These changes will not impact the Company's financial position and performance and apply to financial years started on or after January 1, 2013.

4. Significant accounting practices (Continued)

New standards and interpretations still not in force on December 31, 2012 --(Continued)

i) Issued standards not yet in force

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of IASB work about substitution of IAS 39 and applies to classification and measurement of financial assets and financial liabilities, as defined in IAS 39. The standard initially applied to financial years started on or after January 1, 2013, however the Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, changed the date of application to January 1, 2015. In subsequent phases, IASB will address hedge accounting and impairment of financial assets. The Company does not expect this change to impact its financial statements.

IFRS 10 – Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the part of IAS 27 Consolidated and Separate Financial Statements about accounting for consolidated financial statements. It also addressed issues raised by SIC-12 Consolidation – Special Purpose Entities.

IFRS 10 establishes a sole control model that applies to all entities, including to special purpose entities. The changes introduced by IFRS 10 will require that management adopt significant professional judgment to determine which entities are controlled and thus, that should be consolidated by the controlling company, in comparison with the requirements of IAS 27. Based on preliminary analyses performed, IFRS 10 is not expected to have any impact on the Company. The standard applies to financial years started on or after January 1, 2013.

4. Significant accounting practices (Continued)

New standards and interpretations still not in force on December 31, 2012 --(Continued)

i) Issued standards not yet in force

IFRS 11 Joint Ventures

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 removed the option of accounting for jointly controlled companies (JCC) using proportional consolidation. Instead, JCCs that meet the definition of joint venture must be accounted for using the equity method.

Application of this new standard will not impact the Company's financial position. This standard applies to financial years started on or after January 1, 2013 and must be applied retrospectively for joint ventures held on the date of initial application.

IFRS 12- Disclosure of Interests in Other Entities

IFRS 12 includes all the disclosures previously contained in IAS 27 related to consolidated financial statements, as well as all the disclosures previously included in IAS 31 and IAS 28. These disclosures refer to interests in an entity, in subsidiaries, joint ventures, associates and structured entities.

Certain new disclosures are also required, however they have no impact on the Company's financial position and performance. The standard applies to financial years started on or after January 1, 2013.

IFRS 13 – Fair Value Measurement

IFRS 13 establishes a sole guidance source for purposes of IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value but provides guidance about how to measure fair value according to IFRS when fair value is required or permitted. The Company is currently evaluating the possible impacts that this standard may have on its financial position. The standard applies to financial years started on or after January 1, 2013.

4. Significant accounting practices (Continued)

New standards and interpretations still not in force on December 31, 2012 --(Continued)

II) Annual improvements – May 2012

These improvements will not have any effect on the Company, but include:

IFRS 1 First time adoption of IFRS

This improvement clarifies that one entity that stopped to apply IFRS in the past and opts, or is required, to apply IFRS, has the option of reapplying IFRS 1. If IFRS 1 is not reapplied, an entity must restate retrospectively the financial statements as if it had never stopped applying IFRS.

IAS 1- Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and minimum required comparative information. In general, minimum required comparative information corresponds to that of prior year.

IAS 16 Property, plant and equipment

This improvement clarifies that the main spare parts and maintenance equipment that meet the definition of property, plant and equipment items do not represent inventory.

IAS 32 Financial Instruments, Presentation

This improvement clarifies that income taxes resulting from distributions to shareholders must be accounted for in accordance with IAS 12 Income Taxes.

There are no other standards and interpretations issued and not yet adopted that may, in the opinion of management, have significant impact on the Company's disclosed net income or equity.

4. Significant accounting practices (Continued)

r) Government subventions

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

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

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

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

The amount of 90%(ninety percent) discount on the amount entitled to payment deferral was recorded in P&L for 2011, in tax incentive account in the group of other operating revenue, as mentioned in Note 25.

s) Cash and cash equivalents

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

4. Significant accounting practices (Continued)

t) Foreign exchange drafts

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

5. Measurement of fair value

Several of the Company's policies and disclosures require that fair values be measured, for both financial and non-financial 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.

Measurement 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.

6. Financial risk management (Continued)

(ii) Credit risk

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

(iii) Trade accounts receivable and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. 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 customer 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. Customers 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 their 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.

6. Financial risk management (Continued)

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

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

(iv) Liquidity risk

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

Typically, the Company ensures that it has sufficient cash to meet its expected operating expenses for approximately 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$ 750 million, at market rates and terms.

Subsidiary Taurus Holdings, Inc. has a credit line of USD 75 million and, at December 31, 2012, it had used USD 35.9 million.

6. Financial risk management (Continued)

(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) Foreign 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 future market 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 future market 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.

(In thousands of reais, except where otherwise stated)

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:

	2012 (restated)	2011
Total liabilities	**912,524**	789,092
Less: Cash and cash equivalents	**(180,781)**	(162,226)
Net debt (A)	**731,743**	626,866
Total equity (B)	**201,780**	325,335
Net debt to equity ratio at December 31, 2012 and December 31, 2011 (A/B)	**3,63**	1.93

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:

7. Operating segments (Continued)

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 Indústria 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 jackets and plastic products (Taurus Blindagens Ltda.). These also include other operations, such as the manufacture and sale of glasses, anti-riot shields and providing services. None of these operating segments reached any of the quantitative limits for determining reportable segments at December 31, 2012 and 2011.

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

(In thousands of reais, except where otherwise stated)

7. Operating segments (Continued)

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

	Weapons		Helmets		Machinery (discontinued)		Other		Total	
	2012	2011	2012	2011	2012 (restated)	2011	2012	2011	2012 (restated)	2011
External income	516,471	451,998	121,508	118,043	19,551	35,124	52,848	47,927	710,378	653,092
Inter-segment income	-	-	3,047	-	-	241	108,886	12,279	111,933	12,520
Cost of sales	(317,532)	(246,461)	(73,995)	(67,929)	(27,654)	(36,072)	(25,917)	(39,310)	(445,098)	(389,772)
Gross profit (loss)	198,939	205,537	50,560	50,114	(8,103)	(707)	135,817	20,896	377,213	275,840
Selling expenses	(64,548)	(71,652)	(17,914)	(16,626)	(8,533)	(9,478)	(4,139)	(1,855)	(95,134)	(99,611)
General and administrative expenses	(52,100)	(55,006)	(2,596)	(2,533)	(2,668)	(3,408)	(2,075)	(5,382)	(59,439)	(66,329)
Depreciation and amortization	(4,133)	(2,759)	(214)	(266)	-	(124)	(1,470)	(1,478)	(5,817)	(4,627)
Other operating income (expenses), net	(7,824)	(7,215)	1,694	347	(130,575)	(13,517)	(16,799)	(774)	(153,504)	(21,159)
Equity pickup	-	-	-	-	-	-	875	1,906	875	1,906
	(128,605)	(136,632)	(19,030)	(19,078)	(141,776)	(26,527)	(23,608)	(7,583)	(313,019)	(189,820)
Operating profit (loss)	70,334	68,905	31,530	31,036	(149,879)	(27,234)	112,209	13,313	64,194	86,020
Financial income	78,343	42,527	6,102	6,452	4,005	1,312	3,660	206	92,110	50,497
Financial expenses	(121,782)	(93,198)	(3,469)	(2,385)	(7,893)	(9,356)	(7,391)	(1,241)	(140,535)	(106,180)
Financial income (expenses), net	(43,439)	(50,671)	2,633	4,067	(3,888)	(8,044)	(3,731)	(1,035)	(48,425)	(55,683)
Profit (loss) per reportable segment before income and social contribution taxes	26,895	18,234	34,163	35,103	(153,767)	(35,278)	108,478	12,278	15,769	30,337
Elimination of inter-segment income	-	-	(3,047)	-	-	(241)	(108,886)	(12,279)	(111,933)	(12,520)
Income before income and social contribution taxes	26,895	18,234	31,116	35,103	(153,767)	(35,519)	(408)	(1)	(96,164)	17,817
Income and social contribution taxes	(6,971)	(7,193)	(6,530)	(8,364)	836	(147)	(8,381)	35,224	(21,046)	19,520
Net income (loss) for the year	19,924	11,041	24,586	26,739	(152,931)	(35,666)	(8,789)	35,223	(117,210)	37,337

(In thousands of reais, except where otherwise stated)

Assets of reportable segments	**668,116**	534,163	**213,900**	161,224	**40,463**	137,785	**191,825**	281,155	**1,114,304**	1,114,327
Liabilities of reportable segments	**664,803**	630,895	**75,605**	47,724	**69,835**	81,728	**102,281**	28,745	**912,524**	789,092

(In thousands of reais, except where otherwise stated)

7. **Operating segments** (Continued)

Reconciliation of income and profit from reportable segments

	2012 (restatement	2011
Income		
Total income from reportable segments	**710,378**	653,092
Elimination of discontinued operations*	**(9,407)**	(35,124)
Consolidated income	**700,971**	617,968
Profit or losses		
Total profit from reportable segments	**(96,164)**	17,817
Elimination of discontinued operations*	**135,778**	35,519
Consolidated profit before income and social contribution taxes	**39,614**	53,336

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

Geographic segments

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

	Weapons	
	2012	2011
Domestic market		
Southeast	**32,962**	50,472
South	**19,741**	24,756
Northeast	**33,738**	19,776
North	**6,178**	10,057
Mid-West	**14,696**	18,813
	107,315	123,874
Foreign market		
United States	**360,783**	302,819
Argentina	**2,085**	4,868
Philippines	**3,132**	4,704
Thailand	**923**	1,327
Pakistan	**3,192**	2,390
Haiti	**5,523**	24
Chile	**11,328**	928
Honduras	**3,548**	1,897
Australia	**2,009**	25
Other countries	**16,633**	9,142
	409,156	328,124
	516,471	451,998

(In thousands of reais, except where otherwise stated)

7. Operating segments (Continued)

Geographic segments (Continued)

	Helmets	
	2012	**2011**
Domestic market		
Southeast	**37,000**	34,731
South	**4,440**	8,106
Northeast	**33,924**	35,630
North	**25,864**	20,296
Mid-West	**19,507**	18,306
	120,735	117,069
Foreign market		
Bolivia	**26**	25
Colombia	**4**	-
Paraguay	**685**	778
Peru	**-**	88
Uruguay	**58**	83
	773	974
	121,508	118,043

	Machinery (discontinued)	
	2012	**2011**
Domestic market		
Southeast	**9,308**	22,363
South	**10,232**	9,234
North	**-**	9
	19,540	31,606
Foreign market		
United States	**11**	3,518
	11	3,518
	19,551	35,124

The sales made by the Company'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 dependence on government bodies or any other single client.

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

(In thousands of reais, except where otherwise stated)

8. Assets and liabilities held for sale and discontinued operations

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

		Consolidated
	2012	**2011**
Assets related to discontinued operations		
Cash and cash equivalents	-	136
Trade accounts receivable and other receivables	-	21,775
Inventories	-	48,715
Taxes recoverable	-	2,698
Property, plant and equipment and intangible assets	-	21,816
Accounts receivable from related parties	-	34,136
Other assets	-	8,509
	-	137,785

		Consolidated
	2012	**2011**
Liabilities related to discontinued operations		
Trade accounts payable	-	2,025
Provisions	-	2,798
Advance from customers	-	5,228
Loans and financing	-	68,481
Other liabilities	-	3,196
	-	81,728

	2012	**2011**
Loss for the period from discontinued operations		
Revenues	**19,733**	37,349
Expenses	**(154,724)**	(73,015)
Loss for the period from discontinued operations	**(134,991)**	(35,666)

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

Sale of TMFL – Taurus Máquinas-Ferramenta Ltda.

On June 21, 2012, Forjas Taurus S.A. concluded the sale of the operational activities of Taurus Máquinas-Ferramenta Ltda. (“TMFL”) to Renill Participações Ltda. (“RPL”), as per the Agreement for Purchase and Sale of Units of Interest and Other Covenants (“Agreement”) executed by and between the parties.

The selling company was Taurus Máquinas-Ferramenta Ltda. (“TMFL”), with the consent of Wotan Máquinas Ltda. and Taurus Investimentos Imobiliários Ltda. (“TIIL”), through set up of a company denominated SM Metalurgia Ltda. (“SML”), whose subscribed capital of R$115,350 represents the final selling amount, paid with properties, machinery and inventories.

With payment of the debt, of the capitalization and payment in kind by Wotan Máquinas Ltda. and Taurus Investimentos Imobiliários Ltda., Taurus Máquinas-Ferramenta Ltda. now holds the totality of the units of interest of SM Metalurgia Ltda., and Renill Participações Ltda. has the commitment to sell and the commitment to purchase the totality of the units of interest for R$115,350.

Renegotiation

On August 12, 2013, Renill Participações Ltda.(“RPL”) requested renegotiation of the conditions of the Agreement for Purchase and Sale of Units of Interest and Other Covenants, referring to the sale of the subsidiary SM Metalurgia Ltda. (“SML”).

On September 12, 2013, the Company disclosed a material news release stating that it concluded the review of the Agreement conditions for sale of the subsidiary SML, executing an amendment thereto after analyzing the original terms.

The Parties renegotiated the selling price and payment conditions, adjusting the total Agreement amount to R$57,520, payable as follows:

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

Sale of TMFL – Taurus Máquinas-Ferramenta Ltda. (Continued)

Renegotiation (Continued)

(a) 1st installment of R$1,960, restated based on the TJLP plus interest of 1.8% p.a., payable by RPL, through SML, with supply of parts in the provision of guarantee services related to machinery manufactured by TMFL, as well as supply of parts and components for all Taurus Group companies;

(b) 2 installments of R$2,055 each, restated based on the TJLP plus interest of 1.8% p.a., the first of which maturing on 06/30/2014 and the second on 12/30/2014; and

(c) the remaining balance, payable in 14 half-yearly installments of R$3,675 each, maturing as from 06/30/2015, restated based on the TJLP plus interest of 1.8% p.a.

The monetary restatement based on the TJLP plus interest of 1.8% p.a. is applicable as from the date of the Agreement for Purchase and Sale of Units of Interest and Other Covenants, executed in June 2012.

Accounting effects of the renegotiation of SML's Agreement for Purchase and Sale of Units of Interest and Other Covenants

(i) The accounting effect of the renegotiation was in a reduction in the selling price from R$115,350 to R$57,520, corresponding to a loss of R$57,830. Although the renegotiation was formalized in 2013, the Company revisited all agreements and correspondence relating to the sale and concluded that the event that led to the reduction of the original selling price was already present in June, date of origin of the operation, and, as such, a loss was recognized on such date, giving rise to this financial statements restatement.

(ii) The Company recorded a supplementary provision for losses as of December 31, 2012 of R$60,744, considering that: i) In its understanding, the credit conditions have been impaired; ii) the operation guarantees have not been fully formalized; iii) the buyer is a limited liability company and there is no updated information to assess its current financial conditions. The Company decided to record such provision in June 2012, as commented in Note 3.e.

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

Sale of TMFL – Taurus Máquinas-Ferramenta Ltda. (Continued)

(In thousands of reais, except where otherwise stated)

Renegotiation (Continued)

At December 31, 2012, the balance receivable for sale of the operations of Taurus Máquinas-Ferramenta Ltda. was recorded as follows:

	2012 (restated)
Selling price	**115,350**
Contractual monetary restatement	**3,224**
Balance originally presented	**118,574**
Price adjustment	**(57,830)**
Additional provision for losses	**(60,744)**
Total	**-**

9. Cash and cash equivalents

	Consolidated		Company	
	2012	**2011**	**2012**	**2011**
Cash balance	**2,070**	76	**2,013**	37
Demand deposits	**26,874**	74,682	**2,667**	12,360
Short-term investments	**151,837**	87,468	**96,880**	58,923
Cash and cash equivalents	**180,781**	162,226	**101,560**	71,320

Short-term investments are remunerated at rates that vary between 98% and 103% of CDI in 2012 (98% to 103% of CDI in 2011) and are made with top line banks.

(In thousands of reais, except where otherwise stated)

10. Trade accounts receivable

	Consolidated		Company	
	2012 (restated)	2011	2012 (restated)	2011
Customers – domestic	**80,844**	101,082	**27,695**	69,171
Customers – domestic related parties (Note 22)	**-**	-	**3,216**	83
Customers – foreign	**87,396**	54,218	**16,255**	6,858
Customers – foreign related parties (Note 22)	**-**	-	**13,379**	71,436
	168,240	155,300	**60,545**	147,548
Allowance for doubtful accounts-domestic	**(14,794)**	(3,484)	**(2,736)**	(2,657)
Allowance for doubtful accounts-foreign	**(4,599)**	(2,935)	**(6)**	(12)
	(19,393)	(6,419)	**(2,742)**	(2,669)
Total	**148,847**	148,881	**57,803**	144,879

The Company's exposure to credit and currency risks and impairment losses related to trade accounts receivable and other receivables is disclosed in Note 21.

Changes in the allowance for doubtful accounts:

	Consolidated (restated)	Company
Balances at December 31, 2010	(10,194)	(3,622)
Additions	(43)	(11)
Reversal of the allowance for doubtful accounts	950	-
Write-off for use	564	964
Transfer to assets held for sale	2,304	-
Balances at December 31, 2011	(6,419)	(2,669)
Additions	(14,894)	(75)
Reversal of the allowance for doubtful accounts	1,920	2
Balances at December 31, 2012	**(19,393)**	**(2,742)**

11. Inventories

	Consolidated		Company	
	2012 (restated)	2011	2012 (restated)	2011
Finished products	**156,197**	146,856	**51,108**	26,244
Work-in-process	**56,054**	43,106	**31,424**	38,722
Raw materials	**48,257**	38,203	**14,503**	11,881
Ancillary and maintenance materials	**9,793**	9,413	**7,338**	9,369
Provision for inventory losses	**(8,774)**	-	**(422)**	-
	261,527	237,578	**103,951**	86,216

11. Inventories (Continued)

The provision for inventory losses is presented as follows:

	Consolidated (restated)	Company
Balance at December 31, 2011	-	-
Additions	(8,774)	(422)
Balance at December 31, 2012	**(8,774)**	**(422)**

(In thousands of reais, except where otherwise stated)

12. Taxes recoverable

	Consolidated		Company	
	2012	**2011**	**2012**	**2011**
ICMS	**7,904**	5,508	**2,068**	4,728
IPI	**7,748**	1,187	**6,273**	415
PIS	**3,359**	442	**2,719**	396
COFINS	**15,621**	2,044	**12,683**	1,840
Income and social contribution taxes	**9,721**	11,513	**7,469**	5,781
Total	**44,353**	20,694	**31,212**	13,160
Current	**39,428**	17,141	**29,567**	9,950
Noncurrent	**4,925**	3,553	**1,645**	3,210

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.

Federal VAT - IPI

The balance refers mainly to amounts originating in trade operations.

Income and social contribution taxes

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

13. Deferred tax assets and liabilities

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

(In thousands of reais, except where otherwise stated)

13. Deferred tax assets and liabilities (Continued)

Deferred tax assets and liabilities were calculated as follows:

	Consolidated	
	2012	**2011**
On temporary asset differences and income and social contribution tax losses		
Provision for sales commissions	**1,061**	1,455
Present value adjustment	**311**	187
Provision for labor claims	**874**	552
Provision for losses on insurance claims	**782**	782
Allowance for doubtful accounts	**2,152**	1,762
Provision for product warranty	**361**	66
Derivative financial instruments	**2,965**	6,886
Income and social contribution tax losses	**42,735**	37,448
Inventories – unrealized profits	**8,816**	6,822
Other items	**137**	137
	60,194	56,097
On temporary liability differences		
Equity valuation adjustment	**(2,918)**	(4,898)
Depreciation base difference	**(6,757)**	(6,378)
Financial charges	**(915)**	(1,006)
Derivative financial instruments	**(11,332)**	(6,160)
	(21,922)	(18,442)
Total asset (liability) balance, net	**38,272**	37,655
Classified in noncurrent assets	**44,049**	43,767
Classified in noncurrent liabilities	**(5,777)**	(6,112)

	Company	
	2012	**2011**
On temporary asset differences, income and social contribution tax loss		
Provision for sales commissions	**790**	1,455
Present value adjustment	**804**	187
Provision for labor claims	**603**	552
Provision for losses on insurance claims	**782**	782
Allowance for doubtful accounts	**459**	459
Derivative financial instruments	**2,544**	6,582
Income and social contribution tax losses	**7,000**	-
Other items	**137**	137
	13,119	10,154
On temporary liability differences		
Equity valuation adjustment	**(1,743)**	(3,907)
Depreciation base difference	**(1,640)**	(1,339)
Financial charges	**(890)**	(968)
Derivative financial instruments	**(11,194)**	(6,045)
	(15,467)	(12,259)
Total assets and liabilities, net	**(2,348)**	(2,105)
Classified in noncurrent liabilities	**(2,348)**	(2,105)

Changes in deferred taxes:

	Consolidated	**Company**
Opening balance of deferred taxes	37,655	(2,105)
Posted to P&L (Note 27)	1,277	(668)
Posted to equity (Note 21,iv)	497	497
Posted to equity	(72)	(72)
Reclassification of assets and liabilities held for sale	177	-
Allocated to loss from discontinued operations	(788)	-
Effect of changes in exchange rates	(474)	-
Closing balance of deferred taxes	38,272	(2,348)

(In thousands of reais, except where otherwise stated)

13. Deferred tax assets and liabilities (Continued)

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

The subsidiary posted income and social contribution tax losses in 2011. The studies of future results evidence that there will be future taxable income for use of such credits, consequently, the Company recorded deferred assets on said amounts.

The projections indicate that the balance of tax credits recorded in 2012 by Forjas Taurus S.A. and the subsidiary Polimetal Metalurgia e Plásticos Ltda. will be absorbed by taxable income estimated for the next 10 years, as set out below:

	Consolidated		Company	
Year	**Total**	**% interest**	**Total**	**% interest**
2013	4,217	9.87%	1,452	20.74%
2014	7,004	16.39%	4,079	58.27%
2015	4,576	10.71%	1,469	20.99%
2016	3,301	7.72%	-	-
From 2017 to 2022	23,637	55.31%	-	-
Total	42,735	100.00%	7,000	100.00%

The amount of income and social contribution tax losses on which deferred taxes are not recorded totaled R$132,211 - Consolidated (R$127,870 in 2011) and R$13,989 – Company (R$16,465 in 2011).

The main balances of income and social contribution taxes 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$ 168,553 (R$ 37,878 in 2011). Income and social contribution taxes on the balance of income and social contribution tax losses will be recognized as there is evidence that realization thereof is probable in the foreseeable future.

14. Advance on real estate credits

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

To represent the real estate credits arising from the aforementioned hire contracts, the Company issued Real Estate Credit Notes – CCI, and assigned them, onerously, to CIBRASEC – Companhia Brasileira de Securitização, which used them as the basis for issuing two series of Certificates of Real Estate Receivables – CRI. The terms and maturity dates for these certificates are fixed monthly, with the first falling due on September 15, 2008 and the last on July 15, 2015. At December 31, 2012, the restated balance totaled R$28,711, fully classified under current liabilities, considering that in view of the restatement adjustments made (Note 3.e), the covenants were not met. At December 31, 2011, balance amounted to R$36,127, of which R$7,417 is classified under current liabilities and R$28,710 under noncurrent liabilities.

(In thousands of reais, except where otherwise stated)

15. Investments

									Company
	Taurus Blindagens Ltda.	**Taurus Blindagens Nordeste Ltda.**	**Taurus Holdings Inc.**	**Taurus Security Ltda. (1)**	**Taurus Investimentos Imobiliários Ltda.**	**Polimetal Metalurgia e Plásticos Ltda.**	**Famastil Taurus Ferramentas S.A. (2)**	**2012**	**2011**
Current assets	58,780	20,539	243,203	60	6,191	49,282	69,553		
Noncurrent assets	70,834	18,155	58,250	241	65,207	246,348	24,047		
Current liabilities	10,405	7,671	66,237	3	38,191	45,047	33,055		
Noncurrent liabilities	32,107	13,818	93,253	547	71,198	86,995	22,777		
Capital	80,209	9,400	623	100	30,850	210,000	20,000		
Equity	87,102	17,205	141,963	(249)	(37,991)	163,588	37,768		
Net revenue	81,701	28,792	363,473	-	11,122	127,502	98,183		
Net income (loss) for the period	10,596	8,380	13,856	-	(66,354)	(72,919)	2,498		
Number of shares/units of interest	648	1	302,505	100,000	21,414,136	209,999,999	-		
Direct ownership interest (%)	0,01%	0,1%	100%	100%	75,06%	100%	-		
Opening balances	1	14	107,271	-	17,904	194,447	2,215	**321,852**	232,409
Capital payment (4)	-	-	-	-	**1,759**	**71,655**	-	**73,414**	58,919
Equity pickup – continued operations (3)	-	**8**	**13,766**	-	**(48,420)**	**60,433**	-	**25,787**	69,288
Equity pickup – discontinued operations (3)	-	-	-	-	-	**(134,991)**	-	**(134,991)**	(21,373)
Equity pickup for the previous period						**(2)**		**(2)**	
Loss on investment	-	-	-	-	**(450)**	-	-	**(450)**	(117)
Exchange variation on investments	-	-	**11,527**	-	-	-	-	**11,527**	12,726
Dividends received	-	**(5)**	-	-	-	**(29,970)**	-	**(29,975)**	(30,000)
Reclassified for provision for capital deficiency	-	-	-	-	**29,207**			**29,207**	-
Closing balances (3)	**1**	**17**	**132,564**	-	-	**161,572**	**2,215**	**296,369**	321,852

(1) Capital deficiency at the subsidiary Taurus Security Ltda. of R$249 and at the subsidiary Taurus Investimentos Imobiliários Ltda. of R$29,207 are recorded under “Provision for capital deficiency”, in noncurrent 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 in the column of investments 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) Payment of capital of subsidiary Polimetal was made as follows: R$53,514 in property, plant and equipment (Note 16), R$15,529 in inventories, R$2,448 in taxes recoverable and R$164 in intangible assets (Note 17). Capital increase of subsidiary Taurus Investimentos Imobiliários in the amount of R$1,759 was made in cash.

The financial statements of Taurus Holdings, Inc., an overseas subsidiary, reported total assets of R$ 304,071 in 2012 (R$ 282,330 in 2011) and current and noncurrent liabilities of R$ 162,108 in 2012 (R$ 165,750 in 2011). Taurus Holdings, Inc., located in the State of Florida, United States, is the parent company of Taurus International Manufacturing Inc., Braztech International L.C. and other subsidiaries also located in North America, operating mainly in the resale of weapons imported from Forjas Taurus S.A., aimed at the wholesale market. Consolidated net revenue of Taurus Holdings Inc. reported in 2012 was equivalent to R$ 363,473 (R$ 302,819 in 2011) and net income equivalent to R$ 13,856 in 2012 (R$ 9,684 in 2011).

(In thousands of reais, except where otherwise stated)

15. Investments (Continued)

	Consolidated
	Famastil Taurus Ferramentas S.A.
Current assets	69,553
Noncurrent assets	24,047
Current liabilities	33,055
Noncurrent liabilities	22,465
Capital	20,000
Equity	38,080
Net revenue	98,183
Net income for the period	2,498
Number of shares/units of interest	7,000,000
Direct ownership interest (%)	35%
Opening balances (1)	15,216
Equity pickup	**875**
Dividends received	**(547)**
Closing balances (1)	**15,544**

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

(In thousands of reais, except where otherwise stated)

16. Property, plant and equipment

								Consolidated
	Land, buildings and premises	**Machinery and equipment**	**Casts and tooling**	**Furniture and computers**	**Vehicles**	**Assets under construction**	**Advances to suppliers**	**Total**
Cost or deemed cost								
Balances at December 31, 2011	104,639	153,055	35,880	20,855	4,020	18,577	5,320	342,346
Additions	5,765	7,380	631	1,012	379	41,598	2,015	58,780
Acquisition of subsidiaries – Steelinject	344	8,515	800	324	-	11	-	9,994
Acquisition of subsidiaries - Heritage	-	1,398	-	-	-	-	-	1,398
Disposals	(6,341)	(1,446)	(58)	(65)	(445)	-	(47)	(8,402)
Transfers of assets under construction	1,154	11,715	6,968	1,057	-	(20,911)	-	(17)
Effect from exchange variation	2,254	1,551	-	237	10	-	-	4,052
Allocation PPA Steelinject	482	2,392	(27)	79	-	-	-	2,926
Provision for impairment	-	-	-	-	-	(13,522)	-	(13,522)
Balances at December 31, 2012	**108,297**	**184,560**	**44,194**	**23,499**	**3,964**	**25,753**	**7,288**	**411,077**
Depreciation								
Balances at December 31, 2011	8,142	51,154	15,884	9,307	1,383	-	-	85,870
Acquisition of subsidiaries – Steelinject	98	3,420	368	209	-	-	-	4,095
Depreciation in the year	3,128	15,935	6,457	3,018	768	-	-	29,306
Disposals	(460)	(1,087)	(9)	(62)	(185)	-	-	(1,803)
Effect from exchange variation	326	777	-	171	4	-	-	1,278
Depreciation of allocated PPA - Steelinject	47	243	-	34	-			324
Balances at December 31, 2012	**11,281**	**70,442**	**22,700**	**12,677**	**1,970**	**-**	**-**	**119,070**
Book value								
At December 31, 2011	96,497	101,901	19,996	11,548	2,637	18,577	5,320	256,476
At December 31, 2012	**97,016**	**114,118**	**21,494**	**10,822**	**1,994**	**25,753**	**7,288**	**292,007**

(In thousands of reais, except where otherwise stated)

16. Property, plant and equipment (Continued)

	Land, buildings and premises	Machinery and equipment	Casts and tooling	Furniture and computers	Vehicles	Assets under construction	Advances to suppliers	Total
								Company
Cost or deemed cost								
Balances at December 31, 2011	3,486	114,427	24,815	7,913	2,821	13,715	4,516	171,693
Additions	26	441	276	285	370	10,551	1,548	13,497
Disposals	-	(4,495)	(28)	(50)	(445)	-	(5,630)	(10,648)
Transfers to investment (1)	(1,457)	(55,325)	(7,514)	(1,524)	(247)	(7,957)	(60)	(74,084)
Transfers of assets under construction	371	3,777	4,521	643	-	(9,329)	-	(17)
Balances at December 31, 2012	**2,426**	**58,825**	**22,070**	**7,267**	**2,499**	**6,980**	**374**	**100,441**
Depreciation								
Balances at December 31, 2011	358	36,188	9,846	3,409	925	-	-	50,726
Depreciation in the period	230	5,806	3,117	1,028	467	-	-	10,648
Disposals	-	(2,469)	(5)	(38)	(185)	-	-	(2,697)
Transfers to investment (1)	(129)	(17,212)	(2,490)	(650)	(89)	-	-	(20,570)
Balances at December 31, 2012	**459**	**22,313**	**10,468**	**3,749**	**1,118**	**-**	**-**	**38,107**
Book value								
At December 31, 2011	3,128	78,239	14,969	4,504	1,896	13,715	4,516	120,967
At December 31, 2012	**1,967**	**36,512**	**11,602**	**3,518**	**1,381**	**6,980**	**374**	**62,334**

(1) Amounts used for payment of capital of subsidiary Polimetal Metalurgia e Plásticos Ltda.

Construction in progress

The balance of construction in progress of R$6,980 – Company and R$ 25,753 – Consolidated in 2012 (R$ 13,715 and R$18,577 in 2011, respectively) refers to machinery and equipment still in the phase of being implemented and construction in progress. These assets are expected to become operational in 2013.

16. Property, plant and equipment (Continued)

Guarantee

Loans and financing raised by the Company from financial institutions are guaranteed by its fixed assets. Although a significant portion of fixed assets is used to guarantee loans and financings, historically the Company has settled its liabilities within the established contractual terms, thus it was never necessary to enforce such guarantees. In 2012, guarantees provided by the Company amounted to R$62,709 (R$62,651 in 2011).

Provision for losses

The Company identified machinery and equipment that will no longer be used in its manufacturing activities. The Company recorded provision for losses on such items of R$13,522.

(In thousands of reais, except where otherwise stated)

17. Intangible assets

						Consolidated
	Goodwill	Trademarks and patents	Development of products	Systems implementation	Other intangible assets	Total
Cost						
Balances at December 31, 2011	32,499	3,429	9,045	837	28	45,838
Acquisitions	-	1	2,973	213	-	3,187
Acquisition of subsidiary – Steelinject	127	3	-	1,879	-	2,009
Acquisition of subsidiary - Heritage	15,882	-	-	-	-	15,882
PPA Steelinject	-	548	-	-	737	1,285
Transfers from other groups	-	-	-	17	-	17
Write-offs	-	-	(357)	-	(28)	(385)
Effect from exchange variation	174	-	36	-	-	210
Balances at December 31, 2012	**48,682**	**3,981**	**11,697**	**2,946**	**737**	**68,043**
Balances at December 31, 2011	-	-	3,949	148	-	4,097
Acquisition of subsidiary – Steelinject	-	-	-	1,154	-	1,154
Amortization for the period	-	-	1,035	398	-	1,433
PPA – Steelinject amortization	-	91	-	-	87	178
Balances at December 31, 2012	**-**	**91**	**4,984**	**1,700**	**87**	**6,862**
Book value						
At December 31, 2011	32,499	3,429	5,096	689	28	41,741
At December 31, 2012	**48,682**	**3,890**	**6,713**	**1,246**	**650**	**61,181**

				Company
	Trademarks and patents	Development of products	Systems implementation	Total
Cost				
Balances at December 31, 2011	237	8,448	772	9,457
Additions	1	562	200	763
Transfers to investment	-	-	(175)	(175)
Transfers from other groups	-	-	17	17
Balances at December 31, 2012	**238**	**9,010**	**814**	**10,062**
Balances at December 31, 2011	-	3,949	130	4,079
Amortization for the period	-	1,035	127	1,162
Transfers to investment	-	-	(11)	(11)
Balances at December 31, 2012		**4,984**	**246**	**5,230**
Book value				
At December 31, 2011	237	4,499	642	5,378
At December 31, 2012	**238**	**4,026**	**568**	**4,832**

17. Intangible assets (Continued)

(In thousands of reais, except where otherwise stated)

Impairment testing of cash generating units that include goodwill

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

Cash generating unit	**2012**	**2011**
Forjas Taurus S.A.	**21,194**	21,194
Taurus Holdings, Inc.	**18,949**	2,893
Taurus Blindagens Ltda.	**6,823**	6,823
Taurus Helmets Indústria Plástica Ltda.	**1,045**	1,045
Famastil Taurus Ferramentas S.A.	**544**	544
Polimetal Metalurgia e Plásticos Ltda.	**127**	-
Total	**48,682**	32,499

The impairment testing of the aforementioned CGUs is performed annually based on the fair value less selling expenses, which is estimated based on discounted cash flows. Management estimates quarterly if there are changes in assumptions that could indicate the need of setting up a provision for impairment. In 2012 no such indication was identified.

Main assumptions used in the forecast of discounted cash flows

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

Cash generating unit	**Discount rate WAAC**	**Growth rate**
	2012	**2012**
Forjas Taurus S.A.	10.10%	9.10%
Taurus Holdings, Inc.	10.10%	5.70%
Taurus Blindagens Ltda.	10.10%	9.10%
Taurus Helmets Indústria Plástica Ltda.	10.10%	9.10%
Famastil Taurus Ferramentas S.A.	10.10%	9.10%

(In thousands of reais, except where otherwise stated)

17. Intangible assets (Continued)

Discount rate

The discount rate for all of the CGUs is represented by a pre-tax rate based on 30-year fixed income US Treasury Bonds (*T-Bond*), adjusted for a risk premium that reflects the risk from investments in equity securities and the systematic risk of the Unit in question. Based on management's experience with assets from this CGU, the weighted average cost of capital was estimated for the industry in which this CGU operates, which was calculated based on a possible debt/equity ratio of 20.83% and a market interest rate of 8.58%.

Growth rate and perpetuity

The forecasts are consistent with the *Business Plan* prepared by Company management. It is anticipated that forecast growth in sales will be in line with the curve observed in previous years and in line with the country's economic growth. After the forecast period of 10 years, growth and a constant percentage for economic growth (growth into perpetuity) were considered.

For the CGUs Forjas Taurus S.A., Taurus Blindagens Ltda., Taurus Helmets Ind. Plástica Ltda. and Famastil Taurus Ferramentas S.A. the forecast growth rate was 9.1% p.a., represented by an increase in GDP for Brazil in the long term – 3.4% and forecast inflation for the Brazilian economy – 5.7%. For the CGU Taurus Holdings, Inc. the forecast growth rate was 5.7% p.a., represented by an increase in GDP for the United States in the long term – 3.5% and forecast inflation for the US economy - 2.2%.

Sensitivity analysis and assumptions

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

Cash generating unit	Discount rate WAAC	Growth rate
Forjas Taurus S.A.	18.14%	-2.4%
Taurus Holdings, Inc.	28.26%	-14.47%
Taurus Blindagens Ltda.	47.29%	-25.48%
Taurus Helmets Indústria Plástica Ltda.	47.29%	-25.48%
Famastil Taurus Ferramentas S.A.	14.47%	2.19%

(In thousands of reais, except where otherwise stated)

17. Intangible assets (Continued)

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

18. Loans and financing

	Consolidated		Company	
	2012 (restated)	2011	2012 (restated)	2011
Current liabilities				
Guaranteed bank loans				
Working capital	**113,887**	39,948	**108,477**	39,948
Discount of receivables	**1,556**	14,107	**-**	14,107
FINAME	**6,091**	2,855	**3,497**	2,444
FINEP	**10,350**	8,625	**2,307**	8,068
BNDES-PEC	**-**	5,644	**-**	5,644
FNE	**1,423**	65	**-**	-
BNDES Revitaliza	**578**	-	**-**	-
BNDES Progeren	**4,902**	-	**-**	-
Working capital USD	**165,573**	22,274	**164,286**	9,747
Financing for acquisition of fixed assets	**361**	787	**361**	787
Investment in USD	**575**	371	**-**	-
FINIMP	**17,259**	4,367	**15,185**	4,367
	322,555	99,043	**294,113**	85,112
Noncurrent liabilities				
Guaranteed bank loans				
Working capital	**52,501**	45,000	**52,501**	45,000
FINAME	**6,731**	5,948	**3,736**	4,836
FINEP	**35,932**	9,096	**1,916**	5,787
BNDES-PEC	**-**	468	**-**	468
FNE	**8,405**	9,806	**-**	-
BNDES Revitaliza	**2,276**	-	**-**	-
BNDES Progeren	**27,981**	-	**-**	-
Working capital USD	**106,428**	151,158	**30,653**	119,767
Financing for acquisition of fixed assets	**164**	464	**164**	464
Investment in USD	**14,634**	10,713	**-**	-
FINIMP	**433**	-	**-**	-
	255,485	232,653	**88,970**	176,322
	578,040	331,696	**383,083**	261,434

(In thousands of reais, except where otherwise stated)

18. Loans and financing (Continued)

Terms and timetable for amortization of debts

The terms and conditions for loans outstanding were as follows:

							Consolidated
					2012		2011
	Currency	**Nominal interest rate**	**Year of maturity**	**Face value**	**Book value**	**Face value**	**Book value**
Guaranteed bank loans							
Working capital	R$	CDI + 1.80 to 4.10% p.a.	2011-2013	169,010	**166,389**	102,700	84.948
Discount of receivables	R$	16.80%p.a.	2012	-	**1,556**	14,107	14.107
FINAME	R$	TJLP + 1.00 to 7.00% p.a.	2011-2020	18,323	**2,783**	20,912	3.221
FINAME	R$	4.50 to 5.50% p.a.	2011-2020	14,927	**10,039**	8,252	5.582
FINEP	R$	TJLP + 0.16 to 2.00% p.a.	2012-2014	11,645	**4,223**	29,601	13.855
FINEP	R$	5.00 to 5.25% p.a.	2017	56,337	**42,058**	8,008	3.866
BNDES-PEC	R$	12.90% p.a.	2013	-	**-**	10,000	6.112
BNDES Revitaliza	R$	9% p.a.	2017	2,845	**2,854**	-	-
BNDES Progeren	R$	TJLP + 4.00 p.a.	2015	31,977	**32,883**	-	-
FNE	R$	9.50% p.a.	2019	9,806	**9,828**	9,806	9.871
Working capital	USD	*Libor* + 0.79 to 4.80% p.a.	2011-2017	60,000	**135,553**	28,000	45.033
Working capital	USD	3.32 to 9.87% p.a.	2016	68,849	**136,448**	68,078	128.399
Financing for acquisition of fixed	USD	*Libor* + 1.25 to 3.0% p.a.	2012-2014	824	**525**	824	787
Investments	USD	5.33% p.a.	2012-2017	6,035	**11,672**	6,035	11.084
Investments	USD	*Libor* + 2.25% p.a.	2017	1,500	**3,537**	-	-
FINIMP	USD	*Libor* + 1.10% p.a.	2012-2014	8,571	**17,692**	4,810	4.831
Total liabilities subject to interest					**578,040**		331,696

							Company
					2012		2011
	Currency	**Nominal interest rate**	**Year of maturity**	**Face value**	**Book value**	**Face value**	**Book value**
Guaranteed bank loans							
Working capital	R$	CDI + 1.80 to 3.91%	2011-2014	167,010	**160,978**	102,700	84,948
Discount of receivables	R$	16.80% p.a.	2012	-	**-**	14,107	14,107
FINAME	R$	TJLP + 2.25 to 7.00%	2011-2014	8,629	**1,050**	20,216	1,698
FINAME	R$	3.80 to 5.50% p.a.	2011-2021	10,401	**6,183**	6,633	5,582
FINEP	R$	TJLP + 0.16 to 2.0%	2012-2014	11,645	**4,223**	29,601	13,855
BNDES-PEC	R$	12.90% p.a.	2013	-	**-**	10,000	6,112
Working capital	USD	*Libor* + 0.79 to 4.80%	2011-2017	30,000	**62,035**	8,000	7,517
Working capital	USD	3.91% p.a.	2016	63,849	**132,904**	63,849	121,997
Financing for acquisition of fixed	USD	*Libor* + 1.25 to 3.0% p.a.	2011-2014	824	**525**	824	787
FINIMP	USD	*Libor* + 1.10 to 2.7% p.a.	2012-2014	7,354	**15,185**	4,810	4,831
Total liabilities subject to interest					**383,083**		261,434

(In thousands of reais, except where otherwise stated)

18. Loans and financing (Continued)

Maturity dates of non-current liabilities:

	Consolidated		Company	
Year of maturity	**2012 (restated)**	**2011**	**2012 (restated)**	**2011**
2013	**-**	89,403	**-**	57,982
2014	**76,710**	64,963	**47,614**	61,738
2015	**40,304**	31,101	**14,588**	27,854
2016	**25,894**	30,629	**13,020**	27,791
2017	**94,745**	9,454	**13,013**	273
2018 onwards	**17,832**	7,103	**735**	684
	255,485	**232,653**	**88,970**	**176,322**

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 ratio (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 December 31, 2012, such ratios had not been met and, as such, the amount of R$131,387 was reclassified to current liabilities.

(In thousands of reais, except where otherwise stated)

19. Debentures

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

The issue was made in a single series, corresponding to 10,300 debentures for the 1st issue and 200 debentures for the 2nd issue, distributed in 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:

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

						2011
	Index	**Current**	**Noncurrent**	**Transaction costs incurred**	**Transaction costs appropriated**	**Transaction costs to appropriate**
Debentures						
1st issue	DI rate + 4.1%	75.232	-	1.019	391	628
2nd issue	DI rate + 2.8%	559	49.539	684	45	639
		75.791	49.539	1.703	436	1.267

Effective interest rates of the 1st and 2nd issues are of 12.52% and 9.98%, respectively. Measurement of the effective rate was based on contractual index rate in force on the reporting date. The debentures are guaranteed by the subsidiaries Forjas Taurus S.A. in Brazil, constituted in the form of bonds granted jointly.

19. Debentures (Continued)

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

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

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

Management from the Company and its subsidiaries monitor these indices on a systematic and constant basis, to ensure that the terms are met. At December 31^{st}, 2012 the clauses 7.1(i), (b) and (c) from the 1^{st} issue, and clauses 6.1 (i) (a) and 6.2 (i) (a) from 2^{nd} issue, the non-submission of the consolidated financial statements and, consequently, the non-submission of financial ratios, have not been fulfilled. For that, Company obtained the consent of its creditors not to exercise their rights to require prepayment. However given the adverse factors related to the renegotiation of the sale of the Taurus Máquinas-Ferramenta Ltda. (note 8), the Company didn't met the minimum financial ratios, transferring to current liabilities the amount of R$ 56,514 as a result of noncompliance with these indexes.

(In thousands of reais, except where otherwise stated)

20. Contingencies

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

				Consolidated
			2012 (restated)	**2011**
	Provision (1)	**Judicial deposit (2)**	**Net**	**Net**
Labor	**4,689**	**2,466**	**2,223**	(600)
Tax				
Federal	**-**	**423**	**(423)**	(423)
State	**2,469**	**823**	**1,646**	2,401
	7,158	**3,712**	**3,446**	1,378

				Company
			2012 (restated)	**2011**
	Provision (1)	**Judicial deposit (2)**	**Net**	**Net**
Labor	**3,469**	**1,268**	**2,201**	281
Tax				
Federal	**-**	**423**	**(423)**	(423)
State	**388**	**726**	**(338)**	367
	3,857	**2,417**	**1,440**	225

(1) Recorded in other liabilities in noncurrent liabilities.
(2) Recorded in other accounts receivable noncurrent assets.

(In thousands of reais, except where otherwise stated)

20. Contingencies (Continued)

Changes in provisions are as follows:

			Consolidated (restated)
	Civil and labor	Tax	Total
Balances at December 31, 2011	1,465	2,796	4,261
Provisions made in the year	3,232	23	3,255
Provisions made in the year	(8)	(350)	(358)
Balances at December 31, 2012	**4,689**	**2,469**	**7,158**

			Company (restated)
	Civil and labor	Tax	Total
Balances at December 31, 2011	1,465	738	2,203
Provisions made in the period	2,004	-	2,004
Provisions made in the year	-	(350)	(350)
Balances at December 31, 2012	**3,469**	**388**	**3,857**

The Company and its subsidiaries are parties to other proceedings rated as possible or remote loss by the legal advisors, in the consolidated amount of approximately R$10,915, Company, and R$44,287, consolidated (R$10,578 and R$23,537, respectively, in 2011), for which no provision was recognized, as accounting practices adopted in Brazil do not require their recording. The major individual proceeding refers to suit filed by Hunter Douglas NV against Wotan Máquinas Ltda. regarding collection arising from intercompany loan for financing of exports, entered into between both companies in 2001. The subsidiary Taurus Máquinas-Ferramenta Ltda. is defendant in the claim due to new lease of the industrial park signed with Wotan Máquinas Ltda. in 2004. The suit is estimated at R$20 million, and the likelihood of loss is rated as possible by the Company's legal advisors.

The Company filed various claims aimed at recognizing various tax credits, which will be recognized as and when they are realized.

21. Financial instruments

(In thousands of reais, except where otherwise stated)

i) Derivatives

The Company and its subsidiaries Taurus Blindagens Ltda., Taurus Helmets Indústria Plástica Ltda. and Taurus Máquinas-Ferramenta Ltda., undertake operations with derivative financial instruments. Administration of these instruments is by means of operating strategies and internal controls aimed at ensuring liquidity, profitability and security. The contracting of financial instruments for hedging purposes is made based on a periodic analysis of the exposure to risk that management intends to cover (foreign exchange, 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	
	2012	**2011**	**2012**	**2011**
Derivative financial instruments assets	**33,513**	18,262	**32,925**	17,778
Derivative financial instruments liabilities	**(7,750)**	(19,358)	**(6,576)**	(19,358)
Assets held for sale	**-**	128	**-**	-
	25,763	(968)	**26,349**	(1,580)

i) Derivatives (Continued)

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:

			Consolidated			
			2012		2011	
Instrument	**Counterparty**	**Contract currency with respect to notional value**	**Notional – in thousands**	**Fair value**	**Notional – in thousands**	**Fair value**
Swap Fixed* x *Libor						
Taurus Holdings, Inc.	TD Bank	US dollars - USD	5,711	**(1,174)**	-	-
***Swap Libor* + E.V. USD x CDI + R$**						
Forjas Taurus S.A.	Banco ABC do Brasil	US dollars - USD	-	**-**	12,000	217
***Swap Fixed* x CDI**						
Forjas Taurus S.A.	Banco Itaú BBA	Reais – BRL	37,356	**1,917**	37,356	1,801
Taurus Blindagens Ltda.	Banco Itaú BBA	Reais – BRL	9,652	**405**	9,652	334
Taurus Helmets Ltda.	Banco Itaú BBA	Reais – BRL	4,355	**183**	4,355	150
***Swap Interest* + E.V. USD x CDI + R$**						
Forjas Taurus S.A.	Banco Itaú BBA	Reais – BRL	100,000	**31,008**	100,000	15,597
Forjas Taurus S.A.	BES Investimentos	Reais – BRL	-	**-**	80,000	(4,099)
Forjas Taurus S.A.	Banco Citibank	Reais – BRL	15,000	**(150)**	-	-
Forjas Taurus S.A.	Banco Bradesco	US dollars - USD	-	**-**	868	163
Taurus Máquinas-Ferramenta Ltda.	Banco Bradesco	US dollars - USD	-	**-**	680	128
***Non-deliverable forward* (exports)**						
Forjas Taurus S.A.	Bes Investimentos	US dollars - USD	16,000	**(3,350)**	40,500	(8,435)
Forjas Taurus S.A.	Banco Itaú BBA	US dollars - USD	4,700	**(3,076)**	27,600	(4,098)
Forjas Taurus S.A.	BNP Paribas	US dollars - USD	-	**-**	20,000	(2,726)
				25,763		(968)

21. Financial instruments (Continued)

i) Derivatives (Continued)

The fair value does not represent the obligation for immediate disbursement or receiving of cash, given that this effect will only occur on the contractual dates or maturity dates of each operation, when the results are determined, depending on the case and the market conditions on these dates. It should be noted that all of the contracts outstanding at December 31, 2012 refer to operations on the over the counter market, registered with the CETIP, without any type of guarantee margin or accelerated maturity clause forced by *Mark to Market (MtM)* variations.

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

Non-deliverable forward (exports)

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

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

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

Swap Fixed x CDI

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

(In thousands of reais, except where otherwise stated)

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:

	Consolidated	
	Book value	
	2012 (restated)	**2011**
Financial assets held to maturity	**-**	659
Trade accounts receivable	**168,240**	155,300
Other loans and receivables	**27,950**	19,948
Cash and cash equivalents	**180,781**	162,226
Foreign exchange forward and interest rate swap contracts used for asset hedging	**33,513**	18,262
Total	**410,484**	356,395

	Company	
	Carrying values	
	2012 (restated)	**2011**
Financial assets held to maturity	**-**	659
Trade accounts receivable	**60,545**	147,548
Other loans and receivables	**18,889**	17,656
Cash and cash equivalents	**101,560**	71,320
Foreign exchange forward and interest rate swap contracts used for asset hedging	**32,925**	17,778
Total	**213,919**	254,961

(In thousands of reais, except where otherwise stated)

21. Financial instruments (Continued)

ii) Risks (Continued)

a) *Credit risk* (Continued)

Exposure to credit risk

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

	Consolidated		Company	
	Carrying values		Carrying values	
	2012	2011	2012	2011
Domestic-trade accounts receivable	**80,844**	101,082	**30,911**	69,254
United States – trade accounts receivable	**69,765**	47,317	**13,379**	71,436
Other	**17,631**	6,901	**16,255**	6,858
Total	**168,240**	155,300	**60,545**	147,548

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

	Consolidated		Company	
	Carrying values		Carrying values	
	2012	2011	2012	2011
Customers – public bodies	**26,924**	60,069	**19,919**	57,257
Customers - distributors	**99,058**	8,792	**21,117**	79,775
End customers	**42,258**	86,439	**19,509**	10,516
Total	**168,240**	155,300	**60,545**	147,548

Impairment losses

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

				Consolidated
	Gross	Gross	Impairment	Impairment
	2012	2011	2012 (restated)	2011
Falling due	**140,422**	129,172	**-**	-
Overdue between 0-30 days	**1,142**	12,144	**-**	-
Overdue between 31-360 days(1)	**4,546**	8,663	**(410)**	(1,098)
Overdue for more than one year	**22,130**	5,321	**(18,983)**	(5,321)
Total	**168,240**	155,300	**(19,393)**	(6,419)

(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.*

(In thousands of reais, except where otherwise stated)

21. Financial instruments (Continued)

ii) Risks (Continued)

a) *Credit risk* (Continued)

Impairment losses (Continued)

				Company
	Gross 2012	Gross 2011	Impairment 2012	Impairment 2011
Falling due	**49,591**	131,715	**-**	-
Overdue between 0-30 days	**4,644**	4,372	**-**	-
Overdue between 31-360 days[1]	**3,294**	7,403	**(410)**	(410)
Overdue for more than one year	**3,016**	4,058	**(2,332)**	(2,259)
Total	**60,545**	147,548	**(2,742)**	(2,669)

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

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

The balance of notes receivable refers to the sale of operating activities of subsidiary SM Metalurgia Ltda. Management periodically monitors the counterparty credit risk.

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 portions in the short term due to non-fulfillment of covenant.

(In thousands of reais, except where otherwise stated)

21. Financial instruments (Continued)

ii) Risks (Continued)

b) *Liquidity risk* (Continued)

	Consolidated					
	2012 (restated)					
	Carrying value	**Contractual cash flow**	**Up to 1 year**	**1-2 years**	**2-5 years**	**Up to 5 years**
Non-derivative financial liabilities						
Trade accounts payable	**34,958**	**34,958**	**34,958**	**-**	**-**	**-**
Guaranteed bank loans	**578,040**	**629,667**	**330,373**	**88,471**	**210,369**	**455**
Debt securities issued	**94,698**	**99,459**	**99,459**	**-**	**-**	**-**
Certificates of real estate receivables	**28,711**	**35,690**	**35,690**	**-**	**-**	**-**
Foreign exchange drafts	**5,128**	**5,188**	**5,188**	**-**	**-**	**-**
Advance on receivables	**26,375**	**26,375**	**26,375**	**-**	**-**	**-**
Derivative financial instruments						
Derivative instruments (assets)	**(33,513)**	**(33,513)**	**(33,513)**	**-**	**-**	**-**
Derivative instruments (liabilities)	**7,750**	**7,750**	**7,750**	**-**	**-**	**-**
	742,147	**805,574**	**506,279**	**88,471**	**210,369**	**455**

	Consolidated					
	2011					
	Carrying value	**Contractual cash flow**	**Up to 1 year**	**1-2 years**	**2-5 years**	**Up to 5 years**
Non-derivative financial liabilities						
Trade accounts payable	26,291	26,291	26,291	-	-	-
Guaranteed bank loans	331,696	367,899	101,855	176,293	73,079	16,672
Debt securities issued	125,330	155,713	81,825	30,164	43,724	-
Certificates of real estate receivables	36,127	44,001	7,768	24,287	11,946	-
Foreign exchange drafts	39,629	40,510	40,510	-	-	-
Advance on receivables	17,530	17,530	17,530	-	-	-
Derivative financial instruments						
Derivative instruments (assets)	(18,262)	(18,262)	(18,262)	-	-	-
Derivative instruments (liabilities)	19,358	19,358	19,358	-	-	-
	577,696	653,040	276,875	230,744	128,749	16,672

(In thousands of reais, except where otherwise stated)

21. Financial instruments (Continued)

ii) Risks (Continued)

b) *Liquidity risk* (Continued)

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

						Company 2011
	Carrying value	**Contractual cash flow**	**Up to 1 year**	**1-2 years**	**2-5 years**	**Up to 5 years**
Non-derivative financial liabilities						
Trade accounts payable	15,823	15,823	15,823	-	-	-
Guaranteed bank loans	261,434	291,979	87,554	138,271	64,914	1,240
Debt securities issued	125,330	155,713	81,825	30,164	43,724	-
Foreign exchange drafts	39,626	40,510	40,510	-	-	-
Derivative financial instruments						
Derivative instruments (assets)	(17,778)	(17,778)	(17,778)	-	-	-
Derivative instruments (liabilities)	19,358	19,358	19,358	-	-	-
	443,793	505,605	227,292	168,435	108,638	1,240

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

(In thousands of reais, except where otherwise stated)

21. Financial instruments (Continued)

ii) Risks (Continued)

c) *Foreign exchange risk*

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

	Consolidated USD 000	
	2012	**2011**
Accounts receivable	**42,768**	28,904
Foreign exchange drafts	**(2,509)**	(21,018)
Guaranteed bank loans	**(149,463)**	(101,362)
Foreign suppliers	**(6,170)**	(4,716)
Net balance sheet exposure	**(115,374)**	(98,192)

The exposure to consolidated foreign exchange risk includes the guaranteed bank loans from Taurus Holdings, Inc. for the amount of USD 45,153 at December 31, 2012 (USD 29,322 at December 31, 2011).

	Company USD 000	
	2012	**2011**
Accounts receivable	**7,954**	3,656
Accounts receivable from foreign related parties	**6,547**	38,083
Foreign exchange drafts	**(2,509)**	(21,018)
Guaranteed bank loans	**(103,082)**	(72,040)
Foreign suppliers	**(957)**	(524)
Net balance sheet exposure	**92,047**	(51,843)

The following exchange rates were used during the year ended December 31, 2012 and 2011:

	Average rate		Spot rate	
	2012	**2011**	**2012**	**2011**
R$/USD	**1.9588**	1.6746	**2.0435**	1.8758

(In thousands of reais, except where otherwise stated)

21. Financial instruments (Continued)

ii) Risks (Continued)

c) *Foreign exchange risk* (Continued)

Sensitivity analysis

The devaluation of the Real to the US dollar, at December 31, 2012 decreased equity and net income as reported below. This analysis is based on the expected exchange rate of year end, which is of R$2.01 (probable scenario), based on the Focus report of February 15, 2013, issued by the Central Bank of Brazil. The analysis considered that all the other variables, particularly interest rates, would remain constant.

	Consolidated		Company	
	Equity -	Net income for the year	Equity --	Net income for the year
December 31, 2012				
R$/USD (forecast rate 2.01)	**3,865**	**3,865**	**3,084**	**3,084**
R$/USD (25% - forecast rate 2.51)	**(54,111)**	**(54,111)**	**(42,940)**	**(42,940)**
R$/USD (50% - forecast rate 3.02)	**(112,087)**	**(112,087)**	**(89,884)**	**(89,884)**

d) *Interest rate risk*

Sensitivity analysis of the fair value for fixed rate instruments

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

(In thousands of reais, except where otherwise stated)

21. Financial instruments (Continued)

ii) Risks (Continued)

d) *Interest rate risk* (Continued)

Sensitivity analysis of cash flows for variable rate instruments

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

	Consolidated	
	Carrying values	
	2012	2011
Fixed rate instruments		
Financial liabilities	**133,281**	98,884
Variable rate instruments		
Financial assets	**185,350**	105,730
Financial liabilities	**579,871**	453,053

	Company	
	Carrying values	
	2012	2011
Fixed rate instruments		
Financial liabilities	**21,917**	29,932
Variable rate instruments		
Financial assets	**129,805**	76,701
Financial liabilities	**467,566**	415,615

A variation of 10 percentage points in interest rates, on the reporting date of the financial statements, would increase (reduce) equity and net income for the year on the balance for interest not liquidated, by the amounts presented below. The analysis considers that all variables, particularly foreign currency, would remain stable. The analysis was made considering the same base for December 31, 2012 and December 31, 2011.

(In thousands of reais, except where otherwise stated)

21. Financial instruments (Continued)

ii) Risks (Continued)

d) *Interest rate risk* (Continued)

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

	Consolidated	
	Equity and net income for the year	
	2012	**2011**
Change in interest rate on financing	**(2,418)**	(1,865)
Change in interest rate on short-term investments	**523**	448

	Company	
	Equity and net income for the year	
	2012	**2011**
Change in interest rate on financing	**(1,380)**	(1,821)
Change in interest rate on short-term investments	**334**	302

Fair value versus carrying values

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

	Consolidated			
	2012 (restated)		2011	
	Carrying value	Fair value	Carrying value	Fair value
Assets stated at fair value				
Forward exchange contracts and interest rate swap contracts used for hedge operations	**33,513**	**33,513**	18,262	18,262
Assets stated at amortized cost				
Cash and cash equivalents	**180,781**	**180,781**	162,226	162,226
Accounts receivable	**148,847**	**148,847**	148,881	148,881
	329,628	**329,628**	311,107	311,107
Liabilities stated at fair value				
Forward exchange contracts and interest rate swap contracts used for *hedge* operations	**7,750**	**7,750**	19,358	19,358
Liabilities stated at amortized cost				
Guaranteed bank loans	**578,040**	**562,443**	331,696	331,696
Issue of debt securities	**94,697**	**96,195**	126,597	126,597
Foreign exchange drafts	**5,128**	**5,018**	39,626	39,626
Suppliers and other accounts payable	**61,333**	**61,333**	43,821	43,821
Advance on real estate credits	**28,711**	**29,823**	36,127	36,127
	767,909	**754,812**	577,867	577,867

(In thousands of reais, except where otherwise stated)

21. Financial instruments (Continued)

Fair value versus carrying values

				Company
		2012 (restated)		2011
	Carrying value	Fair value	Carrying value	Fair value
Assets stated at fair value				
Forward exchange contracts and interest rate swap contracts used for *hedge* operations	**32,925**	**32,925**	17,778	17,778
Assets stated at amortized cost				
Cash and cash equivalents	**101,560**	**101,560**	71,320	71,320
Trade accounts receivable and other receivables	**57,803**	**57,803**	144,879	144,879
	159,363	**159,363**	216,199	216,199
Liabilities stated at fair value				
Forward exchange contracts and interest rate swap contracts used for *hedge* operations	**6,576**	**6,576**	19,358	19,358
Liabilities stated at amortized cost				
Guaranteed bank loans	**383,082**	**382,531**	261,434	261,434
Issue of debt securities	**94,697**	**96,195**	126,597	126,597
Foreign exchange drafts	**5,128**	**5,018**	39,626	39,626
Suppliers and other accounts payable	**40,742**	**40,742**	15,823	15,823
	523,649	**524,486**	443,480	443,480

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)

Fair value versus carrying values

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

iv) Hedge Accounting

Non-deliverable forward (NDF), options (*Zero Cost Collar*) and prepayment operations are fixed in order to provide hedge against exposure of future sales in dollars. There are also Finimp operations in order to provide hedge against exposure of future sales in dollars. The operations carried out by the Company started to be documented for recording purposes through the hedge accounting method, in accordance with CPC 38, prospectively as from April 1, 2012. The Company records in a specific equity account the unrealized effects of these instruments taken out for own operations or taken out on a consolidated basis to provide hedge for future sales.

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

(In thousands of reais, except where otherwise stated)

21. Financial instruments (Continued)

iv) Hedge Accounting

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

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

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

		Gains and losses posted to P&L					
		Allocated to gross revenue		Allocated to financial income		Gains and losses recorded in equity	
Description	Currency	2012	2011	2012	2011	2012	2011
NDF contracts	R$	(693)	-	(2,689)	-	(557)	-
Options Zero Cost Collar	R$	(223)	-	-	-	-	-
Export prepayment (PPE)	R$	-	-	-	-	(554)	-
FINIMP	R$	-	-	(354)	-	(352)	-
Total	**R$**	**(916)**	**-**	**(3,043)**	**-**	**(1,463)**	**-**

Loss from cash flow hedge of R$ 1,463 was posted to equity, deducting income and social contribution taxes of R$ 498.

(In thousands of reais, except where otherwise stated)

22. Related parties

	Outstanding balances of subsidiaries with the Company					Effect of result of operations of subsidiaries with the Company	
	Current assets (customers)	Noncurrent assets (receivables from related parties)	Total assets	Current liabilities (*)	Total liabilities	Revenue	Expense
12/31/2011							
Taurus Blindagens Ltda.	-	-	-	286	286	-	246
Taurus Holdings,Inc. (Note 10)	71,436	-	71,436	34	34	205,924	3,413
Taurus Security Ltda.	-	547	547	-	-	-	-
Taurus Investimentos Imobiliários Ltda.	-	-	-	-	-	-	7,327
Taurus Máquinas-Ferramenta Ltda.	83	58,540	58,623	-	-	201	241
	71,519	59,087	130,606	320	320	206,125	11,227
12/31/2012							
Taurus Blindagens Ltda.	-	-	-	2,594	2,594	-	2,124
Taurus Blindagens Nordeste Ltda.	-	-	-	-	-	-	-
Taurus Holdings,Inc. (Note 10)	13,379	-	13,379	699	699	244,809	3,997
Taurus Security Ltda.	-	547	547	-	-	-	-
Taurus Investimentos Imobiliários Ltda. (**)	-	5,811	5,811	-	-	-	4,694
Taurus Máquinas-Ferramenta Ltda.	-	114,033	114,033	-	-	-	-
Polimetal Metalurgia e Plásticos Ltda. (Note 10)	3,216	-	3,216	24,156	24,156	7,921	103,726
Famastil Taurus Ferramentas S.A.	-	-	-	-	-	-	-
	16,595	**120,391**	**136,986**	**27,449**	**27,449**	**252,730**	**114,541**

(*) Recorded as accounts payable
(**) Disposal of fixed assets by the Company to subsidiary.

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

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

(In thousands of reais, except where otherwise stated)

22. Related parties (Continued)

The transactions with related parties are carried out under the price and terms agreed by the parties as well as usual market conditions, according to management's evaluation.

Subsidiary Taurus Máquinas-Ferramentas Ltda. has intercompany loan payable to the controlling company Forjas Taurus S.A. in the amount of R$ 114,033 at December 31, 2012 (R$ 58,540 at December 31, 2011). Subsidiary Taurus Security Ltda. has intercompany loan payable to the controlling company Forjas Taurus S.A. in the amount of R$ 547 at December 31, 2012 and R$527 at December 31, 2011. The loans are not subject to monetary restatement or interest.

Remuneration of key management personnel

At December 31, 2012, remuneration paid to key management personnel amounted to R$ 19,810 (R$ 26,894 at December 31, 2011), and includes salaries, fees and benefits.

Remuneration of key management personnel includes:

	Consolidated		Company	
	2012	**2011**	**2012**	**2011**
Remuneration and benefits of statutory directors and board members	**10,268**	14,968	**10,268**	14,968
Remuneration of key personnel	**9,542**	11,926	**4,643**	7,150
Total	**19,810**	26,894	**14,911**	22,118

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 44.18% of the Company's voting capital.

Some of the key management personnel hold units of interest in other entities, resulting in them having control or significant influence over the financial or operating policies of these companies. There were no transactions between the Company and these parties in the years ended December 31, 2012 and 2011, 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:

	2012	2011
Taurus Máquinas-Ferramenta Ltda.	**5,410**	17,391
Taurus Holdings, Inc.	**92,271**	55,002
	97,681	72,393

23. Equity (Company)

a) Capital

Capital at December 31, 2012 amounted to R$257,797 (R$257,797 in 2011).

Preferred shares

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

Authorized shares (in thousands of shares)

	2012	2011
Common shares	**51,851**	51,851
Preferred shares	**103,702**	103,702
	155,553	155,553

23. Equity (Company) (Continued)

Shares issued and fully paid up

	Common		Preferred	
	Quantity in thousands	R$ 000	Quantity in thousands	R$ 000
At December 31, 2011				
ON - R$ 1.53 - PN - R$ 1.46*	47,138	72,121	94,275	137,642
At December 31, 2012				
ON - R$ 3.25 - PN - R$ 2.90*	47,138	153,199	94,275	273,398

* 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.

c) Reserves

Legal reserve

This is registered at the rate of 5% of net income for each year, determined in accordance with the terms of article 93 of Law No. 6404/76, until its balance reaches the limit of 20% of the amount of capital. This reserve was used to absorb losses incurred in the year as a result of recognition of the events described in Note 3.e.

Statutory reserve and profit retention

Reserve for investments – constituted to cover investments to be made in subsequent years, based on the capital budget. This reserve was used to absorb losses incurred in the year as a result of recognition of the events described in Note 3.e.

Equity valuation adjustments

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

(In thousands of reais, except where otherwise stated)

23. Equity (Company) (Continued)

c) Reserves (Continued)

Cumulative translation adjustments

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

d) Earnings per share

Basic earnings per share were calculated based on profit for the period attributable to controlling and non-controlling shareholders of the Company up to December 31, 2012, and the respective average number of common outstanding shares in this period, compared to the period ended December 31, 2011, as presented below:

	2012 (restated)	**2011**
Net income for the period from continuing operations	**17,781**	58,688
Loss from discontinued operations	**(134,991)**	(21,373)
Net income/loss attributable to Company shareholders	**(117,210)**	37,315
Balances at the beginning of the year	**141,412,617**	128,234,160
Capital increase and increase in the number of shares – weighted average	**-**	8,607,498
Effect from purchase of own shares- weighted average	**-**	(4,996,503)
Effect from share split – weighted average	**-**	178,008
Weighted average number of shares	**141,412,617**	132,023,163
Basic and diluted earnings per share – in R$	**(0.8288)**	0.2826
Basic and diluted earnings per share –from continuing operations- R$	**0.1257**	0.4445

Basic earnings per share are calculated based on net income for the period attributable to Company shareholders divided by the weighted average of outstanding shares in the period. At December 31, 2012, the Company reported diluted earnings per share equal to basic earnings per share, given that there were no financial instruments with share conversion rights and its common shares do not have preference in profit sharing.

23. Equity (Company) (Continued)

(In thousands of reais, except where otherwise stated)

e) Dividends

The Company's by-laws provide for the distribution of minimum compulsory dividends of 35% of net income for the period, adjusted in accordance with legislation.

Dividends were calculated as follows:

	2011
Net income for the year	37,315
(-) Legal reserve	(1,866)
(-) Realization of equity valuation adjustments (subsidiaries)	1,866
(-) Realization of equity valuation adjustments (Company)	2,066
Adjusted net income for dividend calculation	39,381
Minimum mandatory dividend	13,783
(-) Interest on equity (IOE)	(16,767)
(+) Withholding income tax on IOE	2,515
Total dividends proposed	14,252
Proposed dividends in addition to minimum mandatory dividends	469

The Company's Board of Directors' Meeting held on August 16, 2012 proposed distribution of interim dividends, subject to approval by the Annual General Meeting to which the Company's accounts was approved based on profits posted in the semiannual balance sheet at June 30, 2012 , totaling R$ 9,028 on the basis of R$ 0.07 per common and preferred share. The dividends credited on November 20, 2012.

The Company's Board of Directors' Meeting held on November 19, 2012 proposed distribution of interest on equity, subject to approval by the Annual General Meeting to which the Company's accounts was approved based on profits posted in the balance sheet at September 30, 2012 , totaling R$ 4,164 on the basis of R$ 0.03 per common and preferred share, to be included in the mandatory minimum dividend for the fiscal year 2012. Interest on equity will be credited until May 26, 2013. The amount of interest on equity net of withholding income tax totals R$3,860.

24. Operating revenue

(In thousands of reais, except where otherwise stated)

	Consolidated		Company	
	2012	2011	2012 (restated)	2011
Revenue from products sold	**834,842**	744,974	**437,127**	467,383
Revenue from services rendered	**896**	6,341	**183**	139
Total gross revenue	**835,738**	751,315	**437,310**	467,522
Sales taxes	**(120,017)**	(118,864)	**(48,466)**	(62,756)
Sales returns and rebates	**(14,750)**	(14,483)	**(5,700)**	(13,806)
Total net operating revenue	**700,971**	617,968	**383,144**	390,960

25. Other operating (expenses) incomes, net

	Consolidated		Company	
	2012 (restated)	2011	2012	2011
Other operating expenses				
Research and development	**(2,992)**	(3,254)	**(2,986)**	(3,254)
Cost of fixed assets sold	**(3,086)**	(1,414)	**(2,538)**	(1,385)
Amortization of intangible assets	**(709)**	(824)	**(674)**	(811)
Employee profit sharing	**(3,990)**	(3,779)	**(2,170)**	(2,331)
Idle capacity	**(1,337)**	-	**-**	-
Asset impairment losses	**(2,047)**	-	**-**	-
Tax deficiency notice	**(5,831)**	-	**-**	-
Provision for impairment of PP&E	**(13,522)**	-	**-**	-
Other	**(7,770)**	(4,004)	**(3,298)**	(1,893)
	(41,284)	(13,275)	**(11,666)**	(9,674)
Other operating revenues				
Tax incentives	**2,887**	1,817	**-**	-
Other operating revenues	**5,100**	2,459	**2,497**	1,985
	7,987	4,276	**2,497**	1,985
Other operating expenses, net	**(33,297)**	(8,999)	**(9,169)**	(7,689)

26. Financial income (expenses)

Consolidated	Company

	2012 (restated)	2011	2012	2011
Financial expenses				
Interest	**(51,678)**	(38,220)	**(39,560)**	(33,817)
Capitalized interest on fixed assets	**(289)**	1,667	**(497)**	1,614
Exchange variation	**(52,520)**	(49,035)	**(51,832)**	(48,876)
IOF	**(431)**	(365)	**(27)**	(350)
Swap on financial operations	**(23,575)**	(5,681)	**(23,446)**	(5,681)
Other expenses	**(6,404)**	(5,190)	**(3,763)**	(3,915)
	(134,897)	(96,824)	**(119,125)**	(91,025)
Financial income				
Interest	**14,145**	15,289	**6,146**	13,575
Exchange variation	**34,914**	13,954	**33,851**	13,847
Swap on financial operations	**38,073**	19,023	**37,840**	18,539
Other revenues	**2,790**	919	**501**	619
	90,348	49,185	**78,338**	46,580
Financial income (expenses), net	**(44,549)**	(47,639)	**(40,787)**	(44,445)

27. Income and social contribution tax expense

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

	Consolidated		**Company**	
	2012 (restated)	**2011**	**2012 (restated)**	**2011**
Income before income and social contribution taxes	**(95,377)**	17,670	**(116,542)**	36,367
Combined tax rate	**34%**	34%	**34%**	34%
Income and social contribution taxes:				
At combined tax rate	**32,428**	(6,008)	**39,624**	(12,365)
Permanent additions:				
Non-deductible expenses	**(421)**	(147)	**(420)**	(140)
Permanent exclusions:				
Tax exempt income – equity pickup	**298**	648	**(37,129)**	16,291
Other – Law No. 11196/05	**300**	116	**-**	-
Interest on equity	**1,416**	5,701	**1,416**	5,701
Recognition of asset on tax losses of prior years	**-**	37,448	**-**	-
Statutory participation	**-**	(1,498)	**-**	(1,498)
Unrecognized tax loss	**(34,936)**	(20,015)	**(4,260)**	(7,889)
Nondeductible provisions	**(20,653)**	-	**-**	-
Other items	**(265)**	3,422	**101**	848
Income and social contribution taxes in the P&L for the year	**(21,833)**	19,667	**(668)**	948
Income and social contribution taxes in the P&L for the year:				
Current	**(23,110)**	(13,935)	**-**	-
Deferred	**1,277**	33,602	**(668)**	948
	(21,833)	19,667	**(668)**	948
Effective rate	**-22.89%**	-111.30%	**-0.57%**	-2.61%

28. Insurance coverage

(In thousands of reais, except where otherwise stated)

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 was determined by Company management for an amount considered sufficient to cover adventitious damages.

At December 31, 2012, the Company's insurance coverage was as follows:

	2012	
	Consolidated	**Company**
Material damage	204,637	83,225
Civil liability	38,653	8,000
Loss of profits	5,874	-

29. Expenses by nature

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

	Consolidated		**Company**	
	2012 (restated)	**2011**	**2012 (restated)**	**2011**
Expenses by function				
Cost of products sold	**(434,237)**	(353,700)	**(275,683)**	(269,306)
Selling expenses	**(89,419)**	(90,494)	**(32,249)**	(37,440)
General and administrative expenses	**(60,730)**	(65,706)	**(32,594)**	(43,628)
Other operating income (expenses) (Note 25)	**(41,284)**	(13,275)	**(11,666)**	(9,674)
	(625,670)	(523,175)	**(352,192)**	(360,048)
Expenses by nature				
Depreciation and amortization	**(31,241)**	(27,605)	**(11,810)**	(17,597)
Personnel expenses	**(144,686)**	(137,659)	**(115,274)**	(135,613)
Raw material and use and consumption materials	**(337,089)**	(217,009)	**(165,197)**	(100,184)
Freight	**(13,600)**	(13,013)	**(10,850)**	(11,312)
Commissions	**(19,778)**	(21,883)	**(10,243)**	(14,121)
Third-party services	**(15,378)**	(27,105)	**(11,317)**	(19,599)
Advertising and promotion	**(11,559)**	(11,193)	**(2,447)**	(2,864)
Other expenses	**(52,339)**	(67,708)	**(25,054)**	(58,758)
	(625,670)	(523,175)	**(352,192)**	(360,048)

(In thousands of reais, except where otherwise stated)

30. Business combination

a) Acquisition of Steelinject – Injeção de Aços Ltda.

On January 1, 2012, the Company's Board of Directors approved acquisition of Steelinject - Injeção de Aços Ltda. for R$14,000, supplementing its segment of products manufactured using the M.I.M.(Metal Injection Molding) methodology. Under the purchase and sale agreement executed by the parties, the controlling interest in said company was transferred to Polimetal Metalurgia e Plásticos Ltda. on January 1, 2012, date on which there was effective conclusion of the business with transfer of the units of interest representing capital of this company. The consideration was fully paid in cash, without assuming any liability in connection with the transaction, also there is no contingent consideration.

We set out below a summary of goodwill computation, considering the fair value of Steelinject at January 1, 2012. Fair value was determined by a specialized company.

Property and equipment	8,825
Intangible assets	2,013
Other assets	5,679
Liabilities	(2,643)
Total identifiable assets, net	13,874
(-) Amount of consideration	(14,000)
Goodwill paid	(126)

Since the acquisition date, Steelinject has contributed to the consolidated figures with revenues of R$9,094 and pretax income of R$1,232.

b) Acquisition of Heritage Manufacturing, Inc.

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

(In thousands of reais, except where otherwise stated)

c) Acquisition of Heritage Manufacturing, Inc. (Continued)

Due to the acquisition there was initial recording of goodwill of R$ 16,056. At December 31, 2012, the work of the experts hired to determine the fair value of assets acquired and liabilities assumed in the acquisition, including the calculation and the final allocation of goodwill, had not been finalized. The Company has up to one year (the measurement period) to adjust the provisional amounts recognized initially at acquisition date, retrospectively as information required to measure the fair value of assets and liabilities is obtained, as provided for in CPC 15 and IFRS 3. In management's view, the amount will be substantially allocated to intangible assets.

We set out below a summary computation of goodwill, considering Heritage's balance sheet at May 2, 2012.

Cash	492
Property and equipment	1,398
Other assets	4,468
Liabilities	(1,864)
Total identifiable assets, net	4,494
(-) Amount of consideration	(20,550)
Goodwill paid	16,056
Consideration paid	20,550
Cash acquired from subsidiary	(492)
Cash paid for the controlling interest	20,058

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

The costs related to the acquisitions were recognized in P&L as administrative expenses.

MANAGEMENT REPORT 2012

Voluntary restatement on March 28, 2014

MESSAGE TO SHAREHOLDERS

Dear Shareholders,

Management of Forjas Taurus S.A. (“Company”) submits hereby for your appreciation the voluntary restatement of the Management Report and its complete Individual and Consolidated Financial Statements, including the Report of Independent Auditor - Ernst & Young – referring to the restatement for the year ended December 31, 2012, as established by **CPC 23 – Accounting Practices, Changes in Accounting Estimates and Correction of Errors** (equivalent to IAS 8).

Due to the amendment of the Purchase and Sale Contract (“Contract”) in connection with disposal of operations of Taurus Máquinas-Ferramenta Ltda. (“TMFL”), occurred on September 12, 2013, the asset sale amount was decreased from R$ 115.35 million to R$ 57.52 million, resulting in a loss of R$57.83 million. Company management, in a review of all contracts and correspondence related to this operation, concluded that the events that lead to decrease in value was already present on the sale of the asset, whose original contract was signed on June 21, 2012, acting by the reopening of the Quartely Information (“ITR”) of the 2nd quarter of 2012.

As a result, decided to restate the quarterly results related to 2012, including the annual balance sheet related to 2012, thus eliminating the following: (i) the independent auditor’s qualified conclusion on the financial position; and (ii) the independent auditor’s adverse conclusion on the result and cash flows for the restated periods.

The retroactive effect from asset write off for the purpose of restatement of Financial Statements, generated a consolidated net loss of R$ 117.2 million in 12M12, for which the reconciliation of the restated balance and the originally presented balance and the impact on income for the period was disclosed in Note 3 of the Financial Statements footnotes and explained in item Restatement of Financial Statements of this report.

Considering the changes made for purposes of voluntary restatement of the financial information, a new process for approval of the Company’s Standardized Financial Statements (“DFPs”) ended at December 31, 2012 was conducted by management and, in accordance with **CPC 24 – Subsequent Events**, the impacts from subsequent events were also considered, occurred between the period of the DFs and approval for the restatement thereof, which will be submitted for approval in the next Ordinary Shareholders’ Meeting to be held on April 30, 2014.

For this reason we submit the restatement on the date hereof for the comments on performance in management's discussion and analysis of results (MD&A), which is an integral part of the Management Report, to reflect the new financial situation and the economic and financial result after the restatement of the financial statements.

In macroeconomic terms, the unstable international scenario, particularly in economies of the Euro Zone, China and USA, continued to be an issue in 2012 and affected the performance of emerging economies. In this context, Brazil was also affected and thus presented modest Gross Domestic Product (GDP) increase of 0.9%, despite the measures to promote growth acceleration, such as reduction of the basic interest rate and selective taxes, in addition to reduction of payroll taxes for certain sectors.

There was 0.8% decrease in the industrial sector in 2012 compared to 2011, contributing to the slowdown of the economy, mainly due to the 4% decrease in investments, based on IBGE's FBCF (Gross Fixed Capital Formation) index in Brazil.

Despite this adverse context, Forjas Taurus S.A. presented 13.4% increase in its consolidated net revenue in 2012, reaching R$ 701 million; operating cash generation (ADJUSTED EBITDA) of R$ 130.3 million, down 6.5% and **positive net result from continuing operations** of R$ 17.8 million and margin of 2.5%, compared to R$ 73 million and margin of 11.8% in 2011.

We point out that if we adjust the basis for comparison, which is net income of R$ 73 million in 2011, eliminating non-recurrent revenue of R$ 37.9 million in tax credits from income and social contribution tax losses of subsidiary Polimetal Metalurgia e Plásticos Ltda. (generated in the corporate reorganization of July/11), profit from continuing operations would be of R$35.1 million, with net margin of approximately 5.6%.

However, with recording of the amounts related to write down of accounts receivable by the sale of the TMFL operations and the recording of supplementary valuation allowance for the balance receivable of this sale, due to deterioration of credit conditions, difficulties in fully implementing the guarantees and lack of updated information on the debtor's financial conditions, there was generation of **negative net result from discontinued operations** in 2012 in the amount of R$ 135 million, compared to loss of R$ 35.7 million in 2011.

The impact from restatement of financial statements is basically: (i) nonrecurring; and (ii) minimized by not representing significant outflows in the Company's cash flow, being reversible in relation to the additional provisions, as the installments from the sale of TMFL operations are paid or as the contingencies don't occur in fact.

The Company's medium and long-term fundamentals contributed to the performance of **the result of continuing operations** that, together with investments of approximately R$ 90.2

million in 2012 (compared to R$ 47.4 million in 2011), allowed the acquisitions of national and international companies in the amount of R$ 33 million; giving continuity to the necessary modernization in the production lines, as well as the maintenance of resources for the research and development area, respecting Taurus' skill for innovation and technology.

We may highlight certain aspects that contributed to the performance of continuing operations, such as favorable foreign exchange rate for export trading companies; positive demand in the North American consumer market for weapons, which remained kindled in 2012; expansion of exports to other countries with the proactive and directed prospection and sales program; and the investments in public and private security in Brazil, due to the need of public modernization.

These positive factors of continuing operations were affected by the impact from the negative result from discontinued operations (TMFL), thus generating loss in 2012.

Exports accounted for almost 60% of the Company's consolidated net revenue, 88% of which being to the North American market and 12% to other countries. Sales to the Brazilian market accounted for approximately 40% of revenue in 2012.

We further highlight that 2012 was a year of consolidation of the corporate and organizational restructuring process, with significant changes in Company management, process that was started in July 2011. A new organizational structure was approved at the end of 2012, being conducted and concluded in the year after .

Therefore, even in a period of important transition, the three main directives established by the Board of Directors for 2012 were followed and will naturally have consequences until their effective conclusion in the following years:

1. **Growth through acquisitions:** we acquired (i) Steelinject (M.I.M. - Metal Injection Molding technology) in Brazil, which has been administered by us since January 2012, consolidating Taurus technology in this modality in the local market; and (ii) Heritage in the USA, a highly profitable company that allow us to operate in special niches of the weapons market;

2. **Extension of debt payment term and reduction of financial costs:** ongoing general objective with renewal of credit lines at lower costs and with longer payment terms, looking for alternative international credit line facilities with competitive weighted average cost of third party capital; and

3. **Decision of relocation and concentration of the industrial premises** to increase synergy, quality and productivity as well as to reduce costs:

(i) Transfer of the plant of Heritage in Opa Locka (FL) – USA, to the plant of TIMI – Taurus International Manufacturing Inc. in Hialeah, in Greater Miami (FL) – USA, in September 2012, where we already have weapon production lines;

(ii) Transfer of the Steelinject plant (metal injection molding for third parties) currently in Caxias do Sul, to the plant in São Leopoldo (RS), concluded in July 2013, where the M.I.M. plant already operates, producing components used in the weapon production lines; and

(iii) Transfer of the long guns production line of Rossi mark, from the current plant in rented premises to the plant in São Leopoldo (RS) in own premises, scheduled for June 2014.

The results obtained in 2012 to date stemmed from our teamwork and the action plan together with Company management, focusing on the **Defense & Security segment** that accounts for 74% of total revenue and in which there was 14.3% increase in revenue from weapon sales. The **Metallurgy and Plastics** segment that accounts for the remaining 26% of total revenue, has as highlights motorcyclist helmets representing 17.3% of revenue, in which there was 2.9% increase in revenue and 5.5% increase in volume, maintaining the gain in market share in the period, compared to the 15.5% decrease in motorcycle sales in the Brazilian market, due to lower demand in the 2H12, due to increased restrictions to consumer credit.

In 2012, the Company also strengthened its relations with the capital market, through a group of actions with the objective of expanding and diversifying the shareholders base and contributing for share price to reflect the Company's fundamentals. Due to the 1st and 2nd debenture issues that are still outstanding, the Company annually reviews its related risk assessment. The review for 2012 of the risk rating by Fitch Ratings resulted in maintenance of the long term A – (Bra) rating for the two issues, further considering the long-term rating as stable.

We also highlight a consistent improvement in shares liquidity in 2012, measured by the increase in the number of trades, the daily number of traded shares and the financial volume that increased by 208%. In addition, there was significant change in the share base profile and appreciation of PN (preferred) shares by 104% compared to appreciation of only 7% of IBOVESPA, contributing to the 109% increase in the Company's market value.

With well directed action plan and commercial and marketing strategies, aligned with the area manufacturing our products and with financial management focused on working capital, the prospects for 2013 are optimistic, however prudent, since we have big challenges ahead.

Finally, we would like to thank our customers, shareholders, suppliers, the community and mainly our employees and external collaborators that continue trusting in our management, innovation, increased focus on quality of our products and our capacity of looking for new ways of continuing to grow sustainably.

The Management

Taurus Profile

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

Taurus was founded in 1939, being one of the 3 main manufacturers of light guns in the world, operating with seven production units in Brazil and one in the USA, at December 31, 2012. The products manufactured by the Company are divided into two segments: **Defense & Security and Metallurgy & Plastics.** In the first segment, the Company manufactures a wide range of gun models, such as revolvers, pistols, machineguns and long guns, managing manufacture of TAURUS, ROSSI and HERITAGE products and, in Jan/13, it entered into an agreement for global distribution of DIAMONDBAC products. The second segment includes forged and molded (M.I.M.) products, motorcyclist helmets, bulletproof vests and high density polyethylene molded plastic containers for storage of solid waste for industrial, commercial and environmental use.

In its 73 years of history, with almost 4,800 direct employees in 2012, Taurus is starting now a new phase that is being developed with creativity, innovation, technology, its marks and team.

The year of 2012 was the year of **transition**, whilst 2013 is the year for **overcoming and getting ready for a new management model,** which focuses on ongoing Corporate governance improvement and strengthening the Company's vocation for being a world class company, being one of the first companies becoming global, internationalizing its products through a distribution company in the USA, thus starting a new and important virtuous cycle, after resolving the problems related to disposal of the discontinued machine tool operations.

In Brazil, the 7 business units are located as follows:

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

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

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

Abroad, the Company's business and manufacturing unit is located in Hialeah in Greater Miami, Florida - USA.

1. Management's Discussion and Analysis – MD&A

CONSIDERATIONS ABOUT THE FINANCIAL STATEMENTS

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

The consolidated financial statements of Forjas Taurus S.A. and its subsidiaries are prepared in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board *(*IASB) and also in accordance with accounting practices adopted in Brazil (BR GAAP). The amounts presented herein are expressed in millions of Brazilian reais except where otherwise indicated, thus are subject to rounding. As a consequence, the stated amounts may differ from the amounts per the financial statements and the accompanying notes.

1.1 Investments in subsidiaries and affiliates and basis for consolidation

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

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

The result of affiliate Famastil Taurus Ferramentas S.A. was also considered, of which the financial statements were not consolidated, since we hold shareholding interest therein of 35%, through subsidiary Polimetal Metalurgia e Plásticos Ltda., thus not detaining the control.

1.2. Investments and Divestitures in 2012 and Subsequent Events

1.2.1. Sale of TMFL – Taurus Máquinas-Ferramenta Ltda.

On June 21, 2012, Forjas Taurus S.A. concluded the sale of the operational activities of Taurus Máquinas-Ferramenta Ltda. (“TMFL”) to Renill Participações Ltda. (“RPL”), as per the Agreement for Purchase and Sale of Units of Interest and Other Covenants (“Agreement”) executed by and between the parties.

The selling company was Taurus Máquinas-Ferramenta Ltda. (“TMFL”), with the consent of Wotan Máquinas Ltda. and Taurus Investimentos Imobiliários Ltda. (“TIIL”), through set up of a company denominated SM Metalurgia Ltda. (“SML”), whose subscribed capital of R$115,350 represents the final selling amount, paid with properties, machinery and inventories.

With payment of the debt, of the capitalization and payment in kind by Wotan Máquinas Ltda. and Taurus Investimentos Imobiliários Ltda., Taurus Máquinas-Ferramenta Ltda. now holds the totality of the units of interest of SM Metalurgia Ltda., and Renill Participações Ltda. has the commitment to sell and the commitment to purchase the totality of the units of interest for R$115,350.

1.2.2. Renegotiation of the Agreement for Purchase and Sale of TMFL Operations

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

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

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

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

(b)2 installments in the amount of R$ 2,055 each, duly restated by TJLP and increased by interest of 1.8% p.a., one maturing on 06/30/2014 and another on 12/30/2014; and (c)balance in 14 twice-annual installments, maturing as from 06/30/2015, duly restated by TJLP and increased by interest of 1.8% p.a., in the amount of R$3,675 each.

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

Investments - Acquisitions

Two strategic acquisitions were made in 2012, approved by the Company's Board of Directors on the following dates:

- ***On January 1, 2012, acquisition of Steelinject Injeção de Aços Ltda.*** for R$14 million, paid in five monthly installments of R$2.8 million, supplementing the Company's segment of products manufactured using the M.I.M. (Metal Injection Molding) methodology. Under the purchase and sale agreement executed by the parties, the controlling interest in said company was transferred to Polimetal Metalurgia e Plásticos Ltda. on January 1, 2012, date on which there was effective conclusion of the business with transfer of the units of interest representing capital of this company;

- ***May 2, 2012, acquisition of controlling interest in Heritage Manufacturing, Inc***., a US company founded in 1992, headquartered in Opa Locka, Florida, for USD 10 million, by subsidiary Taurus Holdings, Inc. Heritage manufactures *Single Action* revolvers, an American legend, reinforcing its leadership worldwide in the production of revolvers.

1.2.3. Subsequent Events

a) ***On January 3, 2013, Taurus entered into an Exclusive Agreement for Global Distribution*** with the American company Diamondback Firearms LLC, through its wholly-owned subsidiary Taurus Holdings, located in Miami, Florida. Taurus is a leader worldwide in the production of weapons and has one of the 4 biggest distribution chains in the USA. As part of this recent partnering agreement, Taurus assumed the whole sales force and marketing of Diamondback products, thus expanding the portfolio of products offered to customers, aligned with its strategy of operating in certain market niches, in addition to its traditional lines of products made in Brazil and the USA. The company is located in Cocoa, Florida and employs skillful professionals and engineers committed to the production of high quality weapons for personal defense.

2. Consolidated Economic and Financial Performance

The year of 2012 was the year of consolidation of the corporate reorganization, with introduction of the new organizational structure, which was concluded at the end of 2013, but also of improvement of managerial tools in order to align managers in the pursuit of results and attainment of targets.

The voluntary restatement of result for 2012 as well as for 2Q12 and 3Q12, as established by CPC 23 – Accounting Practices, Changes in Accounting Estimates and Correction of Errors (equivalent to IAS 8) and CPC 24 – Subsequent Events, is due to the renegotiation of the Purchase and Sale Contract ("Contract") for the disposal of the operations of Taurus Máquinas-Ferramenta Ltda. ("TMFL"), occurred on September 12, 2013, in order to better reflect the Company's financial and economic position.

Due to the amendment to the Contract, in which the asset sale amount was decreased from R$ 115.35 million to R$ 57.52 million, resulted in a loss of R$57.83 million. Company management, in a review of all contracts and correspondence related to this operation, concluded that the events that lead to decrease in value was already present on the sale of the asset, whose original contract was signed on June 21, 2012. Therefore, resolved by restate the Financial Statements of 2012.

The table below presents the Company's consolidated economic and financial performance in 2012, compared to the performance in 2011, with inclusion of two additional lines, to clearly disclose net result from **continuing operations**, net result from **discontinued operations (TMFL)** and the Company's **consolidated** net income or loss and the corresponding margin

Consolidated Economic and Financial Performance

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

Ratios	2013	2012	Variação % 2013/2012
Net revenue	**807.3**	**701.0**	**15.2%**
Domestic market	260.0	290.4	-10.5%
Foreign market	547.3	410.6	33.3%
COGS	565.6	434.2	30.3%
Gross Profit	241.7	266.7	-9.4%
Gross Margin - %	**29.9%**	**38.1%**	**-8.1 p.p.**
Operating Expenses	-225.7	-182.6	23.6%
Operating Profit (EBIT) (1)	16.0	84.2	-81.0%
EBIT Margin - %	**2.0%**	**12.0%**	**-0.8 p.p.**
Net Financial Income	-73.6	-44.5	65.2%
Depreciation and amortization (2)	35.3	31.2	13.0%
Net Income - Continuing Operations	-80.3	17.8	-551.7%
Net Income Margin - Cont. Operations	**-9.9%**	**2.5%**	**-12.5 p.p.**
Net Income - Descontinuing Operations	0.0	-135.0	-100.0%
Net Income - Consolidated	-80.3	-117.2	-31.5%
Net Income Margin - Consolidated	**-9.9%**	**-16.7%**	**6.8 p.p.**
Adjusted EBITDA (3)	100.0	130.3	-23.2%
Adjusted EBITDA Margin - %	**12.4%**	**18.6%**	**-6.2 p.p.**
Total Assets	1,184.1	1,114.3	6.3%
Equity	146.0	201.8	-27.6%
Investiments (CAPEX)	28.2	90.2	-68.7%

(1) For EBIT calculation purposes, equity pickup result was not considered, contained in operating expenses of the DFP form.

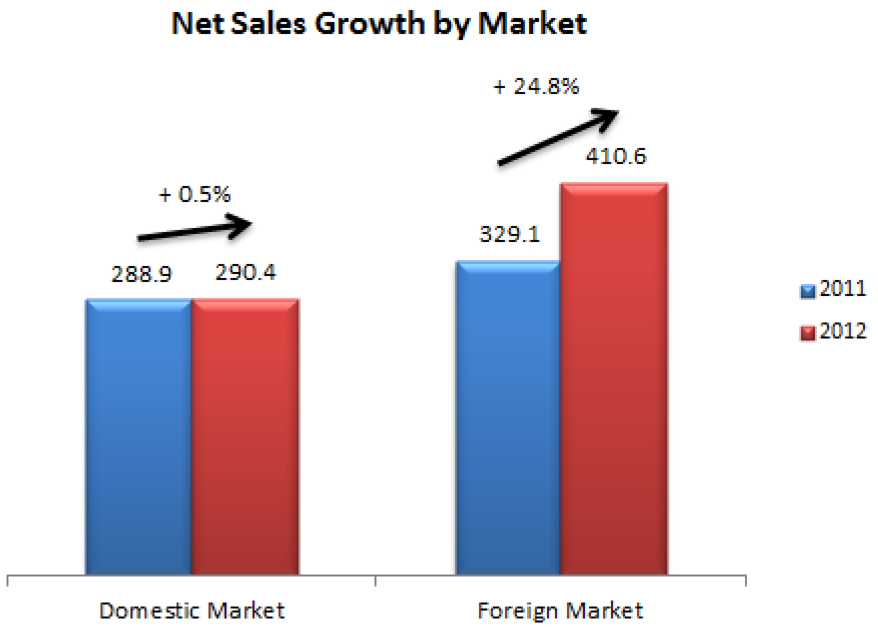
(2) Depreciation and amortization: these amounts include total depreciation and amortization based on cash flow for DFP

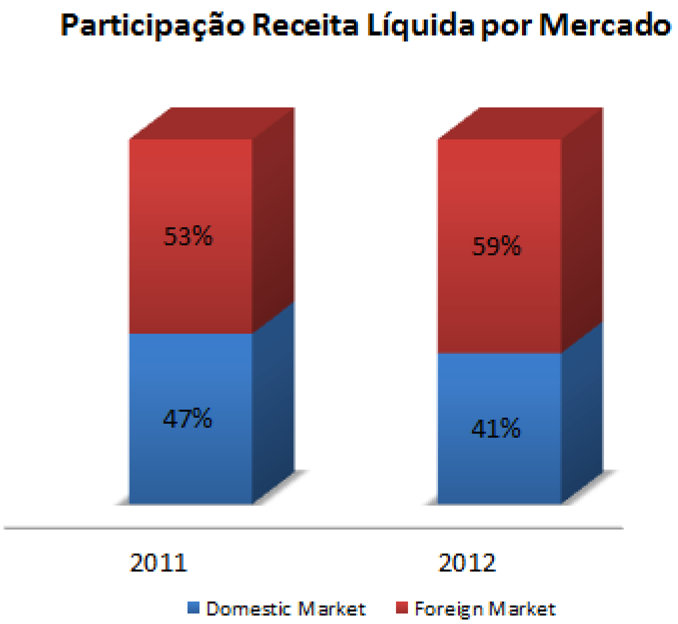
(3) Adjusted EBITDA: Earnings before interest, tax, depreciation and amortization and net earnings from non-recurring operations. The computing process was developed acording the CVM nº 527 instruction of October 04, 2012.

Net Revenue

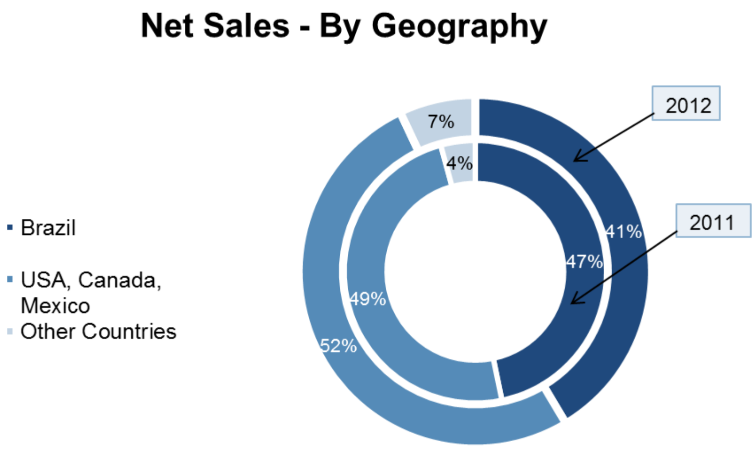
Forjas Taurus S.A. and subsidiaries posted in 2012 consolidated net revenue of R$ 701 million, up 13.4% compared to R$ 618 million in 2011, mainly due to the 24.8% increase in exports, since the sales in the domestic market remained stable with a slight increase of 0.5%.

The share of sales to foreign market in relation to total net revenue increased from 53.3% in 2011 (equal to 2010) to 58.6% in 2012, representing R$410.6 million (compared to R$329.1 million in 2011).





Distribution of consolidated net revenue by geographic region illustrated in the graph below shows that the North American market (USA, Mexico and Canada) continues accounting for the main percentage of exports, representing 52% of total revenue in 2012 (compared to 49% in 2011), followed by Brazil - 41% and other countries – 7%, to which we export.



The positive performance of exports in 2012 is basically due to the following: (i) strong demand, particularly in the USA, due to the risk of possible regulation about use by civilians of certain weapons, such as assault rifles, discussed during the campaign for President Barack Obama re-election; and (ii) restructuring of the area of exports to other markets, with a new team and prospection of new markets and products, culminating with the closing of contracts with several governments in the public security area, thus resulting in increase in market share of three percentage points.

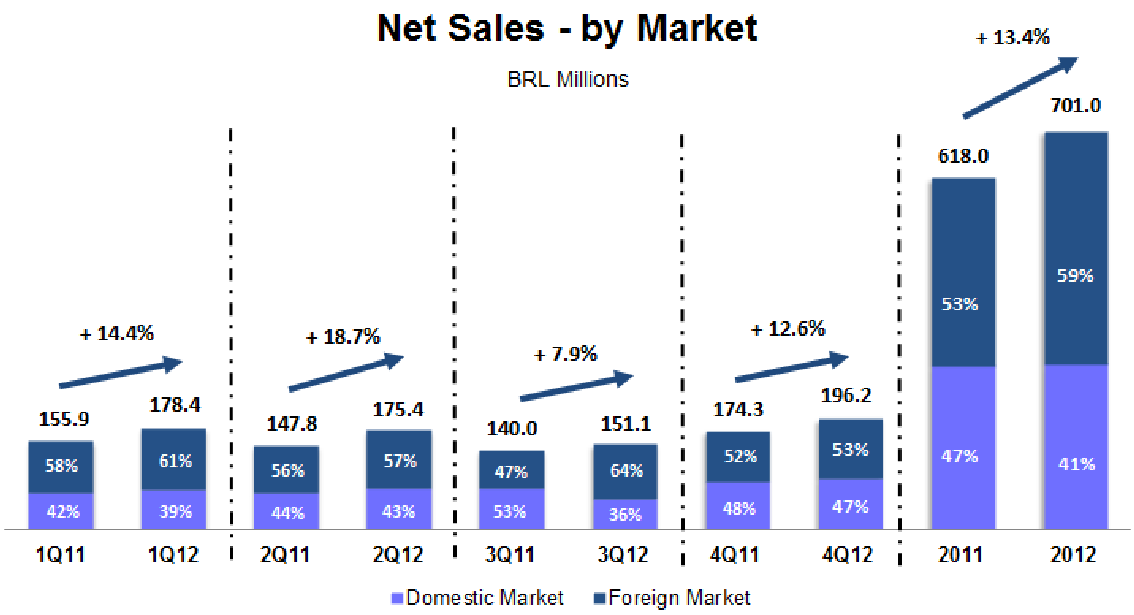
In analyzing exports for the last two years and in comparing the same quarters in 2012 and 2011, the evolution was quite positive always of two digits (except in 3Q12, when the increase was of 8%).

As subsequent event for 2012, the re-elected president Barack Obama disclosed on January 16, 2013, soon after his re-inauguration, 23 measures proposing restrictions to the use of special weapons for civilians, which have to be approved by Congress. Due to this potential restriction and the rights assured by the American Constitution related to use of guns, the demand will probably continue kindled in the USA until the measures are voted by Congress.

In the domestic market, consolidated net revenue for 2012 was stable, up 0.5% from R$288.9 million in 2011 to R$290.4 million.

The small evolution is due to the decrease in consumption in the helmets for motorcyclists segment due to the decrease in sales of motorcycles in Brazil, increase in default in the market and increased restrictions to consumer credit.

Consequently, there was decrease in the percentage related to total revenue in the domestic market to 41% in 2012 (compared to 47% in 2011), as shown in the graph below:



Segment Information

The table below sets out breakdown of net revenue, gross result, gross margin and pretax income by business segment. The information presented refers to the 12-month periods ended December 31, 2012 and 2011, in accordance with IFRS, net of transactions between subsidiaries of each segment.

RESULTS BY BUSINESS SEGMENT
Consolidated amount in millions of reais

Comparative - Year over Year

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

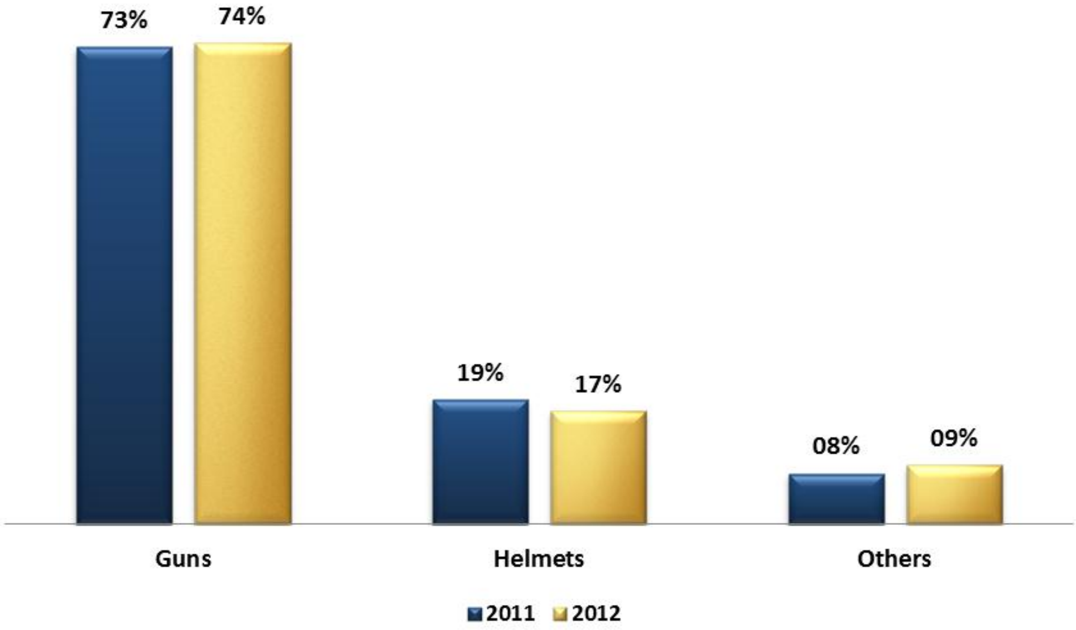
(i) *Weapons – operations conducted by Forjas Taurus S.A. and Taurus Holdings, Inc. (USA);*

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

(iii) *Other – segments of forging (Polimetal Metalurgia e Plásticos Ltda.), M.I.M – Metal Injection Molding, boiler making (2011), bulletproof vests and molded plastic products (Taurus Blindagens Ltda.)*

I. Defense and Security Segment

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



The Company's main segment is that of Defense & Security, of which the products are weapons, accounting for 73.7% of consolidated net revenue. There was 14.3% increase in revenue of the segment, totaling R$ 516.5 million in 2012. Gross profit was down 3.2% due to the 28.8% increase in cost of products sold in 2012 compared to 2011, due to the following: (i) change in the products mix, with lower average price; and (ii) pressure on costs: raw materials and labor.

Consequently, gross margin decreased from 45.5% in 2011 to 38.5% in 2012.

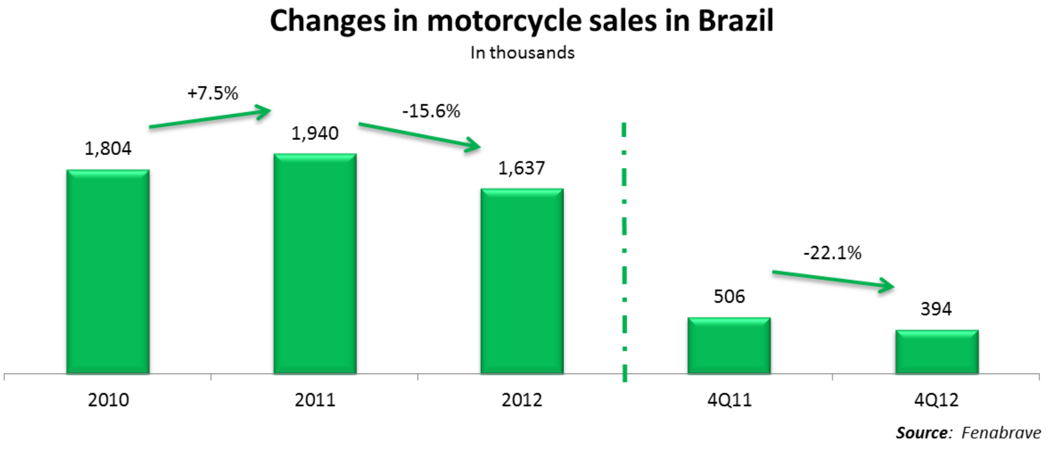
Pretax income was quite favorable, having increased 47% in 2012 to R$ 26.9 million.

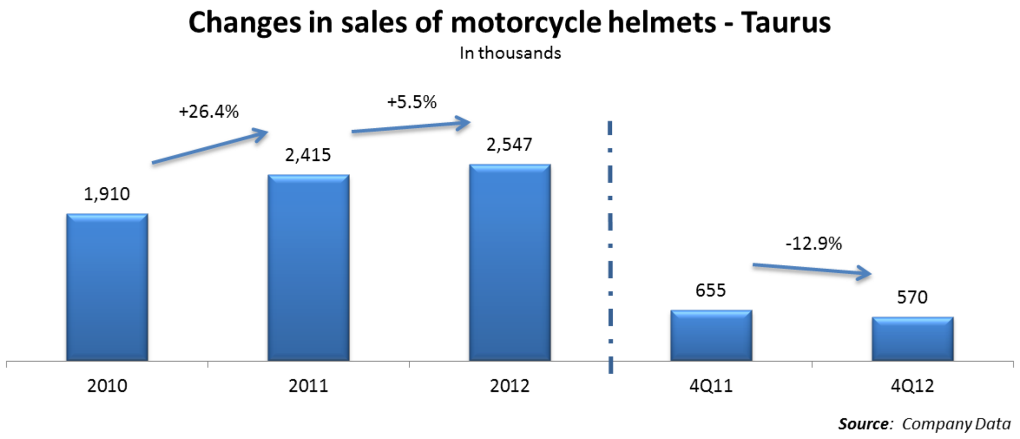
ii. Metallurgy and Plastics Segment

This segment accounts for 26.3% of net revenue, including the operations of Polimetal in the São Leopoldo unit (in the Rio Grande do Sul state) of forging and M.I.M.- Metal Injection Molding, as well as the activities of the helmet for motorcyclists plants (in the Paraná and Bahia states) and production of bulletproof vests and plastic containers (in the Paraná state).

Helmets for motorcyclists

There was 2.9% increase in net revenue from helmets, with represents 17.3% of total revenue, amounting to R$121.5 million. Gross profit amounted to R$ 47.5 million, with gross margin of 39.1% in 2012, representing a decrease of 5.2% in gross profit and margin, that was 42.5% in 2011. The margin decrease is due to the following: (i) decrease in the demand for helmets compared to 2011 due to the decrease in the offer of consumer credit; and (ii) pressure on costs: raw materials and labor.





The graphs above show that despite the 15.6% decrease in motorcycle sales in Brazil, Taurus succeeded in increasing helmet sales by 5.5% and revenue by 2.9% in 2012, gaining market share of competitors and reaching 58% market share in Brazil.

Pretax income amounted to R$31.1 million, with margin of 26.5% of net revenue in 2012.

Other products from the Metallurgy and Plastics segment

Revenue reached R$63 million in 2012, up 31.4% compared to 2011. The main products from this segment are: bulletproof vests, plastic containers in the shielding area and plastics as well as metallurgy products.

Gross profit amounted to R$ 20.3 million, with significant margin recovery, which reached 32.2% in 2012, compared to 18% in 2011, due to the significant increase in sales of vests and molded plastic products (containers for solid waste).

Consolidated gross profit and gross margin

Consolidated gross profit reached R$ 266.7 million in 2012, up 0.9% compared to 2011 (R$ 264.3 million), resulting in gross margin of 38.1%, 4.7 percentage points below gross margin of 42.8% of 2011. The 13.4% increase in net revenue was not enough to offset the 22.8% increase in cost of products sold in 2012, due to the following: (i) change in the Defense & Security products mix; (ii) lower average price due to promotional campaigns due to the decrease in the demand for motorcyclist helmets, despite the increase in sales in Brazil; (iii) low result of forging to third parties; and (iv) foreign exchange effect on cost of raw materials.

Earnings before interest and taxes - EBIT

EBIT in 2012 totaled R$ 84.2 million, down 16.6% compared to 2011. EBIT margin was of 12% in 2012, slightly lower than that for 2011 (R$ 101 million and margin of 16,3%). This operating result is due to small increase in operating expenses (selling, administrative and other expenses), although expenses have accounted for a smaller percentage in the computation of net revenue, namely 26.0% in 2012 compared to 26.4% in 2011.

Adjusted EBITDA

Consolidated cash generation in 2012, measured by adjusted EBITDA (earnings before interest, taxes, depreciation and amortization) defined by CVM Rule No. CVM 527/12, totaled R$ 130.3 million with EBITDA margin of 18.6% (R$ 139.4 million and EBITDA margin of 22.6% for 2011). Adjusted EBITDA was down 6.5% mainly due the following: (i) 0.9% increase in gross profit, offset by; (ii) 11.8% increase in operating expenses due to the increase in provisions due to the disposal of TMFL operations.

The EBITDA concept defined in CVM Rule No. 527/12, a measure commonly used to represent the Company's capacity to generate cash from its operations; introduced discrimination of profit sharing with deduction in the calculation as from 2012; and the possibility of adjustments for non-recurrent results.

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

CONSOLIDATED EBITDA

In thousands of BRL

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

(1) Net result of discontinued operations, properly discounted the depreciation and amortization, taxes and net financial result effects, as a criterion for calculating EBITDA.

(2) Loss of Taurus Máquinas Ferramenta Ltda.refered to 1Q13, when operation ceased to be discontinued.

Financial income (expenses)

Net financial expenses totaled R$ 44.5 million in 2012, down 6.5% compared to R$ 47.6 million in 2011. This decrease is mainly due to the change in exchange rate of Brazilian real to US dollar, generating exchange gain on the onerous liability of approximately R$ 37.3 million, and to reduction of average financial cost of loans and financing, with extension of debt payment term and raising of funds in the American market by subsidiary TIMI, at very competitive rates.

Net result for the year

Net income/ loss from continuing operations

In 2012, Forjas Taurus S.A. and subsidiaries posted consolidated positive result of continuing operations in R$ 17.8 million, down 75.6% compared to R$ 73.0 million in 2011. Net margin from continuing operations was of 2.5% of net revenue compared to 11.8% in 2011.

We point out that if we adjust the basis for comparison, which is net result of R$ 73 million in 2011, eliminating non-recurrent revenue of R$ 37.9 million in tax credits from income and social contribution tax losses of subsidiary Polimetal Metalurgia e Plásticos Ltda. (generated in the corporate reorganization of July/11), result from continuing operations would be of R$35.1 million, with net margin of approximately 5.6%.

This increase in net result from continuing operations eliminating non-recurrent revenues (expenses) for purposes of comparison was mainly due to the following factors, already mentioned above: (i) increase in gross profit; (ii) decrease in the percentage of operating expenses in the determination of net revenue; and (iii) decrease in net financial expenses due to extension of debt payment term at lower costs.

Total Consolidated Net Loss of the year

The effects of reducing the selling price and the provision for losses related to the renegotiation of the sale of TMFL's discontinued operations were presented in the income statement on the result line (negative) in discontinued operations of Taurus, a consolidated loss in value having been generated in the value of R$ 117.2 million in 2012, against a loss of R$ 37.3 million in 2011.

The factors that led to loss in 2012 were: (i) increase in production costs and in the cost of raw materials used in the production of weapons and motorcyclist helmets above the increase in net revenue; (ii) decrease in demand for helmets, resulting in lower average sales price and decrease in margins; and (iii) loss of R$ 135 million from discontinued operations.

Restatement of Consolidated Financial Statements ("DFS")

On June 21, 2012, Forjas Taurus S.A. concluded the sale of the operating activities of Taurus Máquinas-Ferramenta Ltda. ("TMFL") to Renill Participações Ltda. ("RPL"), in the amount of R$115.35 million, according to the Contract for Purchase and Sale of Units of Interest and Other Covenants ("Contract") entered into by the parties.

As mentioned in ITR's Note 8, the Parties renegotiated the sales price and payment conditions, adjusting the overall value of the Contract related to disposal of subsidiary TMFL to R$ 57.52 million.

The accounting effect from the renegotiation entailed reduction of the sale value, resulting in loss of R$57.83 million.

The Company revisited all contracts and correspondence related to the sale of TMFL operations, reaching the same conclusion as that of its independent auditor, i.e. that the events that led to the reduction of the original sales value were already present at June 30, 2012, reason why the loss should have been recognized as of that date.

In view of this, the Company decided to voluntarily correct all the effects determined on a retroactive basis in the financial statements as established by CPC 23 – Accounting Practices, Changes in Accounting Estimates and Correction of Errors (equivalent to IAS 8), as follows:

	Consolidated					
	At December 31, 2012					
	Assets		Liabilities and equity			
	Current assets	Noncurrent assets	Current liabilities	Noncurrent liabilities	Equity	Net income for the year
Balance originally disclosed	**722,336**	**541,411**	**427,947**	**474,900**	**360,900**	**41,910**
Write-off of accounts receivable (a)	-	(57,830)	-	-	(57,830)	(57,830)
Supplementary provision for losses (b)	(3,590)	(57,154)	-	-	(60,744)	(60,744)
Provision for inventory losses (c)	(9,566)	-	-	-	(9,566)	(9,566)
Allowance for doubtful accounts (c)	(8,320)	-	-	-	(8,320)	(8,320)
Provision for impairment of PP&E (c)	-	(13,522)	-	-	(13,522)	(13,522)
Provision for tax and civil contingencies (c)	-	-	3,059	6,618	(9,677)	(9,677)
Deferred taxes	-	539	-	-	539	539
Transfer to current assets/liabilities (d)	1,415	(1,415)	207,507	(207,507)	-	-
Restated balance	**702,275**	**412,029**	**638,513**	**274,011**	**201,780**	**(117,210)**

The accounting entries in the restatement refers substantially subsidiary TMFL and went through the Consolidated Income Statement as “Result from Discontinued Operations”:

(a) Write down of accounts receivable for sale of the machinery activity, as a result of the renegotiation that led to the reduction of sales price, as mentioned in Note 8 of Financial Statements.

(b) In addition to recording of write down of accounts receivable for the sale of the machinery activities, as mentioned in (a) above, management recorded a complementary provision for losses for the balance still receivable from Renill Participações, due to impairment of the credit conditions, difficulties in fully implementing the guarantees and lack of updated information on the debtor’s financial conditions. in accordance with CPC24 that provides for subsequent events occurred between the period of the financial statements and the approval for their restatement. Such allowance was also recognized as of June 30, 2012.

(c) Due to the changes made for restatement purposes, management performed a new process for approval of its financial statements. As part of this process, and in accordance with CPC 24, the impacts from subsequent events occurred between the period of the financial statements and approval for their restatement were also considered. Those events that evidenced conditions that already existed on the date of the related financial statements were adjusted for restatements purposes; and

(d) Due to the recording of losses, as mentioned above, certain financial ratios (covenants) of loan agreements and debentures were not met, and the long-term portions were reclassified to current liabilities.

The above provisions and losses were substantially determined by the subsidiary Taurus Máquinas-Ferramenta Ltda., which has no capacity to recover tax credits from income and social contribution tax taxes on that date. As such, deferred income and social contribution tax losses were not recorded for these provisions and losses.

The cash flow statements and statements of value added were adjusted to reflect the effects indicated.

4. Financial Position

Cash and short-term investments totaled R$ 180.8 million in 2012 (R$ 162.2 million in 2011). Out of this amount, R$ 151.8 million (R$ 87.5 million in 2011) is remunerated by variable rates from 98% to 103% of CDI, by first tier financial institutions in both periods.

Consolidated short and long-term loans and financing totaled R$ 707.2 million at Dec/31/12, down 5% compared to Sept/30/12, which are mainly destined to: (i) working capital; and (ii) investments in industrial modernization.

Net debt after cash and cash equivalents amounted to R$ 526.4 million, down 5% at Dec/31/12 compared to Sept/30/12, starting to reflect the effect from the corporate action plan to optimize working capital, including inventory reduction; improvement of maturity schedule of accounts payable and receivable and increase in tax recovery.

As an ongoing objective, we seek to extend payment term of our debts. However, due to the restatement of the financial statements, there was transfer of loans (R$ 131.4 million), debentures (R$ 56.5 million) and mortgage credits (R$ 19.6 million) to current liabilities, even when maturing within long term, totaling R$ 207.5 million, owing to existence of contracts with covenants not to be complied with.

The balance of debentures at 12/31/12, including 1st and 2nd issue, amounted to R$ 94.7 million in current liabilities compared to R$ 112 million at 09/30/12. With the reclassification to the short-term portion, the maturity schedule presented below encumbered 2013. Final maturity of 1st issue debentures is April/14 and 2nd issue debentures mature in 2016.

The spontaneous restatement of the Financial Statements changed the result of calculation of the financial ratios (Net Debt/EBITDA and EBITDA/Net Financial Expenses), consequently breaking the covenants, reason why the loans and financing balances related to these contracts had to be automatically transferred to the short term.

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

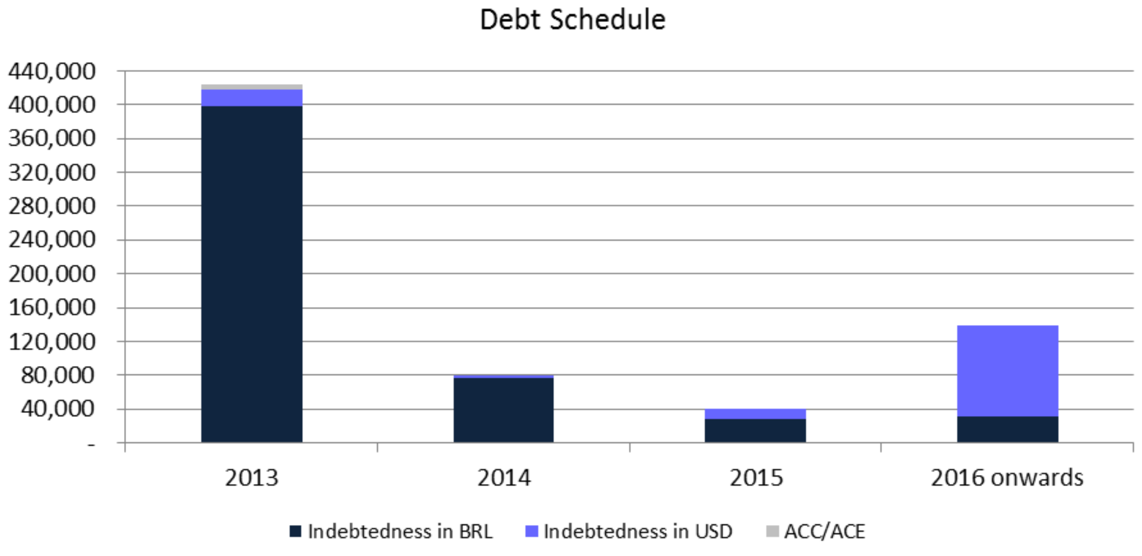
Furthermore, we consider the prepayment of receivables as debt, even without recourse, in response to the request of the debenture holders at the General Meeting of Debenture Holders held in November 12, 2013 to voting on the no early settlement of the 1st and 2nd issues.

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

On April 3, 2012, the Company completed the taking out of an international credit line facility, as approved by the Board of Directors in the board meeting held and disclosed on March 29, 2012, in the amount of USD 75,000,000.00 (seventy-five million US dollars), with payment term of 5 (five) years at competitive costs, as part of the strategy of strengthening the Company's internationalization process and to facilitate access to the global capital market, being the source of funds for acquisitions abroad.

With this new framework after restatements, the maturity schedule was temporarily concentrated in the short term:

Maturity of consolidated debt – In thousands of reais



We set out below the Company's financial position, including advance on mortgage credits – CRI and the sureties and guarantees, as well as the financial position of Taurus Máquinas-Ferramenta Ltda., which was restated and consolidated, as well as the main related financial ratios:

In millions BRL

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

Consequently, the general indices of indebtedness of the Company in 2012, have changed compared to 2011, as well as the return on capital, which stood at 8.8% (net income from continuing operations on net assets) against 22.4% recorded in 2011.

5. Equity

The Company's consolidated equity in 2012 totaled R$ 201.8 million representing book value per share of R$ 1.43 (R$ 2.30 in 2011) of capital, comprising 141,412,617 issued shares.

6. Value added

The Company generated consolidated value added (wealth generated by the Company and its subsidiaries) of R$ 366.2 million in 2012, down 20.1% compared to 2011 (R$ 458.2 million), distributed as follows:

Em milhões de R$

	2012	2011	Variação
Employees	165.8	176.8	-6.2%
Government	161.6	108.4	49.0%
Financing Agents	156.0	135.7	15.0%
Shareholders	16.7	16.8	-0.5%
Reinvestments	-133.9	20.5	-751.6%
Total	**366.2**	**458.2**	**-20.1%**

7. Consolidated Investments

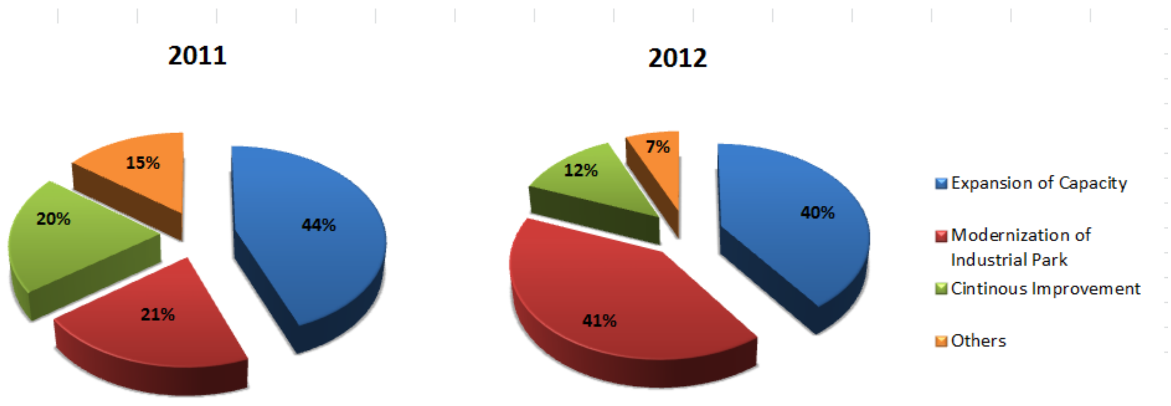
Consolidated investments made in 2012 totaled R$ 90.2 million (R$ 47.4 million in 2011), 69% of which allocated to Brazil and 31% to the American subsidiary (TIMI). Distribution of these funds was made on the basis of 56.3% to machinery, equipment, premises, expansion and production processes used by the Company and its subsidiaries; 31.5% to acquisitions; and 11.5% to research and development and 0.7% to information technology. Depreciation and amortization totaled R$31.2 million in 2012 (R$27.6 million in 2011).

The capital budget that had been approved for 2012 amounted to R$78.6 million. The positive difference of R$ 11.5 million between budget and actual amounts for 2012 is due to the carry-over from 2011 of amounts paid in 2012 and the excellent opportunity for buying a property adjacent to our plant in Hialeah, Greater Miami (Florida), which will allow future expansions and the acquisition of machinery and equipment for transfer of Heritage to the same site of Taurus and transfer of Steelinject from Caxias do Sul (RS) to the plant of Polimetal in São Leopoldo (RS).

See below consolidated capital budget in 2012 by company:

Description	Sources of Funds	Investments		Realizado 2012
		BRL thousands	USD thousands	Partic. %
Forjas Taurus - Unit of Porto Alegre (RS)				
Research and development of products and processes	Debt	6.263	3.065	6,94%
Modernization and expansion of production capacity	Debt	4.125	2.019	4,57%
Licensing, improvements and deployment of new ERP modules	Debt	487	238	0,54%
	Subtotal	**10.875**	**5.322**	**12,05%**
Forjas Taurus - Unit of São Leopoldo (RS) - Long Guns - Branch 5				
Research and development of products and processes	Debt	2.996	1.466	3,32%
Improving productivity of manufacturing processes	Debt	389	190	0,43%
		3.385	**1.656**	**3,75%**
	Total	**14.260**	**6.978**	**15,81%**
Taurus Blindagens Ltda. - Unit of Mandirituba (PR) and Simões Filho (BA)				
Research and development of new products	Debt	358	175	0,40%
Research and development of production processes	Debt	383	187	0,42%
Modernization and / or automation	80% Finame	2.360	1.155	2,62%
Industrial equipment retrofiting	Debt	166	81	0,18%
Software and equipments improvement	Debt	135	66	0,15%
Expansion of Bahia's unit/Des. New Cross (cap. budget of 2011)		3.399	1.663	3,77%
	Total	**6.801**	**3.328**	**7,54%**
Polimetal Metalurgia e Plásticos Ltda. - São Leopoldo (RS)				
Steelinject Injeção de Aços Ltda. acquisition	Debt	10.964	5.365	12,15%
Acquisition of machinery and equipment		15.185	7.431	16,83%
Modernization and expansion of production capacity	Debt	15.119	7.399	16,76%
Licensing, improvements and deployment of new ERP modules	Debt	66	32	0,07%
	Total	**41.334**	**20.227**	**45,82%**
Steelinject Injeção de Aços Ltda. - Caxias do Sul (RS)				
Modernization and expansion of production capacity	Debt	**198**	**97**	**0,22%**
Total Investments (CAPEX) of the Consolidated Forjas Taurus S.A. in Brazil		**62.593**	**30.630**	**69,38%**
Taurus Holdings, Inc. and Subsidiaries - Miami - Florida (EUA)				
Inorganic Invesvestments (acquisitions)	Debt	17.417	8.523	19,31%
Organic Investments		10.202	4.992	11,31%
		27.619	**13.516**	**30,62%**
Total Global Investments (CAPEX) of the Forjas Taurus S.A. (Consolidated)		**90.212**	**44.146**	**100,00%**
Dólar		R$/USD	2,04	

In analyzing investments in property, plant and equipment in 2012 (without considering the funds paid in acquisitions), the distribution may be seen in the graph below:



8. Allocation of Net Income for the Year

Due to the restatement of the financial statements for 2012, management will propose approval in the next Ordinary Shareholders' Meeting to be held on April 30, 2014 about paid dividends related to 2012, in the net amount of R$16.1 million.

Distributed dividends to be ratified in the next Ordinary Shareholders' Meeting:

Date of Board Meeting	Dividends/Interests on net equity	Dividend per share	Date of Payment
Aug 16, 2012	BRL 9.028 millions	BRL 0.07	Nov 21, 2012
Nov 19, 2012	BRL 4.16 millions	BRL 0.03	May 26, 2013
Mar 25, 2013	BRL 3.49 millions	BRL 0.03	May 26, 2013
The year of 2012	BRL 16.7 millions	BRL 0.12	Approved on Annual Shareholders Meeting of Apr 26, 2013

Thus, total gross remuneration of shareholders related to 2012 amounted to R$ 16.7 million, which net of taxes totals R$ 16.1 million between dividends and interest on shareholders equity.

9. Capital Market and Corporate Governance

Forjas Taurus S.A. is a Brazilian company that has been listed on BM&FBOVESPA for more than 30 years and that in the last two years has gone through a process for improving its corporate governance, as part of the corporate reorganization occurred in July 2011, conducted by the former controller Luís Fernando Costa Estima (current reference shareholder) with the support from the main shareholders.

In December 2012, the organizational restructuring was concluded, with extinction of two vice CEO positions and the creation of the Vice CEO and International Relations and Strategic

Projects Officer position, in addition to the substitution of certain key executive officer and senior management positions.

We highlight below the Investor Relations program and the commitments and targets assumed together with Company management in 2012, both in qualitative and quantitative terms:

- Visit to the main investors, brokers and investment banks (sellers / sell side analysts and managers / buy side analysts) in the Brazilian and foreign market;
- Several visits to the plant by investors/fund managers/analysts;
- Conduction of 3 collective meetings in the year;
- Expansion and diversification of the shareholders base, significantly changing the profile of institutional shareholders and new shareholders;
- Significant appreciation of Taurus shares;
- The Company's market value doubled owing to pricing reflecting the Company's fundamentals and higher knowledge thereof by the market;
- Taurus ranked among the 6 finalists for the IBGC Award for "**LISTED COMPANY WITH HIGHER CORPORATE GOVERNANCE EVOLUTION**" among 372 listed companies in Brazil analyzed by the technical commission;
- Taurus ranked 1st in terms of Corporate Governance in Época Negócios Magazine in the Mechanics and Metallurgy segment; and 3rd in terms of Future Vision and 5th in terms of Social and Environmental Responsibility.

At Dec/31/12 the Company had 141,412,617 issued shares, being ex-treasury, totaling 128,976,510 outstanding shares, highlighting that dividends per share are calculated deducting treasury shares since they are not entitled to dividends.

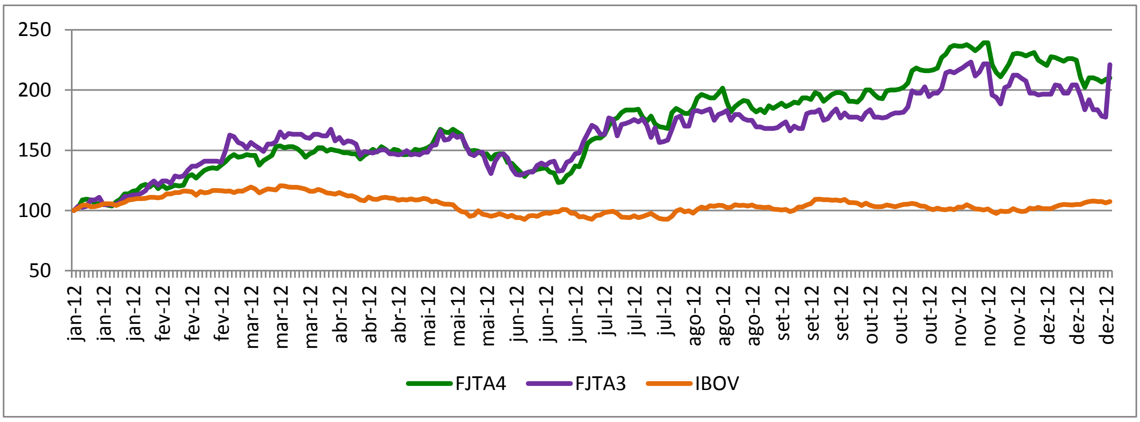
Performance of Shares in 2012

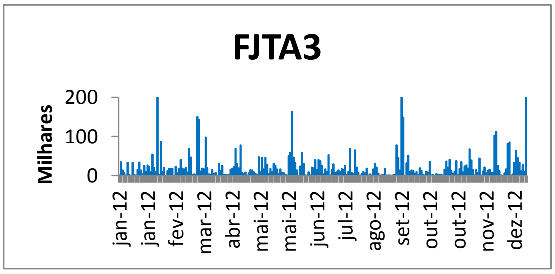
	Dec/12	Dec/11	Var.	Média Dez/12	Média Out/11	Var.
Share FJTA3 - 47,137,539 shares						
Stock Price - BRL share	3.25	1.49	118%	2.87	1.58	81%
Trades - Amount*	15,022	30,943	-51%	15,022	35,510	-86%
Trades - Volum BRL*	44,107	45,711	-4%	44,107	61,011	-76%
Share FJTA4 - 94,275,078 shares						
Stock Price - BRL share	2.90	1.42	104%	3.00	1.55	91%
Trades - Amount*	268,711	175,186	53%	268,711	430,065	-54%
Trades - Volum BRL*	785,487	254,924	208%	785,487	728,256	-20%
Market Value FTSA - BRL thousands						
141,412,617 shares	426,595	204,106	109%	417,979	220,085	87%
Ibovespa	60,952	56,754	7%	60,952	54,630	7%

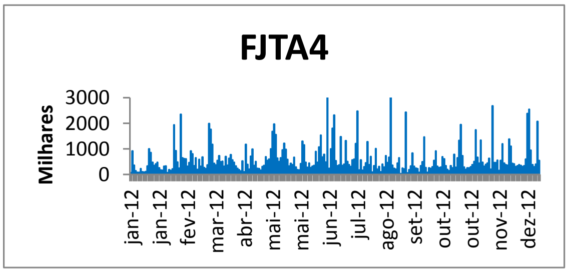
* Daily avarage of volume traded during the analised periods

Source: BM&FBovespa

At Dec/31/12, capital comprised 47,137,539 common shares, representing 33.3% of total capital and 94,275,078 preferred shares representing the remaining 66.7%. There are 2,827,206 common shares in treasury and 9,608,901 preferred shares, which may be cancelled, disposed of or used in a Stock Options Plan at any time by operation of Board of Director's resolution.







10. Relationship with Independent Auditors

In order to meet the requirements of CVM Rule 381/03, the Company informs hereby that the audit firm KPMG Auditores Independentes only rendered independent audit services in 2011, and has not rendered any other services to the Company and/or its subsidiaries.

Abiding by CVM Rule No. 509/11, the Company performed the mandatory independent auditor rotation and, as from January 1, 2012, Ernst & Young Terco Auditores Independentes started to audit Forjas Taurus, which only rendered independent audit services in 2012, and has not rendered any other services to the Company and/or its subsidiaries, except for the necessary and additional procedures related to the restatement of the financial statements for 2012 for purposes of the voluntary restatement.

11. Executive Board Representation

The Executive Board, abiding by article 25, paragraph 1, items V and VI of CVM Rule No. 480/2009, represents hereby to have revised, discussed and approved the restatement of the financial statements of Forjas Taurus S.A., with the opinions expressed in the Independent

Auditor's Report on the referred to financial statements for the years ended December 31, 2012 and 2011, which were re-filed with the Brazilian Securities and Exchange Commission ("CVM") and disclosed to the market on the date hereof.

12. Prospects

Due to the restatement of the balance sheet for 2012 and 2013 and subsequent events for 2012, the estimates were reviewed.

Based on the targets for 2012, their results and continuity, the Company's strategy for 2013 had the following three main directives:

(1) Focus on quality of products and services and reduction of costs from non-compliances in production and stabilization of production levels in the transition and implementation of the Lean Manufacturing concept;

(2) Emphasis on optimization of working capital; and

(3) Continuity of industrial consolidation.

Estimates (Guidance*)*

Estimates (Guidance)

Company had provided growth projections for 2012 based on perspectives to the two main business segments of Defense & Security and Metallurgy & Plastics as by the original presentation of 2012.

According on the 2Q12, 3Q12 and 4Q12 restatements, we are comparing the original projected and original performed and the restated and performed to market knowledge:

In BRL Millions	Guidance 2012	Realized 2012 (Original)	Realized 2012 (Reviewed)	Variation Guidance/Realized
Net Revenue	> R$ 700.0	R$ 701.0	R$ 701.0	Nulo
Adjusted EBITDA	> R$ 150.0	R$ 152.2	R$ 130.3	-13%
CAPEX	R$ 78.6	R$ 90.2	R$ 90.2	14%

The difference of R$ 11.5 million higher between budgeted and actual 2012 was explained by the carry-over of 2011 paid in 2012 and the excellent opportunity to acquire a contiguous property to our factory in Hialeah, Greater Miami (Florida), which allowed the purchase of machinery and equipment for the migration of Heritage to the same site of Taurus and the migration of Steelinject of Caxias do Sul (RS) for Polimetal factory located in São Leopoldo (RS).

Porto Alegre, March 28, 2014.

BOARD OF DIRECTORS

Luis Fernando Costa Estima

Chairman

Danilo Angst

Vice-Chairman

Carlos Augusto Leite Junqueira de Siqueira

Fernando José Soares Estima

Manuel Jeremias Leite Caldas

Marcos Tadeu de Siqueira

Ruy Lopes Filho

Board Members

EXECUTIVE BOARD

André Ricardo Balbi Cerviño

CEO

Eduardo Ermida Moretti

Sales and Marketing Vice CEO

Eduardo Feldmann Costa

Administrative and Financial Vice CEO

Doris Beatriz França Wilhelm

Investor Relations Officer

A free translation from Portuguese into English of the Independent Auditor's Report on individual Financial Statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil and on consolidated Financial Statements 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.

Independent Auditor's Report on Financial Statements

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

We have audited the accompanying individual and consolidated financial statements of Forjas Taurus S.A. ("Company"), identified as Company and Consolidated, respectively, which comprise the balance sheet as at December 31, 2012, and the related income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting practices and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion on the individual financial statements

In our opinion, the individual financial statements referred to above present fairly, in all material respects, the financial position of Forjas Taurus S.A. as at December 31, 2012, its operating performance and its cash flows for the year then ended in accordance with accounting practices adopted in Brazil.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Forjas Taurus S.A. as at December 31, 2012, its consolidated operating performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and accounting practices adopted in Brazil.

Emphasis of matter

Different accounting practice

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

Restated report

On October 15, 2013, we issued a qualified opinion on the financial position as at December 31, 2012 and an adverse opinion on the operating performance and cash flows for the year then ended, on account of: (i) unrecognized loss on accounts receivable in the amount of R$57,830 thousand; (ii) non-preparation of an analysis on the capacity of realization of receivables in the amount of R$60,743 thousand, or verification whether receivables were recorded at present value; and (iii) non-reclassification to current liabilities of loans and debentures whose financial ratios were not met, in the amount of R$213,390 thousand. As described in Note 3(e), the financial statements for the year ended December 31, 2012 were changed and are being restated to reflect the corrections of the abovementioned accounting distortions. Consequently, the qualifications contained in our opinion previously issued are no longer necessary and, therefore, we are reissuing on this date our new opinion herein, which does not include any qualification or any other kind of modification.

Other matters

Statements of value added

We have also audited the individual and consolidated statement of value added (SVA) for the year ended December 31, 2012, prepared under management's responsibility, whose presentation is required by the Brazilian Corporation Law for publicly-held companies and as additional information by the IFRS, which do not require SVA presentation. These restated statements have been subject to the same auditing procedures previously described and, in our opinion, are presented fairly, in all material respects, in relation to the overall financial statements.

Corresponding figures

The figures corresponding to the balance sheet as at December 31, 2011, the income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and the statement of value added for the year then ended, presented for comparative purposes, were previously audited by other independent auditors, who issued an unmodified opinion thereon dated March 22, 2012.

Porto Alegre, March 25, 2014.

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

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

Representation of Supervisory Board

The Supervisory Board of Forjas Taurus S.A., in compliance with legal and statutory requirements, reviewed the Management Report and the Financial Statements referring to the fiscal year ended on December 21, 2012, redone by management, the sight of justified reasons, properly presented in its report and in the notes that accompany and these are integral. Based on this review and further considering the unqualified report by the independent auditors, Ernst & Young Auditores Independentes S.S., dated March 25, 2014, and on information and explanations received from the directors of the Company, the Supervisory Board opines that these documents are able to be appraised by the Annual Shareholders Meeting.

Porto Alegre, March 28, 2014

Mauro César Medeiros de Mello

Amoreti Franco Gibbon

Juliano Puchalski Teixeira

Marcelo de Deus Saweryn

Reinaldo Fujimoto

Reports and Representations / Representation of Executive Board on the Financial Statements

REPRESENTATION LETTER OF FORJAS TAURUS S.A. OFFICERS ON THE FINANCIAL STATEMENTS FOR THE YEAR OF 2012

Mr. André Balbi Cerviño, Mr. Eduardo Ermida Moretti, Mr. 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 year of 2012.

Porto Alegre, March 24, 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

Reports and Representations / Representation of Executive Board on Independent Auditor's Report

REPRESENTATION LETTER OF FORJAS TAURUS S.A. OFFICERS ON INDEPENDENT AUDITOR'S SPECIAL REVIEW REPORT

Mr. André Balbi Cerviño, Mr. Eduardo Ermida Moretti, Mr. 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 Terco Auditores Independentes S.S., issued on March 25, 2014, in the Independent Auditor's Special Review Report on the Financial Statements for the year of 2012.

Porto Alegre, March 25, 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

Audit and Risk Committee Report

The members of the Audit and Risk Committee of Forjas Taurus SA, in the exercise of their legal duties and responsibilities as provided in the bylaws of the Advisory Committees of the Board of Directors, proceeded to the examination and analysis of financial statements, with the auditors' report independent and management's report for the year 2012 ("2012 Annual Financial Statements") and considering the information provided by management and by ERNST & YOUNG TERCO Auditores Independentes S.S, presented opine unanimously that they reflect fairly, in all material respects, the financial and equity position of the Company and its subsidiaries, and recommend approval of the documents by the Board of Directors and its forwarding the Annual Shareholders Meeting.

Porto Alegre, March 25, 2014.

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