Forjas Taurus S.A.
(Publicly-held company)

Interim Financial Statements

June 30, 2011

(A translation of the original report in Portuguese and in thousands of Brazilian Reais as published in Brazil containing financial statements prepared in accordance with accounting practices adopted in Brazil)

Company information / Composition of capital

(Million)

Number of shares	Current quarter 30/06/2011
In capital	
Common shares	47.019
Preferred shares	94.038
Total	141.057
Treasury	0
Common shares	0
Preferred shares	0

Event	Date	Proceeds	Firts payment date	Type of shares	Amount peer share - R$
Meeting of the board	30/06/2010	Interest on equity	19/07/2010	Common	0,07000
Meeting of the board	30/06/2010	Interest on equity	19/07/2010	Preferred	0,07000
Meeting of the board	17/11/2010	Interest on equity	31/01/2011	Common	0,10000
Meeting of the board	17/11/2010	Interest on equity	31/01/2011	Preferred	0,10000
Meeting of the board	28/03/2011	Dividens	13/05/2011	Common	0,00200
Meeting of the board	28/03/2011	Dividens	13/05/2011	Preferred	0,00200

FORJAS TAURUS S.A.
2Q11

Quotations (30-06-11):
FJTA3 R$ 3,36
FJTA4 R$ 3,40

Number of shares:
ON 47.019.192
PN 94.038.384
Total 141.057.576

Market value (30-06-11):
R$ 478 million

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Porto Alegre, August 09, 2011 - Forjas Taurus S.A. (Bovespa: FJTA3, FJTA4), the largest producer of weapons in Latin America and one of the largest in the world, consisting of companies distributed between eight business units in Brazil and one in the USA, with its main activities involving the production and sale of weapons, motorbike helmets, large forging and tooling machinery, announces its results for the second quarter of 2011 (2Q11) and the accumulated results for the first semester of 2011 (1S11). The Company's operational and financial information, except when stated otherwise, is consolidated in accordance with IFRS – *International Financial Reporting Standards* and the monetary values are expressed in millions of Reais.

COMMENTS ON CONSOLIDATED PERFORMANCE

1 – Economic – financial performance

1.1 – Main economic-financial indicators

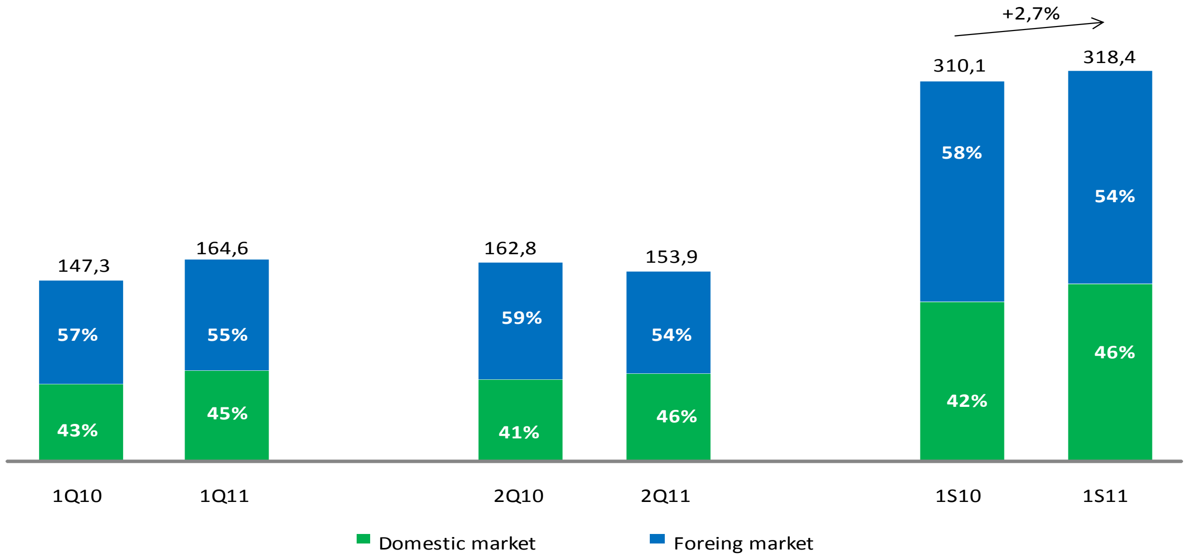
Amounts consolidated in millions of R$, except when stated otherwise

	Quarter			Semester		
	2Q10	**2Q11**	**Variation**	**1S10**	**1S11**	**Variation**
Net income	162,8	153,9	-5,5%	310,1	318,4	+2,7%
Domestic market	66,6	70,8	+6,3%	130,0	145,1	+11,6%
Foreign market	96,2	83,1	-13,6%	180,1	173,3	-3,8%
Exports – US$	44,2	52,9	+19,8%	99,3	107,0	+7,7%
Gross profit	61,2	59,7	-2,5%	137,2	119,8	-12,7%
Gross margin -%	37,6	38,8	+1,2 p.p.	44,2	37,6	-6,6 p.p.
Operational profit (EBIT)	22,6	16,6	-26,4%	51,2	36,0	-29,6%
Net profit	19,2	(0,2)	-	34,0	6,9	-79,6%
Net margin - %	11,8	-0,1	-11,7 p.p.	11,0	2,2	-8,8 p.p.
EBITDA [1]	32,2	24,4	-24,3%	71,0	51,9	-27,0%
EBITDA margin - %	19,8	15,8	-4,0 p.p.	22,9	16,3	-6,6 p.p.
Total assets	923,8	960,7	+4,0%	923,8	960,7	+4,0%
Shareholders' equity	441,5	459,6	+4,1%	441,5	459,6	+4,1%
Investments	14,4	12,8	-11,4%	24,0	27,1	+13,0%

1 - EBITDA = profit before interest, taxes, depreciation and amortization

1.2 – Consolidated net income

Consolidated net income reported in 2Q11 amounted to R$ 153,9 million (R$ 162,8 million in 2Q10). For the accumulated 1S11, consolidated net income reported an increase of 2,7% compared to the same period from the previous year, reaching R$ 318,4 million. This change is due mainly to the following factors: (i) valuation of the Brazilian Real against the North American dollar, which resulted in a decrease, when measured in Reais, of 3,8% of consolidated net income on the foreign market; (ii) decrease of 49,2% in sales from the machine-tooling segment; and (iii) an increase of 29,4% in sales from the motorcycle helmet segment.



1.3 – Information by business segment

The following table illustrates the consolidated financial results by business segment:

	Net income			Gross profit			Gross margin		
	1S10	**1S11**	**Var.**	**1S10**	**1S11**	**Var.**	**1S10**	**1S11**	**Var.**
Weapons	208,8	223,8	7,1%	111,2	94,4	-15,1%	53,2%	42,2%	-11,0 p.p.
Helmets	43,9	56,8	29,4%	19,2	23,9	24,8%	43,7%	42,1%	-1,6 p.p.
Machinery	28,8	14,6	-49,2%	2,0	(1,4)		6,9%	-9,4%	
Other	28,6	23,2	-18,6%	4,9	2,9	-41,1%	17,2%	12,5%	-4,7 p.p.
Total	**310,1**	**318,4**	2,7%	**137,2**	**119,8**	-12,7%	**44,2%**	**37,6%**	-6,7 p.p.

(i) Weapons – operations undertaken by Forjas Taurus S.A. and Taurus Holdings, Inc. (United States);

(ii) motorcycle helmets – operations undertaken by Taurus Blindagens Ltda., Taurus Helmets Indústria Plástica Ltda. and Taurus Blindagens Nordeste Ltda.;

(iii) Machinery – operations undertaken by Taurus Máquinas-Ferramenta Ltda.;

(iv) Others – Forging (Forjas Taurus S.A.), boilers (1S10 Forjas Taurus S.A. and 1S11 Taurus Máquinas-Ferramenta Ltda.), bullet proof jackets and plastic products (Taurus Blindagens Ltda.)

Weapons

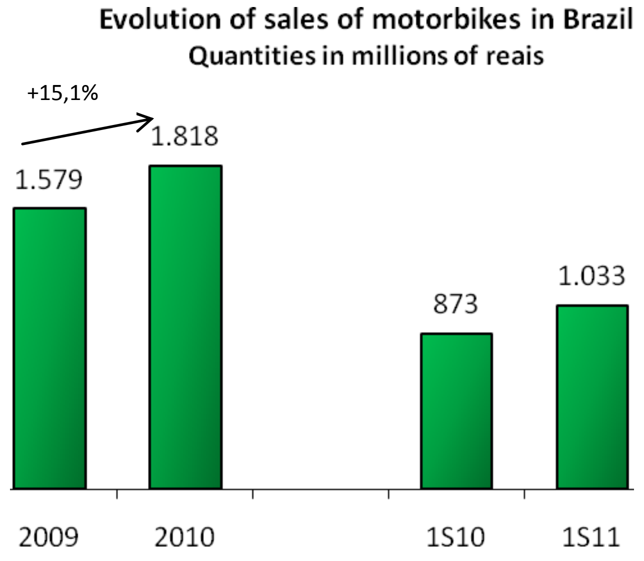
In 2Q11 this segment represented 70,2% of total consolidated net income, reaching R$ 108,1 million (R$ 105,6 million , equivalent to 64,9% of total consolidated net income in 2Q10). In 1S11, the segment reported consolidated net income of R$ 223,8 million, representing 70,3% of total net income and 7,1% higher than total consolidated net income registered in the same period for 2010 (R$ 208,8 million, representing 67,3% of total consolidated net income in 1S10).

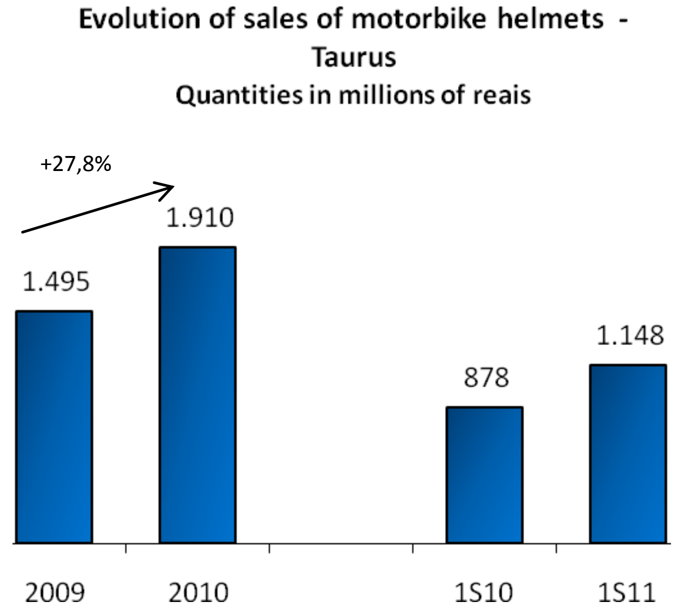
Motorcycle helmets

Sales of motorcycle helmets represented 18,7% (R$ 28,8 million) of total consolidated net income of 2Q11, representing an increase of 24,4% compared to R$ 23,2 million, equivalent to 14,2% of total consolidated net income in 2Q10. In 1S11, the segment represented 17,8% of total consolidated net income, reaching R$ 56,8 million, 29,4% greater than the R$ 43,9 million, or 14,1%, of total consolidated net income for 1S10.

Sales volumes of motorbikes in Brazil in 2010 and in the first semester of this year leveraged the sales of motorcycle helmets, with the main consumer market being individuals, mainly from economic classes C and D.

3Presented below is the evolution of sales for the motorbike market in Brazil and the evolution of sales of motorcycle helmets by Taurus, in the years 2009 and 2010 and for the first semesters of 2010 and 2011.





Machines tools

Net income from large tooling machinery in 2Q11 was R$ 6 million, representing 3,9% of total consolidated net income (R$ 18,7 million, equal to 11,5% of total consolidated net income in 2Q10). In 1S11, the segment registered net income of R$ 14,6 million, or 4,6% of total consolidated net income (R$ 28,8 million, equal to 9,3% of total consolidated net income for 1S10).

Other segments

Net income from other products, amounted to R$ 11 million in 2Q11, representing 7,1% of total consolidated net income (R$ 15,3 million, equivalent to 9,4% of total consolidated net income in 2Q10). Accumulated for the 1S11, net income reached R$ 23,2 million, equivalent to 7,3% of total consolidated net income (R$ 28,7 million, or 9,2% of total consolidated net income for 1S10).

1.4 –Gross profit and gross margin

Consolidated gross profit reached R$ 59,7 million in 2Q11, representing a gross margin of 38,8% (R$ 61,2 million registered in 2Q10 and gross margin of 37,6%). In 1S11, gross profit reached R$ 119,8 million and gross margin of 37,6% (R$ 137,2 million and gross margin of 44,2% in 1S10). The gross profit and gross margin were influenced mainly by the following factors: (i) valuation of the Real against the North American currency; and (ii) increase in the costs of production and raw materials for weapons and motorcycle helmets, respectively.

1.5 – Net operational expenses

Operational expenses (sales, general, administrative and other), net of other operational income, in 2Q11 amounted to R$ 43,1 million or 28% of total consolidated net income, (R$ 38,7 million, equivalent to 23,7% of total consolidated net income for 2Q10). In 1S11, operational expenses amounted to R$ 83,8 million, equivalent to 26,3%, of total consolidated net income, 1,7 p.p. below the R$ 86 million, equivalent to 27,7% of total consolidated net income registered in 1S10.

1.6 – Operational profit - EBIT

Consolidated operational profit, measured based on the concept of EBIT (profit before interest and taxes), in 2Q11, amounted to R$ 16,6 million, resulting in an operational margin of 10,8% (R$ 22,6 million and operational margin of 13,8% in 2Q10). In 1S11, operational profit amounted to R$ 36 million and the operational margin was 11,3% (R$ 51,2 million and operational margin of 16,5% in 1S10).

1.7 – EBITDA and EBITDA margin

The generation of consolidated cash in 2Q11, measured based on EBITDA (profit before interest, taxes, depreciation and amortization), amounted to R$ 24,4 million and registered an EBITDA margin of 15,8% (R$ 32,2 million and EBITDA margin of 19,8% in 2Q10). The EBITDA for 1S11 amounted to R$ 51,9 million and the EBITDA margin was 16,3% (R$ 71 million and EBITDA margin of 22,9% in 1S10). The variation in the EBITDA was due mainly to the reduction reported for gross profit, affected by the factors highlighted in item 1.4 and the reduction of 3% in total operational expenses, net, as reported in item 1.5.

1.8 – Financial results

The net financial results in 2Q11 was R$ 10,7 million, negative (R$ 0,6 million positive, for the same period in 2010). The net financial result accumulated for the semester was R$ 14,8 million negative (R$ 3,1 million, negative in 1S10). This increase in net financial expenses is due to the following factors: (i) valuation of the Real against the North American currency, resulting in a currency loss on export receivables; and (ii) increase in financial costs of loans and financing, particularly the Selic rate and CDI.

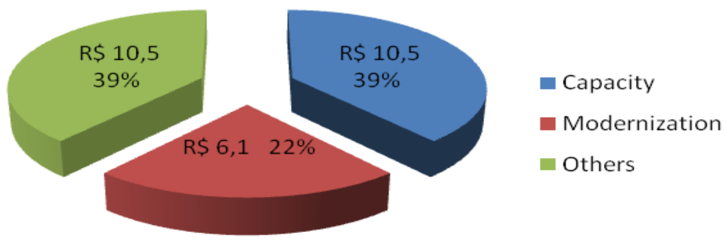
1.9 – Net results

Consolidated net results for 2Q11, reported a loss of R$ 0,2 million (net profit of R$ 19,2 million in 2Q10). In 1S10, Forjas Taurus S.A. and the consolidated companies reported net profit of R$ 6,9 million (R$ 34 million for the same period in 2010). This decrease in consolidated net profit was due mainly to the following factors: (a) Positive: (i) decrease in net operational expenses; (ii) realization of profits on consolidated inventories; (b) Negative: (i) valuation of the Real against the US dollar; (ii) decrease of 49,2% in net income for the machine tooling segment, resulting in negative gross margin; (iii) increase in the production costs and costs of raw materials for weapons and motorcycle helmets, respectively; and (iii) increase in net financial expenses.

1.10 – Consolidated investments

The consolidated investments in property, plant and equipment in 2Q11 amounted to R$ 12,8 million (R$ 14,4 million in 2Q10). Depreciation and amortization amounted to R$ 7,8 million (R$ 8,1 million in 2Q10). Accumulated investments in the first semester of 2011, amounted to R$ 27,1 million (R$ 24 million in 1S10) and depreciation and amortization amounted to R$ 15 million (R$ 16,3 million in 1S10).

Equipment, facilities and production processes used by the Company and its subsidiaries enable the investment program to be managed in accordance with product launches and in accordance with market demand. Within this context, in 1S11, investments in property, plant and equipment were made as demonstrated in the following graph:



1.11 – Financial position

Cash and cash equivalents amounted to R$ 187 million at 30-06-11 (R$ 188,7 million at 31-12-10). Of this total, R$ 110,6 million (R$ 149 million at 31-12-10) comprises post fixed CDBs, remunerated at rates that vary between 98 and 103.5% of CDI, contracted from top line financial institutions.

The loans and financing for the Taurus companies are allocated mainly to finance: (i) working capital; (ii) investments to modernize the factory park; and (iii) exports. Net indebtedness at 30-06-11, for the amount of R$ 142,9 million (R$ 141,3 million at 31-12-10), the changes compared to 31-12-10 and the main related indicators, are illustrated below:

In millions of R$

	31-12-10	30-06-11	Variation
Short term indebtedness	123,3	139,5	+13,1%
Long term indebtedness	206,7	190,4	-7,9%
Gross indebtedness	330,0	329,9	-
(-) Cash and cash equivalents and financial investments	188,7	187,0	-0,9%
Net indebtedness	141,3	142,9	+1,1%
Net indebtedness /EBITDA	1,02x	1,19x[1]	+0,17 x
EBITDA/financial expenses, net	18,1x	9,2x [1]	-8,9x

(1) 12 months adjusted EBITDA for the period ended 30-06-11.

2 – Capitals market

2.1 – Performance of shares in Forjas Taurus S.A. - Bovespa

The Company's shares have been listed on Bovespa since March 1982. The preference shares, (FJTA4), which has greatest market liquidity, closed 1S11 quoted at R$ 3,40.

	30-06-10	30-12-10	30-06-11
(i) Share quotation – R$ Historic			
ON (FJTA3)	5,30	5,50	3,36
PN (FJTA4)	5,00	4,10	3,40
(ii) Number of shares			
ON	42.744.720	42.744.720	47.019.192
PN	85.489.440	85.489.440	94.038.384
Total	128.234.160	128.234.160	141.057.576
(ii) Market value – In millions of R$			
ON	226.547	235.096	157.984
PN	427.447	350.507	319.731
Total	653.994	585.603	477.715

2.2 – Adhesion to level 2 – BM&FBOVESPA

In the ceremony held on 07-07-2011 at BM&FBOVESPA, Forjas Taurus S.A. officially joined Level 2 trading on the Stock Exchange. It has operated on the Stock Exchange since 1982, the Company is now part of the 180 companies belonging to the differentiated listing of Corporate Governance.

FJTA3 NÍVEL 2 BM&FBOVESPA

FJTA4 NÍVEL 2 BM&FBOVESPA

3 – Guidance 3Q11

Forjas Taurus S.A. and the consolidated companies present below the consolidated guidance for 3Q11:

Net income	**R$ 197 million**
EBITDA	**R$ 30 million**
Investments	**R$ 10 million**

Notes to the financial statements

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, industrialization of metal parts made to order, industrial boilers and investing in other companies.
The subsidiary companies produce and sell civilian pistols, glasses, bullet proof 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, tooling machinery, and machining of metals to order.

At June 30, 2011, 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 at private clients on the foreign market, particularly those located in North America, and also public bodies on the domestic market, mainly the state, civil and military police. Sales made by the Company and its subsidiaries are not subject restrictions and there is no significant concentration that implies dependence on government bodies or any other single client. Given the specific characteristics of the Weapons and ammunitions market, the Company and its subsidiaries are supervised and follow the norms 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	**30-06-2011**	**31-12-2010**
Taurus Blindagens Ltda.	Brazil	99,86%	99,86%
Taurus Blindagens Nordeste Ltda.*	Brazil	99,86%	99,86%
Taurus Holdings, Inc.	United States	100,00%	100,00%
Taurus Security Ltda.	Brazil	60,00%	60,00%
Taurus Máquinas-Ferramenta Ltda.*	Brazil	99,98%	99,98%
Taurus Investimentos Imobiliários Ltda.*	Brazil	99,96%	99,96%
Famastil Taurus Ferramentas S.A.	Brazil	35,00%	35,00%
Taurus Helmets Indústria Plástica Ltda. *	Brazil	99,86%	99,86%

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

3 Basis for preparation

a. Statement of compliance (in accordance with International Financial Reporting Standards and CPC norms)

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 policies adopted in Brazil (BR GAAP) and the individual financial statements of the parent company prepared in accordance with BR GAAP.

The Parent 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 individual 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.

However, there is no difference between the consolidated shareholders' equity and results and the shareholders' equity and results reported by the parent company in its individual financial statements. Thus, the consolidated financial statements and the parent company's individual financial statements are presented side by side as one set of financial statements.

b. Basis for measurement

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

c. Functional currency and currency of presentation

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 North American dollar. All of the accounting information reported in Reais has been rounded to the nearest thousand, except when stated otherwise.

d. Use of estimates and judgments

Preparation of individual and consolidated financial statements in accordance with IFRS and the norms issued by the CPC requires Management to make judgments, estimates and assumptions that affect the application of accounting policies 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 critical judgments that refer to the accounting policies adopted that affect the amounts recognized in the individual and consolidated financial statements are included in the following notes: 12 – deferred tax assets and liabilities, 20 – Contingences and 21 – Financial Instruments.

The information on uncertainties, assumptions and estimates that represent a significant risk of resulting in a material adjustment within the next financial year have been included in the following notes: 12 – deferred tax assets and liabilities, 20 – Contingences and 21 – Financial Instruments.

4 Significant accounting polices

The accounting policies described in detail below have been applied consistently for all of the periods presented in these individual and consolidated financial statements.

The accounting policies have been applied consistently by the Company's investee companies:

a. Basis of consolidation

(i) Business combinations

Acquisitions prior to January 01, 2009

As part of the transition to IFRS and CPC the Company opted not to represent the business combinations prior to January 01, 2009. With respect to the acquisitions prior to January 01, 2009, the goodwill represents the amount recognized based on accounting practices previously adopted. These intangible assets were tested for impairment losses on the transition date, as described in Note 4e(i). No liabilities were identified that had not been registered prior to adopting the IFRS that should be adopted at the time of the transition to IFRS.

(ii) Acquisitions of investments of non controlling shareholders

Registered as transactions between shareholders. Consequently, no goodwill is recognized as a result of these transactions.

(iii) Subsidiaries

The financial statements of the subsidiaries are included in the consolidated financial statements as from the date that control commences until the date that control ceases. The accounting policies of the subsidiaries are aligned with the policies adopted by the Company.

In the parent company's individual financial statements and the financial information of the subsidiaries and associated companies, the investments in subsidiaries and associated companies are recognized using the equity method.

(iv) Investment in associated companies

An associated company is an entity in which the Company, directly or indirectly has a significant influence but not control, in the financial and operational policies. Significant influence supposedly occurs when the Company, directly or indirectly, holds between 20 and 50 per cent of the voting power in the other company.

Investments in associated companies is accounted for using the equity method and is initially recognized at cost. The Company's investment includes the goodwill identified upon acquisition, net of any accumulated impairment losses (the goodwill in the associated company is not registered and tested for impairment separately). The consolidated financial statements include income and expenses and equity variations in the associated company, after making the adjustments to align the accounting policies with those of the Company, as from the date the significant influence began until the date it ended. When the Company's interest in the losses of an investment interest whose shareholders' equity has been registered exceeds its shareholding interest in this company registered using the equity method, the book value of this interest, including any long term investments, is reduced to zero, and recognition of additional losses is ended, except in the case where the Company has constructive obligations or has made payments in the name of the investment interest, when a provision is then registered for loss in investments.

(v) Transactions eliminated on consolidation

Intercompany balances and transactions and any income or expenses derived from intercompany transactions, are eliminated for purposes of preparing the consolidated financial statements. Unrealized gains derived from transactions with investment interests registered using the equity method are eliminated against the investment in the proportion to the investment interest held by the Company. Unrealized losses are eliminated in the same way as the unrealized gains, but only to the extent that there is no evidence of impairment of the asset.

Despite the significant influence in the economic and operational activities, the financial statements of Famastil Taurus Ferramentas S.A. were not consolidated since the parent company did not comply with the specific criteria of CPC 18 and IAS 28 for recognition of the joint control of this company.

b. Foreign currency

(i) Foreign currency transactions

Transactions in foreign currency are translated to the functional currencies of the Company's entities at the exchange rate on the dates of each transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the year, adjusted for interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the reporting date. Non monetary assets and liabilities denominated in foreign currencies that are measured at fair values are retranslated to the functional currency at the exchange rate on the date that the fair value was determined. The foreign currency differences arising on retranslation are recognized to profit or loss. Non monetary items that are measured in terms of historic costs in foreign currency are translated at the exchange rate on the transaction date.

(ii) Overseas operations

Assets and liabilities from overseas operations, including goodwill and fair value adjustments are converted to the Real at the exchange rate on the reporting date. Income and expenses from overseas operations are converted to the Real at the exchange rate on transaction date. No operations were undertaken in hyper-inflationary economies.

Foreign currency differences are recognized to other comprehensive income, and included in shareholders' equity. Since January 01, 2009, the date the Company adopted CPC Pronouncement 02 – Effect from Changes in Exchange Rates and Conversion of Financial Statements, these differences have been recognized as accumulated conversion adjustments.

Exchange gains or losses resulting from monetary items receivable or payable, from an overseas operation, whose liquidation had not been planned or anticipated to occur in the foreseeable future and whose essence is considered as being part of the net investment in the overseas operation, are recognized as other comprehensive income.

c. Financial instruments

(i) Non derivative financial assets

The Company initially recognizes loans, receivables and deposits on the date they originated. All other financial assets (including assets designated at fair value through profit or loss) are initially recognized on the date of the negotiations when the Company became one of the parties to the contractual rulings for the instrument.

The Company no longer recognizes a financial asset when the contractual rights from the cash flows from the asset have expired, or when the Company transfers the rights to receive the contractual cash flows from a financial asset under a transaction in which essentially all of the risks and benefits of ownership to the financial asset have been transferred. Any participation that is created or retained by the Company to financial assets is recognized as an individual asset or liability.

Financial assets and liabilities are compensated and the net value reported in the balance sheet when, and only when, the Company has the legal right to compensate the amounts and intends to liquidate on a net base or to realize the asset and liquidate the liability simultaneously.

The Company has the following non derivative financial assets: cash, cash equivalents, loans and receivables.

Loans and receivables

Loans and receivables are financial assets with fixed or calculated payments that are not quoted on an active market. These assets are recognized initially at fair value plus any attributable transaction costs. After the initial recognition, the loans and receivables are stated at amortized cost using the effective interest method, less any loss from reduction to the recoverable value.

Loans and receivables include trade accounts receivable and other receivables.

Cash and cash equivalent include the balances for cash and financial investments that are immediately liquid with no penalties for the Company. Limits for bank overdrafts that have to be paid in cash and which are an integral part of the Company's cash management are included as an item of cash and cash equivalents for purposes of the cash flow statement

(ii)Non derivate financial liabilities

The Company initially recognizes debt titles issued and subordinated liabilities on the dates that they originate. All other financial liabilities (including liabilities designated at fair value through profit or loss) are initially recognized on the date of the negotiation on which the Company becomes a party to the contractual rulings for the instrument. The Company writes off a financial liability when its contractual obligations no longer exist, have been cancelled or have expired.

Financial assets and liabilities are compensated and the net value reported in the balance sheet when, and only when, the Company has the legal right to compensate the amounts and intends to liquidate on a net base or to realize the asset and liquidate the liability simultaneously.

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

These financial liabilities are initially recognized at fair value plus any attributable transaction costs. After the initial recognition, these financial liabilities are stated at amortized cost using the effective interest rate method.

(ii) Capital

Ordinary shares

Ordinary shares are classified as shareholders' equity.

Preference shares

Preference capital is classified as shareholders' equity, since there is no forecast to redeem them by the shareholders, which is at their criterion. Preference shares do not have voting rights or differentiated dividends, but have preference in liquidation of capital.

Minimum compulsory dividends as defined in the Statutes are recognized as liabilities. The balance for the remaining profit is retained to revenue reserves in shareholders' equity until allocation is approved in the shareholders' meeting.

(iii) Derivative financial instruments, including hedge accounting

The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, or if a separate instrument with the same terms as the embedded derivative meets the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

At the time of initial designation of the derivative as the hedging instrument, the Company formally documents the relationship between the hedging instrument and the hedged item, including the risk management objectives and strategy in undertaking the hedge transactions and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Company makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported profit or loss.

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash Flow Hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly

probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in the hedging reserve in equity.
The amount recognized in other comprehensive income is reclassified to profit or loss in the same period that the cash flow hedges affect the profit or loss to the same line in the statement of income as the hedged item.
Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss. The Company did not have any operations designated as accounting for hedges at June 30, 2011 and December 31, 2010.

When a hedge instrument no longer meets the hedge accounting criteria, expires, is sold, ended, exercised or its designation is revoked, then hedge accounting is discontinued prospectively. The accumulated results, previously recognized to comprehensive income and reported to the hedging reserve in equity, remains there until the forecast transaction affects the profit or loss. When the hedged item is a non financial asset, the amount recognized to comprehensive income is transferred to the book value of the asset when the asset is realized. If there are no expectations that the forecast transaction will occur, the balance in comprehensive income is then immediately recognized to profit or loss. In other cases the amount recognized to comprehensive income is transferred to profit or loss in the same period that the hedged item affects the results.

Other non-trading derivatives

When a derivative financial instrument is not held for trading and is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognized immediately in profit or loss.

d. Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at historic purchase or construction cost, less accumulated depreciation and impairment losses, when applicable.

The Company opted to revalue its fixed assets at deemed cost at January 01, 2009. The effects of deemed cost increased the values for fixed assets and the corresponding entry was recognized to shareholder' equity, net of tax effects.
The costs include expenditure that is directly attributable to the acquisition of an asset. The cost of assets constructed by the entity include the cost of materials and direct labor and any other costs to bring the assets to the location and in the conditions necessary for their intended use, the costs of dismantling and restoring the site where these assets were located and the cost of loans for qualified assets for which the start date for capitalization is January 01, 2009, or a subsequent date.

Purchased software that is integral for the functioning of the related equipment is capitalized as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on the sale of fixed asset items are calculated by comparing the proceeds from the sale with the book value of the fixed asset item, and are recognized net to other income, to profit or loss.

(ii) Subsequent costs

The reposition cost of a fixed asset item is recognized at the book value of the item if it is probable that the economic benefits incorporated to the component will flow to the Company and that the cost can be reliably measured. The book value of a component that has been replaced by another is written off. The day-to-day maintenance costs of property plant and equipment are recognized to profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated on the depreciable values, which is the cost of an asset, or other amount that substitutes cost, less residual values.

Depreciation is recognized to profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment, since this method best reflects the standard of usage of the future economic benefits incorporated to the asset. Land is not depreciated.

The estimated useful lives for the current and comparative years are approximately as follows:

	As from 01-01-2009	31-12-2008
Buildings	27 years	25 years
Machinery and equipment	15 to 20 years	10 years
Fixtures and fittings	15 years	10 years
Other components	5 to 6 years	5 years

The depreciation methods, useful lives and residual values are revised at the reporting date of the financial statements and any adjustments are recognized as changed to accounting estimates.

e. Intangible assets

(i) Goodwill

Goodwill that arises from the acquisition of subsidiaries is included in intangible assets.

When the acquisition occurred prior to January 01, 2009, the goodwill is included based on deemed cost, which represents the amount registered according to accounting practices previously adopted, adjusted for the reclassification of certain intangible assets.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. With respect to equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment and an impairment loss on such an investment is not allocated to any asset, including goodwill that forms part of the carrying value of the equity-accounted investee.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labor, overhead costs that are directly attributable to preparing the asset for its intended use, and capitalized borrowings costs for qualified assets for which the start date for capitalization is January 01, 2009, or a subsequent date. Other development expenditure is recognized to profit or loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

(iii) Other intangible assets

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

(iv) Subsequent costs

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(v) Amortization

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, form the date that they are available for use, since this method best reflects the standard usage of future economic benefits embodied in the asset. The estimated useful life for the current and comparative periods for the manufacturing processes acquired from third parties is five years.

f. Trade accounts receivable

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

The present value calculation is made for each transaction based on an interest rate that reflects the term, the currency and the risk of each transaction. During the year the average rate used by the Company was approximately 0.80% p.m. The counter entry of the adjustments to present value of trade accounts receivable is made against gross revenue in the income statement. The difference between the present value of a transaction and the face value of the asset is considered financial income and will be appropriated over the term of the transaction using the amortized cost and effective interest rate method.

The provision for doubtful receivables was registered for an amount considered sufficient by management to cover eventual losses on the realization of the receivables.

g. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of inventory is based on weight average cost, and includes the costs incurred to acquire the inventories, production and transformation costs and other costs incurred to bring them to their existing locations and conditions. In the case of manufactured inventory, work in progress and finished goods, the costs include the general factory overhead expenses based on normal operating capacity.

The net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

Impairment

(i) Financial assets (including receivables)

A financial asset not stated at fair value through profit or loss is valued at every reporting date to determine whether there is objective evidence of impairment losses. A loss to the recoverable value of an asset occurs if there is evidence that a loss event occurred after initial recognition of the asset, and that this loss event had a negative impact on the forecast future cash flows, and can be estimated reliably.

Objective evidence that a financial asset (including equity securities) has incurred an impairment loss can include default or delinquency by a debtor, the restructuring of an amount due to the Company under terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below cost is objective evidence of impairment losses.

The Company considers evidence of impairment for receivables and equity securities held to maturity at both individual and collective level. All receivables and equity securities held to maturity that are individually significant are evaluated for specific impairment loss.

In assessing collective impairment the Company uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

(ii) Non financial assets

The book values of the Company's non financial assets, which are not inventories or deferred income tax and social contribution, are revised at every reporting date to determine whether there is evidence of impairment. If such evidence exists, the recoverable value of the asset is determined. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or CGU (cash generating unit) is the greater of its value in use and its fair value less selling expenses. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the recovery period for the capital and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows or other assets or CGU. For purposes of goodwill impairment testing, the goodwill acquired in a business combination is allocated to the CGU or groups of CGUs that are expected to benefit from the synergies of the combination. This allocation reflects the lowest level at which goodwill is monitored for internal reporting purposes and is not greater than an operational segment determined in accordance with IFRS 8 and CPC 22.

The Company's corporate assets do not generate separate cash inflows. If there is evidence of impairment of a corporate asset 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.

An impairment loss is recognized if the carrying amount of an asset or its related CGU exceeds its estimated recoverable amount. Impairment losses are recognized to profit or loss. Impairment losses recognized in respect of CGUs are initially allocated to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU or group of CGUs on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. With respect to other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

An impairment loss is reversed if there has a been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would be determined, net of depreciation or amortization, if no impairment loss had been recognized.

The goodwill included in the carrying value of an investment in an associated company is not recognized individually and therefore, is not tested individually for impairment losses. Instead, the total value of an investment in as associated company is tested for impairment as a single asset when there is objective evidence that the investment in an associated company could demonstrate impairment losses.

(iii) Employee benefits

Defined contribution plans

A defined contribution plan is a post employment benefit plan, according to which a legal entity pays fixed contributions to a separate entity (pension fund) and will have no legal or constructive obligation to pay additional amounts. Obligations for contributions to defined contribution pension plans are recognized to the profit and loss as employee benefit expenses during the periods in which services are provided by the employees. Prepaid contributions are recognized as an asset, provided that a cash reimbursement or reduction to future payments occurs. The contributions to a defined contribution plan for which maturity is anticipated for 12 months after the end of the period during which the employee provides services are discounted to their present value.

Employees' short term benefits

Employees' short term benefits are reported on a non discounted basis and incurred as expenses as the related service is provided. The liability is recognized for the amount expected to be paid for the benefit plans in cash or short term profit sharing if the Company has a legal or constructive obligation to pay the amount as a result of past services rendered by an employee and if the obligation can be estimated reliably.

h. Provisions

Warranties

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all probabilities of incurring expenses.

i. Operational income

Sales of goods de bens

Operational income from the sale of goods during the normal course of activities is stated at the fair value of the consideration received or receivable. Operational income is recognized when there is convincing evidence that the most significant risks and benefits, inherent to ownership of the assets, have been transferred to the buyer and it is probable that the financial economic benefits will flow to the Company, that the associated costs and possible return of the goods can be reliably estimated, that there is no continued involvement with the goods sold, and that the value of operational income can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

j. Financial income and financial expenses

Financial income comprises interest income from funds invested, variations in fair value of financial assets stated at fair value through profit or loss and gains on hedge instruments that are recognized to profit or loss. Interest income is recognized to profit or loss, using the effective interest rate method.

Financial expenses comprise interest expenses on borrowings, net of provisions discounted to present value, variations in fair value of financial assets stated at fair value through profit or loss, impairment losses recognized on financial assets, losses on hedge instruments that are recognized to profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized to profit or loss using the effective interest rate method.

k. Income tax and social contribution

Current and deferred income tax and social contribution are calculated based on rates of 15%, plus a surtax of 10% on taxable profit in excess of R$ 120 thousand for income tax and 9% on taxable profit for social contribution on net profit, and consider compensation of tax losses and the negative social contribution base, limited to 30% of taxable profit.

The income tax and social contribution expense includes current and deferred taxes. Current and deferred taxes are recognized to results unless they refer to business combinations or items directly recognized to shareholders' equity or other comprehensive income.

Current tax is the tax payable or receivable anticipated on the taxable profit or loss for the year, at the tax rates decreed or substantially decreed on the reporting date of the financial statements and any adjustments to taxes payable from prior years.

Deferred tax is recognized in relation to temporary differences between the book values of assets and liabilities for accounting purposes and the corresponding values used for tax purposes.

Deferred tax is not recognized for the following temporary differences: initial recognition of assets and liabilities from a transaction that is not a business combination and does not affect the accounting or taxable profit or loss and differences related to investments in subsidiaries when it is probable that they will not be reversed within the foreseeable future. In addition, deferred tax is not recognized for temporary tax differences resulting from the initial recognition of goodwill.

Deferred tax is measured at rates that are expected to be used for the temporary differences when they are reversed, based on the laws that were decreed or substantially decreed to the reporting date of the financial statements. The deferred income tax and social contribution assets and liabilities are compensated only where there is an unquestionable legal right to compensate current tax assets against current tax liabilities and when they refer to income taxes registered by the same taxation authority on the same entity subject to taxation.

A deferred social contribution and income tax asset is recognized for tax losses, tax credits and temporary differences deductible and not used, when it is probable that future profits subject to taxation will be available and against which the asset will be used.

Deferred social contribution and income tax assets are revised at the reporting date and reduced when realization is no longer probable.

The Company opted for the Transition Taxation System to determine income tax and social contribution for the years ended December 31, 2009. This system is compulsory as from the year 2010.

l. Earnings per share

Basic earnings per share are calculated by dividing the profit or loss attributable to the Company's controlling and non controlling shareholders by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is determined based on the same weighted average number of shares outstanding, adjusted for instruments potentially convertible into shares, having a dilutive effect, for the years presented, in accordance with the terms of CPC 41 – Earnings per share and IAS 33.

m. Segment reporting

An operating segment is defined as a component of the company that undertakes business activities that can result in income and incur expenses, including income and expenses related to transactions with the Company's other components. All of the operational results of operational segments are revised frequently by management for decision making regarding the allocation of resources to the segment and to evaluate performance, and for which individual financial information is available.

The results of the segments that are reported to Management include items directly attributable to the segment, and those that can be allocated on a reasonable basis.

The capital expenditures by segment are total costs incurred during the period to purchase fixed assets and intangible assets, other than goodwill.

n. Dividend distribution

A liability is recognized when the dividends are approved by the Company's shareholders. The Company's Statutes provide that a minimum of 35% of annual net profit, calculated in accordance with Brazilian corporate legislation and accounting practices adopted in Brazil, shall be distributed as dividends; therefore, the Company registers a provision, at the end of the financial year, for the value of the minimum dividend that has still not been distributed during the year up to the limit of the minimum compulsory dividends described above.

5 Measurement of fair values

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) Property, plant and equipment

The fair value of property, plant and equipment recognized as a result of business combination, is based on market values. The market value of property is the estimated value for which an asset can be exchanged on the valuation date between known parties interested in a transaction under normal market conditions. The fair value of items of property, plant and equipment is based on the market approach and cost approaches using market prices quoted for similar items, when available, and replacement cost when appropriate.

(ii) Inventories

The fair value of inventories acquired from a business combination is determined based on the estimated sales price during the normal course of business activities, less estimated conclusion costs and sales expenses and a reasonable profit margin based on the effort required to conclude and sell the inventories.

(iii) Accounts receivable and other receivables

The fair values 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. This fair value is determined for disclosure purposes.

(iv) 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 futures price and the current futures 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.

(v) 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 financing 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 are included throughout these financial statements.

(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 norms, training procedures and management, aims to develop a disciplined and constructive control environment, where all of the employees understand their roles and obligations.

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

(ii) Credit risk

Credit risk is the risk of financial losses for the Company in the event a customer or counter party to a financial instrument fails to comply with its contractual obligations, and refers mainly to trade accounts receivable and investment securities.

(iii) Trade accounts receivable and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each client. The Company and its subsidiaries adopt the practice to analyze the financial and equity situation of its counter parties, and also define credit limits and permanently accompany outstanding balances. With respect to the financial institutions, the Company and its subsidiaries only undertake operations with low risk financial institutions. The Company's sales income is not concentrated with a single client, and there is concentration of credit risk.

The Company established a credit policy where the credit ability of every new client is analyzed individually before the Company's standard payment and delivery terms and conditions are offered. This analysis includes external evaluations, when available, and in some cases references from banking institutions. Purchase limits are established for each client, which represent the maximum amount available without prior approval being required, with these limits revised quarterly. Clients that fail to comply with the credit limit established can only operate with the Company based on advance payments. For public bodies Company management individually evaluates the ability to pay and the bid requirements for making the sales.

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

The Company establishes a provision for impairment losses which represents its estimate of losses incurred from trade accounts receivable, other receivables and investments. The main components of this provision are: a specific collective loss component established for groups of similar assets in relation to losses incurred, but not yet identified. The provision for the collective loss is determined based on the history and management's knowledge of the business.

(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 operational expenses for approximately 60 days, including fulfilling financial obligations; this does not include the potential impact from extreme circumstances that can not be reasonable forecast, such as natural disasters. In addition, the Company has the following credit lines:

The Company has credit lines contracted with financial institutions, as reported in Note 17, and all of these credit lines are being fully used, except by the subsidiary Taurus Holdings, Inc. which has a credit line for the amount of USD 25,000 thousand and at 30-06-2011 was using USD 20,000 thousand.

In addition, the Company has credit lines, not contracted, from the largest banks that operate in Brazil, for approximately R$ 500.000 thousand, at market rates and terms.

(v) Market risk

Market risk is the risk that alterations in market prices, such as foreign exchange rates, interest rates and share prices, have on the Company's gains or on the value of its investments in financial instruments. 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 complies with financial obligations to manage market risks. All of these operations are undertaken within the guidelines established by Management.

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. In certain circumstances, the Company seeks to apply hedge accounting to guarantee its operational results from exports, budgeted; and which are not characterized as speculative operations.

(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 US dollar (USD).

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 protect against exchange risk, the majority of which mature in less than one year from the date of the financial statements. When necessary, the futures markets contracts are renewed when they mature.

Interest on loans are denominated in the currency of the loan.

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

(vii) Interest rate risk

The Company adopts 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 associated with the Company's processes, personnel, technology and infra-structure and external factors, except credit, market and liquidity risks, such as those arising from 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 creatively.

The main responsibility to develop and implement controls to deal with operational risks is attributed to top management 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 operational 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 norms is supported by a program involving the periodic analyses of the responsibilities of internal audit. The results of the internal audit analyses are discussed with management from the related business unit, and a summary is sent to the Company's top management.

(ix) Capital management

The Directors' policy is to maintain a solid capital base to maintain investor, creditor and market confidence and ensure the future development of the business. The Directors monitor the returns on capital, which the Company defines as results from operational activities divided by total shareholders' equity, excluding non redeemable preference shares and non controlling interests. The directors also monitor the level of dividends for the ordinary and preference shareholders.

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

	30-06-2011	31-12-2010
Total liabilities	501.091	539.282
Less: cash and cash equivalents	(186.997)	(188.674)
Net debt (A)	314.094	350.608
Total shareholders' equity (B)	459.555	460.526
Ratio of net debt to shareholders' equity (A/B)	0,68	0,76

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 Operational segments

The Company has four publishable 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 reporting segments:

Weapons – the weapons production process, since its 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 Moulding*, assembly (manual), finishing (basically polishing), surface thermal treatment and final assembly (necessary adjustments); these operations are undertaken by Forjas Taurus S.A. and Taurus Holdings, Inc. and its subsidiaries.

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

Machinery – this refers to developing, manufacturing and selling operating machinery and related components; these operations are undertaken by Taurus Máquinas-Ferramenta Ltda.

Others – the result of the forging and boiler segment (Forjas Taurus S.A.); bullet proof jackets and plastic products (Taurus Blindagens Ltda.). also includes other operations such as the manufacture and sale of glasses, anti-riot shields and providing services. None of these operational segments reached any of the quantitative limits for determining disclosable segments in 2011 or 2010.

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.

Notes to the financial statements

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

	Weapons		Helmets		Machinery		Others		Total	
	30-06-2011	30-06-2010	30-06-2011	30-06-2010	30-06-2011	30-06-2010	30-06-2011	30-06-2010	30-06-2011	30-06-2010
External income	223.766	208.841	56.768	43.856	14.636	28.831	23.245	28.562	318.415	310.090
Inter-segment income	-	2.808	497	22	81	1.060	5.422	4.938	6.000	8.828
Costs of sales	(129.339)	(97.682)	(32.874)	(24.706)	(16.006)	(26.840)	(20.348)	(22.770)	(198.567)	(171.998)
Gross profit (loss)	94.427	113.967	24.391	19.172	(1.289)	3.051	8.319	10.730	125.848	146.920
Selling expenses	(34.155)	(32.796)	(4.533)	(6.139)	(3.635)	(3.013)	(4.351)	-	(46.674)	(41.948)
General and administrative expenses	(29.047)	(31.333)	(774)	(3.675)	(2.005)	(1.525)	(1.424)	(763)	(33.250)	(37.296)
Depreciation and amortization	(319)	(428)	(77)	(1)	(83)	(49)	(92)	(70)	(571)	(548)
Other operational income (expenses), net	(1.577)	(7.226)	67	677	(1.174)	43	(648)	(603)	(3.332)	(7.109)
Equity in income	914	727	-	-	-	-		-	914	727
	(64.184)	(71.056)	(5.317)	(9.138)	(6.897)	(4.544)	(6.515)	(1.436)	(82.913)	(86.174)
Operational profit (loss)	30.243	42.911	19.074	10.034	(8.186)	(1.493)	1.804	9.294	42.935	60.746
Financial income	7.416	14.790	1.821	3.058	414	675	1.818	1	11.469	18.524
Financial expenses	(18.155)	(15.149)	(581)	(563)	(4.094)	(3.228)	(3.447)	(2.731)	(26.277)	(21.671)
Net financial results	(10.739)	(359)	1.240	2.495	(3.680)	(2.553)	(1.629)	(2.730)	(14.808)	(3.147)
Profit per segment publishable before income tax and social contribution	19.504	42.552	20.314	12.529	(11.866)	(4.046)	175	6.564	28.127	57.599
Elimination of inter-segment income	-	(2.808)	(497)	(22)	(81)	(1.060)	(5.422)	(4.938)	(6.000)	(8.828)
Profit before income tax and social contribution	19.504	39.744	19.817	12.507	(11.947)	(5.106)	(5.247)	1.626	22.127	48.771
Assets of publishable segments	558.130	556.162	158.521	140.780	151.322	148.131	92.745	78.765	960.717	923.838
Liabilities of publishable segments	317.674	334.614	36.828	41.544	124.784	85.293	21.804	20.924	501.091	482.375

Notes to the financial statements

Geographical segments

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

		Weapons
	30-06-2011	30-06-2010
Domestic market		
Southeast	38.608	50.387
South	10.888	9.627
Northeast	6.548	11.989
North	1.784	4.476
Central West	6.381	9.454
	64.209	85.933
Foreign market		
United States	144.700	115.200
Argentina	2.478	1.475
Filipinas	2.781	927
Thailand	258	889
Venezuela	1.180	840
Other countries	8.160	3.577
	159.557	122.908
	223.766	208.841

		Helmets
	30-06-2011	30-06-2010
Domestic market		
Southeast	18.003	14.122
South	3.247	3.161
Northeast	18.100	11.997
North	7.944	8.128
Central West	8.858	6.036
	56.152	43.444
Foreign market		
Argentina	-	26
Paraguay	512	-
Peru	25	-
Uruguay	79	386
	616	412
	56.768	43.856

	Machinery	
	30-06-2011	**30-06-2010**
Domestic market		
Southeast	9.900	18.859
South	4.630	8.190
Northeast	-	244
North	9	1.266
	14.539	28.559
Foreign market		
United States	88	266
Venezuela	-	4
Other countries	9	2
	97	272
	14.636	28.831

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

The sales made the Company and its subsidiaries are not subject to restrictions and are not concentrated in such a way that they can be characterized as being significantly dependence on government bodies or any other single client.

8 Cash and cash equivalent

	Consolidated		Parent	
	30-06-2011	**31-12-2010**	**30-06-2011**	**31-12-2010**
Cash balance	103	98	38	31
Cash deposits	76.256	39.552	19.881	26.228
Financial investments	110.638	149.024	76.390	112.111
Cash and cash equivalents	186.997	188.674	96.309	138.370

The marketable securities are remunerated at rates that vary between 98 and 103,5% of CDI (98 and 103% of CDI at 31-12-2010) with the counter parties being top line banks. The Company's exposure to interest rate risks and the sensitivity analysis of financial assets and liabilities are disclosed in note 21.

9 Trade accounts receivable

	Consolidated		Parent	
	30-06-2011	31-12-2010	30-06-2011	31-12-2010
Domestic customers	62.647	107.592	24.083	56.842
Customers – domestic related parties	-	-	72	488
Provision for doubtful receivables - domestic	(4.854)	(6.337)	(2.742)	(3.224)
Domestic present value adjustments	(431)	(555)	(187)	(264)
Foreign customers	47.050	54.426	9.445	13.001
Customers - foreign related parties	-	-	49.571	39.068
Provision for doubtful receivables - foreign	(3.439)	(3.857)	(389)	(398)
Total	100.973	151.269	79.853	105.513
Non current	1.465	2.344	-	-
Current	99.508	148.925	79.853	105.513

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.

10 Inventories

	Consolidated		Parent	
	30-06-2011	31-12-2010	30-06-2011	31-12-2010
Finished products	135.196	124.185	26.266	23.863
Work in progress	58.284	53.205	31.610	32.180
Raw materials	73.645	69.944	12.138	10.386
Auxiliary materials and maintenance materials	10.479	12.305	9.215	11.268
	277.604	259.639	79.229	77.697

11 Taxes recoverable

	Consolidated		Parent	
	30-06-2011	31-12-2010	30-06-2011	31-12-2010
ICMS	6.689	5.896	4.971	4.331
IPI	2.317	1.958	530	386
PIS	772	603	627	414
COFINS	3.551	2.772	2.886	1.909
ISSQN	9	8	-	-
Income tax and social contribution	10.763	9.676	9.324	8.462
Total	24.101	20.913	18.338	15.502
Current	19.848	16.898	14.543	12.228
Non current	4.253	4.015	3.795	3.274

Notes to the financial statements

ICMS – Value added sales tax

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

PIS and COFINS

The balance consists of credits originated from non cumulative charges for PIS and COFINS, calculated mainly on the purchases of fixed asset items, which are compensated in successive monthly installments, in accordance with legislation.

IPI – Excise tax

The balance refers mainly to amounts originating from trade operations.

Income tax and social contribution

Refers to withholding tax on financial investments and prepayments of income tax and social contribution made through compensation against federal taxes and contributions payable.

12 Deferred tax assets and liabilities

Deferred income tax and social contribution are registered to reflect the future tax effects attributable to temporary differences between the fiscal base for assets and liabilities and their respective carrying values. The balances registered originate, mainly, from various temporary provisions.

The carrying value of the deferred tax asset is revised monthly. Management considers that the deferred assets arising from temporary differences are realized in proportion to the final resolution of the events that gave rise to such.

The amount registered that can be compensated refers to the deferred income tax asset and liability to which the entity is legally entitled to compensate and which it intends to make on a net basis.

Notes to the financial statements

Deferred tax assets and liabilities were attributed as follows:

		Consolidated
	30-06-2011	**31-12-2010**
Assets		
Provision for commissions	1.490	2.177
Present value adjustment	222	233
Provision for labor process	602	562
Provision for employer process	612	408
Provision for doubtful receivables	1.962	1.970
Provision for product warranties	542	392
Provision for loss of tax incentives	13	13
Inventories – unrealized profits	4.412	9.804
Other items	289	138
	10.144	15.697
Liabilities		
Equity evaluation adjustments	(5.896)	(6.651)
Difference in depreciation base	(3.788)	(3.354)
Financial charges	(974)	(682)
Derivative financial instruments	(1.046)	(878)
	(11.704)	(11.565)
Total assets and liabilities	(1.631)	4.132

		Parent
	30-06-2011	**31-12-2010**
Assets		
Provision for commissions	1.310	1.929
Present value adjustment	222	233
Provision for labor process	526	501
Provision for employer process	612	408
Provision for doubtful receivables	459	459
Other items	138	138
	3.267	3.668
Liabilities		
Equity evaluation adjustments	(4.520)	(5.175)
Difference in depreciation base	(1.110)	(917)
Financial charges	(708)	(419)
Derivative financial instruments	(1.046)	(878)
	(7.384)	(7.389)
Total assets and liabilities	(4.117)	(3.721)

The subsidiary Taurus Máquinas Ferramenta Ltda. has tax credits arising from tax loss carryforwards and negative social contribution base for the amount of R$ 28.941 at 30-06-2011 (R$ 24.747 at 31-12-2010), not recognized in the accounting registers. Income tax and social contribution on the balances for tax loss carryforwards and negative social contribution base are recognized when there is evidence that realization will be probable within the near future.

13 Anticipated real estate credits

On 11-08-2008 the 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 15-09-2008 and the last on 15-07-2015. At 30-06-2011 the total corrected balance (short and long term) was R$ 39.300 (R$ 42.117 at 31-12-2010).

14 Investments

			Balances between the subsidiaries and Parent							Effects of results of transactions between subsidiaries and the Parent			
	Direct investment	Number of shares/quotas	Current assets (Clients)	Non current assets	Total assets	Current liabilities	Total liabilities	Shareholders' equity	Investment	Income	Expenses	Profits or losses	Equity in income
31-12-2010													
Taurus Blindagens Ltda.	99,86%	80.097.902	-	-	-	-	-	110.425	110.271	-	-	26.263	24.101
Taurus Blindagens Nordeste Ltda.	0,10%	1	-	-	-	-	-	8.386	1	-	-	(1.005)	-
Taurus Holdings,Inc.	100,00%	302.505	39.068	-	39.068	302	302	92.989	77.063	189.887	-	18.908	18.725
Taurus Security Ltda.	60,00%	60.000	-	547	547	-	-	(249)	300	-	-	-	-
Taurus Máquinas-Ferramenta Ltda.	53,97%	58.631.830	488	26.838	27.326	424	424	37.080	20.048	7.715	-	(12.286)	(23.832)
Taurus Investimentos Imobiliários Ltda.	71,13%	21.414.136	-	-	-	-	-	36.951	25.506	-	-	13.849	10.131
Famastil Taurus Ferramentas S.A.	35,00%	1.400.000	-	-	-	-	-	32.987	13.760	-	-	5.008	1.753
			39.556	27.385	66.941	726	726		246.949	197.602	-		30.878
30-06-2011													
Taurus Blindagens Ltda.	99,86%	80.097.902	-	-	-	-	-	123.242	123.070	-	-	12.732	12.715
Taurus Blindagens Nordeste Ltda.	0,10%	1	-	-	-	-	-	10.336	1	-	-	1.950	-
Taurus Holdings,Inc.	100,00%	302.505	49.571	-	27.995	637	637	92.621	88.134	80.635	-	5.789	17.229
Taurus Security Ltda.	60,00%	60.000	-	547	328	-	-	(249)	300	-	-	-	-
Taurus Máquinas-Ferramenta Ltda.	53,97%	58.631.830	72	36.621	36.693	25	25	24.064	13.043	1.464	-	(13.016)	(7.006)
Taurus Investimentos Imobiliários Ltda.	72,49%	21.944.929	-	-	-	-	-	34.987	23.888	-	-	(4.794)	(3.720)
Famastil Taurus Ferramentas S.A.	35,00%	1.400.000	-	-	-	-	-	35.598	14.674	-	-	2.611	914
			49.643	37.168	65.016	662	662		263.110	82.099	-		20.132

The financial statements of Taurus Holdings, Inc., an overseas subsidiary, reported total assets of R$ 207.099 (R$ 203.537 at 31-12-2010) and current and non current liabilities of R$ 114.478 (R$ 110.548 at 31-12-2010). The purchase and sale transactions with the parent are performed under market terms and conditions. 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 income of Taurus Holdings Inc. reported at 30-06-2011 was equivalent to R$ 159.106 (R$ 168.767 at 30-06-2010) and net profit equivalent to R$ 5.789 (R$ 12.973 at 30-06-2010).

The following charges are made on the loans from Taurus Máquinas-Ferramenta Ltda.: on R$ 27.303 (R$ 15.020 in 31-12-2010) 100% of CDI and on R$ 9.318 (R$ 11.818 in 31-12-2010), TJLP and interest of 0,16 to 2% p.a.

The commercial terms for the trade transactions undertaken between the Taurus companies are similar to those practiced with third parties considering the volume, continuity of sales, payment terms and selling and administrative expenses assumed by the buyer.

15 Property, plant and equipment

								Consolidated
	Land, buildings and facilities	**Machinery and equipment**	**Molds and tooling**	**Fixtures and computers**	**Vehicles**	**Assets under construction**	**Advances to suppliers**	**Total**
Cost or deemed cost								
Balance at December 31, 2010	85.437	160.572	32.516	19.847	5.279	17.490	1.749	322.890
Additions	4.105	1.311	396	970	246	15.429	4.129	26.586
Disposals	-	(122)	(9)	(7)	(712)	(2)	-	(852)
Other changes	2	(319)	55	17	7	-	-	(238)
Transfers of assets under construction	8.137	2.426	2.847	488	-	(13.898)	-	-
Effect from changes in exchange rates	(1.144)	(848)	-	(141)	(6)	-	-	(2.139)
Balance at June 30, 2011	96.537	163.020	35.805	21.174	4.814	19.019	5.878	346.247
Non recoverable Depreciation and impairment losses								
Balance at December 31, 2010	6.029	38.749	11.465	7.223	1.211	-	-	64.677
Depreciation for the period	1.994	7.855	2.958	1.190	401	-	-	14.398
Disposals	-	(103)	(9)	(3)	(264)	-	-	(379)
Effect from changes in exchange rates	(190)	(453)	-	(89)	(1)	-	-	(733)
Balance at June 30, 2011	7.833	46.048	14.414	8.321	1.347	-	-	77.963
Book value								
At December 31, 2010	79.408	121.823	21.051	12.624	4.068	17.490	1.749	258.213
At June 30, 2011	88.704	116.972	21.391	12.853	3.467	19.019	5.878	268.284

	Land, buildings and facilities	Machinery and equipment	Molds and tooling	Fixtures and computers	Vehicles	Assets under construction	Advances to suppliers	Total
								Parent
Cost or deemed cost								
Balance at December 31, 2010	1.183	106.218	18.861	6.600	3.175	8.181	1.487	145.705
Additions	-	338	115	406	166	14.633	2.885	18.543
Disposals	-	(120)	(9)	(2)	(679)	-	-	(1.048)
Other changes	2	(319)	55	17	7	-	-	(238)
Transfers of assets under construction	242	2.429	2.638	462	-	(5.771)	-	-
Balance at June 30, 2011	1.427	108.546	21.660	7.483	2.669	17.043	4.372	163.200
Non recoverable Depreciation and impairment losses								
Balance at December 31, 2010	175	25.331	6.192	2.363	770	-	-	34.831
Depreciation for the period	66	5.438	1.649	465	207	-	-	7.825
Disposals	-	(101)	(9)	(1)	(255)	-	-	(366)
Balance at June 30, 2011	241	30.668	7.832	2.827	722	-	-	42.290
Book value								
At December 31, 2010	1.008	80.887	12.669	4.237	2.405	8.181	1.487	110.874
at June 30, 2011	1.186	77.878	13.828	4.656	1.947	17.043	4.372	120.910

Notes to the financial statements

Guarantee

In order to mitigate financial expenses on loans and financing, the Company normally uses its own assets as guarantees for the funds obtained from financial institutions. Although a significant part of the fixed assets is guaranteeing financing and loan operations, historically the Company has liquidated its obligations within the contractual terms and the guarantees provided in the form of fixed assets have not been realized.

Deemed cost

The Company opted to adopt deemed cost, adjusting the opening balances on the transition date at January 01, 2009.

The fair values used for adopting deemed cost were estimated by external specialists with professional experience and skills, objectivity and technical knowledge of the assets evaluated. To undertake this work the external specialists considered information on the use of the assets being valued, technological changes that have occurred, replacement costs and use of the assets. As part of the process to adopt deemed cost, Company management evaluated all of the classes of fixed asset at January 01, 2009. In addition, the estimated useful lives and residual values were also revised. The estimated useful lives of assets included to property, plant and equipment before and after this review are presented in Note 4d(iii).

16 Intangible assets

The combined book values of goodwill allocated to each unit were as follows:

				Consolidated
	Brands and patents	**Development costs**	**Implantation of systems**	**Total**
Cost				
Balance at December 31, 2010	3.580	8.965	382	12.927
Additions	-	347	167	514
Disposals	-	(181)	-	(181)
Transfers other groups	-	(22)	-	(22)
Balance at June 30, 2011	3.580	9.109	549	13.238
Amortization				
Balance at December 31, 2010	-	2.862	41	2.903
Amortized for the period	-	543	49	592
Balance at June 30, 2011	-	3.405	90	3.495
Book value				
At December 31, 2010	3.580	6.103	341	10.024
at June 30, 2011	3.580	5.704	459	9.743

				Parent
	Brands and patents	**Development costs**	**Implantation of systems**	**Total**
Cost				
Balance at December 31, 2010	237	8.448	300	8.985
Additions	-	-	167	167
Disposals	-	-	-	-
Transfers other groups	-	-	-	-
Balance at June 30, 2011	237	8.448	467	9.152
Amortization				
Balance at December 31, 2010	-	2.862	33	2.895
Amortized for the period	-	543	42	585
Balance at June 30, 2011	-	3.405	75	3.480
Book value				
At December 31, 2010	237	5.586	267	6.090
At June 30, 2011	237	5.043	392	5.672

17 Loans and financing

This note provides information on the contractual terms of the loans with interest, which are stated at amortized cost. For further information on the Company's exposure to interest rate, foreign currency and liquidity risks, see Note 21.

		Consolidated
	30-06-2011	**31-12-2010**
Current liabilities		
Guaranteed bank loans		
Working capital	56.757	43.998
FINAME	9.523	11.330
FINEP	12.138	11.922
BNDES-PEC	5.658	5.745
FNE	65	-
BNDES-Exim-Pre-embarkation	28	28
BNDES Revitaliza	10	11
Working capital USD	15.108	12.742
Financing for acquisition of fixed assets	429	707
	99.716	86.483
Non current liabilities		
Guaranteed bank loans		
Working capital	19.364	24.191
FINAME	12.840	3.323
FINEP	32.434	39.271
BNDES-PEC	3.273	5.417
FNE	9.806	9.806
BNDES-Exim- Pre-embarkation	5.000	5.000
BNDES Revitaliza	2.846	2.845
Working capital USD	45.963	43.143
Financing for acquisition of fixed assets	515	687
	132.041	133.683
	231.757	220.166

		Parent
	30-06-2011	**31-12-2010**
Current liabilities		
Guaranteed bank loans		
Working capital	31.289	22.362
FINAME	6.065	7.036
FINEP	5.947	5.956
BNDES-PEC	5.658	5.745
Working capital USD	6.258	3.355
Financing for acquisition of fixed assets	429	707
	55.646	45.161
Non current liabilities		
Guaranteed bank loans		
Working capital	18.781	9.792
FINAME	8.603	8.212
FINEP	6.568	9.523
BNDES-PEC	3.273	5.417
Working capital USD	3.331	9.997
Financing for acquisition of fixed assets	515	687
	41.071	43.628
	96.717	88.789

Notes to the financial statements

Terms and timetable for amortization of debts

The terms and conditions for loans outstanding were as follows:

				Consolidated			
				30-06-2011		31-12-2010	
	Currency	Nominal interest rate	Year of maturity	Face value	Carrying value	Face value	Carrying value
Guaranteed bank loans							
Working capital	R$	CDI + 1,8 to 3,91% p.a.	2011-2013	94.396	76.121	76.490	68.189
FINAME	R$	TJLP + 1 to 7,0% p.a.	2011-2020	30.415	16.629	19.249	4.557
FINAME	R$	4,50 to 5,50% p.a.	2011-2020	5.784	5.734	18.924	10.096
FINEP	R$	TJLP + 0,16 to 2% p.a.	2012-2014	34.300	13.549	34.300	17.578
FINEP	R$	5,25% p.a.	2017	34.788	31.023	27.788	33.615
BNDES-PEC	R$	12,90% p.a.	2013	10.000	8.931	10.000	11.162
FNE	R$	9,50% p.a.	2019	9.806	9.871	9.806	9.806
BNDES-Exim- Pre-embarkation	R$	4,50% p.a.	2012	5.000	5.028	5.000	5.028
BNDES Revitaliza	R$	9% p.a.	2017	2.846	2.856	2.846	2.856
Working capital	USD	Libor+ 0,79 to 4,8% p.a.	2011-2017	39.268	61.071	39.268	55.885
Financing for acquisition of fixed	USD	Libor+ 1,25 to 3,0 % p.a.	2011-2014	1.776	944	3.711	1.394
Total liabilities subject to interest					231.757		220.166

				Parent			
				30-06-2011		31-12-2010	
	Currency	Nominal interest rate	Year of maturity	Face value	Carrying value	Face value	Carrying value
Guaranteed bank loans							
Working capital	R$	CDI + 1,8 to 3,91% p.a.	2011-2013	62.715	50.070	35.700	32.154
FINAME	R$	TJLP + 2,25 to7,0% p.a.	2011-2014	14.830	8.934	15.215	10.691
FINAME	R$	4,50 to 5,50% p.a.	2011-2020	5.784	5.734	3.709	4.557
FINEP	R$	TJLP + 0,16 to 2% p.a.	2012-2014	29.601	12.515	29.601	15.479
BNDES-PEC	R$	12,90% p.a.	2013	10.000	8.931	10.000	11.162
Working capital	USD	Libor + 0,79 to 4,8% p.a.	2011-2017	8.000	9.589	8.000	13.352
Financing for acquisition of fixed	USD p	Libor + 1,25 to 3,0% p.a.	2011-2014	1.776	944	3.711	1.394
Total liabilities subject to interest					96.717		88.789

Maturity dates:

	30-06-2011		31-12-2010	
Year	Consolidated	Parent	Consolidated	Parent
2012	32.736	14.678	51.866	33.555
2013	53.540	21.243	42.545	6.055
2014	11.841	3.368	19.056	2.966
2015	8.388	446	6.685	216
2016 onwards	25.536	1.336	13.531	836
	132.041	41.071	133.683	43.628

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

The loan and financing contracts agreed between the Company and its subsidiaries include restrictive clauses that limit certain corporate alterations and require that certain financial indices be maintained. At 30-06-2011, all of these clauses had been complied with by the Taurus companies.

18 Debentures

The Company agreed a private instrument for the public registration of the 1st issue of debentures on June 08, 2010, for the total nominal value of R$ 103.000. The issue date for legal purposes was defined as 15-04-2010.

On July 15, 2010 the Company received funds derived from this issue, for the amount of R$ 106.444, being R$ 103.000 with respect to the nominal value and R$ 3.444 for the correction of the amount between the issue date (15-04-2010) and the date of receiving the funds, as provided in the public registration instrument.

The issue was made in a single series, corresponding to 10.300 debentures distributed on the secondary market through the National Debenture system, with restrictions on the placing allocated exclusively to qualified investors.

The unit nominal value will be paid in 7 six monthly installments, with a grace period of 12 months, as from April 15, 2011. 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 of 4,10% per annum.

On April 15, 2011 the Company made the first payment of the principal sum, for the amount of R$ 14.719 thousand, and the second payment, which referred to interest for the amount of R$ 7.715 thousand.

						30-06-2011
	Index	Current	Non Current	Transaction costs incurred	transaction costs appropriated	transaction costs to appropriate
Debentures	DI rate + 4,1%	31.951	58.367	996	259	737

The debentures are guaranteed by the subsidiaries Forjas Taurus S.A. in Brazil and its parent company Polimetal Participações S.A., constituted in the form of bonds granted jointly.

The instrument provides for anticipated maturity of all obligations object of the registration 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 own capital 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), made by the Company or by the guarantors of any type of sale or transfer of assets that has an impact of equal to or greater than 15% of the company's consolidated assets or equal to or greater than 20% of consolidated gross income of the Company (2), undertaking, by the Company or its subsidiaries, of financing, advance or loan operations, in the role 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 indices (net debt/EBITDA) equal to or less than 2,5 times and EBITDA/net financial expenses equal to or greater than 3,0 times, where: net debt is equal to total debts (including sureties and guarantees) less cash and cash equivalents, EBITDA is equal to profit before taxes, interest, depreciation and amortization in the previous 12 months and net financial expenses refers to total financial income less financial expenses for the previous 12 months.

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

(2) The occurrence of such events may be approved by the titleholders of at least 75% of the debentures in circulation, 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. All of the restrictive terms and clauses have been completed with.

19 Provisions

			Consolidated
	For guarantees	Civil and labor	Total
Balance at December 31, 2010	976	1.953	2.929
Provisions made during the period	604	121	725
Provisions used during the period	(151)	(7)	(158)
Reversal of discount	-	-	
Balance at June 30, 2011	1.429	2.067	3.496
Non current	-	196	196
Current	1.429	1.871	3.300

		Parent
	Civil and labor	Total
Balance at December 31, 2010- current	1.315	1.315
Provisions made during the period	75	75
Provisions used during the period	-	-
Reversal of discount	-	-
Balance at June 30, 2011- current	1.390	1.390

Provision for warranties

The provision for warranties refers basically to the machinery sold during 2010 and guaranteed until 30-06-2011. The provision is based on historic data of the warranties associated with similar products and services. The Company anticipates that it will incur the majority of the liabilities within the coming year.

20 Contingencies

a. Consolidated

The Taurus companies, in the same way as the parent company Forjas Taurus S.A., based on information from their legal advisors and analyses of pending legal demands, have registered a provision on consolidation, to other accounts payable, for the amount of R$ 5.398 (R$ 5.309 at 31-12-2010) considered sufficient to cover estimated losses from the on going claims evaluated as representing probable risks, as presented below:

			30-06-2011	31-12-2010
	Provision	**Legal deposits**	**Net**	**Net**
Labor	2.067	1.825	242	304
Tax				
Federal		423	(423)	(423)
State	3.331	466	2.865	3.117
	5.398	2.714	2.684	2.998

The Taurus companies have other processes that have been evaluated by the legal advisors as representing possible or remote risks, without being measured with sufficient accuracy, for the consolidated amount of approximately R$ 41.249 (R$ 21.705 at December 31, 2010) for which no provision has been registered, given that accounting practices adopted in Brazil do not require such.

b. Parent

The Company and its subsidiaries are parties to legal claims and administrative processes with various courts and government bodies, arising from the normal course of their operations, involving labor, tax and civil questions and other issues.

Management, based on information from its legal advisors, analysis of pending legal claims has registered a provision to other accounts payable, for the amount of R$ 2.476 (R$ 2.401 at 31-12-2010) considered sufficient to cover estimated losses from the on going claim, evaluated as representing probable risks, as follows:

			30-06-2011	31-12-2010
	Provision	**Legal deposits**	**Net**	**Net**
Labor	1.390	1.072	318	278
Tax				
Federal	-	423	(423)	(423)
State	1.086	292	794	966
	2.476	1.787	689	821

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

The Company has other processes evaluated by its legal advisors as representing possible or remote risks, without being measured with sufficient accuracy, for the consolidated amount of approximately R$ 18.032 (R$ 18.032 at December 31, 2010) for which no provision has been registered, given that accounting practices adopted in Brazil do not require such.

21 Financial instruments

The Company and its subsidiaries Taurus Blindagens Ltda. and Taurus Helmets Indústria Plástica Ltda., undertake operations with derivative financial instruments. Administration of these instruments is by means of operational 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 versus the existing market terms.

All of the operations involving financial instruments are recognized in the Company's financial statements, as presented below:

				Consolidated
	Reference value		**Carrying value**	
	30-06-2011	**31-12-2010**	**30-06-2011**	**31-12-2010**
Forward and swap contracts				
Asset position	210.545	106.828	3.077	2.584

				Consolidated
	Amount receivable (received)		**Amount payable (paid)**	
	30-06-2011	**31-12-2010**	**30-06-2011**	**31-12-2010**
Forward and swap contracts				
Restatement curve	3.989	5.125	1.657	3.520

				Parent
	Reference value		**Carrying value**	
	30-06-2011	**31-12-2010**	**30-06-2011**	**31-12-2010**
Forward and swap contracts				
Restatement curve	210.545	106.828	3.077	2.584

				Parent
	Amount receivable (received)		**Amount payable (paid)**	
	30-06-2011	**31-12-2010**	**30-06-2011**	**31-12-2010**
Forward and swap contracts				
Restatement curve	3.989	5.125	1.657	3.520

Notes to the financial statements

(i) Credit risk

Exposure to credit risks

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	
	Carrying values	
	30-06-2011	**31-12-2010**
Financial assets held to maturity	530	403
Trade accounts receivable	109.266	161.463
Other loans and receivables	15.755	57.341
Cash and cash equivalents	187.023	188.674
Foreign exchange forward and interest rate swap contracts used for asset hedging	3.077	2.584
Total	315.651	410.465

	Parent	
	Carrying values	
	30-06-2011	**31-12-2010**
Financial assets held to maturity	530	403
Trade accounts receivable	82.984	109.135
Other loans and receivables	10.002	12.301
Cash and cash equivalents	96.309	138.370
Foreign exchange forward and interest rate swap contracts used for asset hedging	3.077	2.584
Total	192.902	262.793

The maximum exposure to credit risk for trade accounts receivable and other loans and receivables at the reporting date by geographical region was as follows:

	Consolidated		Parent	
	Carrying values		Carrying values	
	30-06-2011	**31-12-2010**	**30-06-2011**	**31-12-2010**
Domestic – Trade accounts receivable	62.216	107.037	23.968	57.066
United States – Trade accounts receivable	37.142	53.543	49.623	51.715
Other	9.908	883	9.393	354
Total	109.266	161.463	82.984	109.135

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

	Consolidated		Parent	
	Carrying values		Carrying values	
	30-06-2011	**31-12-2010**	**30-06-2011**	**31-12-2010**
Clients – Public bodies	11.679	42.322	10.387	43.322
Clients – distributors	66.073	53.543	60.915	51.069
End clients	31.514	65.598	11.682	14.744
Total	109.266	161.463	82.984	109.135

Notes to the financial statements

Impairment losses

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

				Consolidated
	Gross 30-06-2011	Gross 31-12-2010	*Impairment* 30-06-2011	*Impairment* 31-12-2010
Not overdue	80.147	120.178	-	-
Overdue between 0-30 days	5.354	22.131	-	-
Overdue between 31-360 days	14.755	13.169	(1.441)	(197)
More than one year	9.010	5.985	(6.852)	(9.997)
Total	109.266	161.463	(8.293)	(10.194)

				Parent
	Gross 30-06-2011	Gross 31-12-2010	*Impairment* 30-06-2011	*Impairment* 31-12-2010
Not overdue	74.044	95.618	-	-
Overdue between 0-30 days	607	5.375	-	-
Overdue between 31-360 days	5.393	5.682	(939)	(197)
More than one year	2.940	2.460	(2.192)	(3.425)
Total	82.984	109.135	(3.131)	(3.622)

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

During 2011, the parent company transferred to third parties, credits receivable from the subsidiary Taurus Holdings, Inc. for the amount of R$ 15.942, without right of return. In the financial statements, this amount was recognized as advances of receivables.

(ii) 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:

						Consolidated 30-06-2011
	Carrying value	Contractual cash flow	Up to 1 year	1-2 years	2-5 years	More than 5 years
Non derivative financial liabilities						
Guaranteed bank loans	231.787	270. 521	112.765	54.194	63.055	40.507
Debt titles issued	90.318	113.245	32.569	37.499	43.177	-
Certificates of real estate receivables	39.300	52.268	10.065	11.462	30.740	-
Foreign exchange withdrawals	7.802	7.802	7.802	-	-	-
Derivative financial liabilities						
Other forward exchange contracts	-	-	-	-	-	-
Output	1.354	1.354	1.354	-	-	-
Input	(3.077)	(3.077)	(3.077)	-	-	-
	367.484	442.113	161.478	103.155	136.972	40.507

Notes to the financial statements

	Consolidated					
	31-12-2010					
	Carrying value	**Contractual cash flow**	**Up to 1 year**	**1-2 years**	**2-5 years**	**More than 5 years**
Non derivative financial liabilities						
Guaranteed bank loans	220.166	269.639	83.476	53.982	104.174	28.007
Debt titles issued	106.106	134.604	34.824	36.039	63.741	-
Certificates of real estate receivables	42.117	54.354	6.255	8.502	39.597	-
Foreign exchange withdrawals	4.453	4.899	4.899	-	-	-
Derivative financial liabilities						
Other forward exchange contracts	-	-	-	-	-	-
Output	-	-	-	-	-	-
Input	(2.584)	(2.584)	(2.584)	-	-	-
	370.258	460.912	126.870	98.523	207.512	28.007

	Parent					
	30-06-2011					
	Carrying value	**Contractual cash flow**	**Up to 1 year**	**1-2 years**	**2-5 years**	**More than 5 years**
Non derivative financial liabilities						
Guaranteed bank loans	96.717	110.159	58.731	17.098	31.992	2.338
Debt titles issued	90.318	113.245	32.569	37.499	43.177	-
Certificates of real estate receivables	7.802	7.802	7.802	-	-	-
Foreign exchange withdrawals						
Derivative financial liabilities						
Other forward exchange contracts	-	-	-	-	-	-
Output	1.354	1.354	1.354	-	-	-
Input	(3.077)	(3.077)	(3.077)	-	-	-
	193.114	229.483	97.379	54.597	75.169	2.338

	Parent					
	31-12-2010					
	Carrying value	**Contractual cash flow**	**Up to 1 year**	**1-2 years**	**2-5 years**	**More than 5 years**
Non derivative financial liabilities						
Guaranteed bank loans	88.789	105.527	48.481	32.383	24.663	-
Debt titles issued	106.106	134.604	34.824	36.039	63.741	-
Certificates of real estate receivables	4.453	4.899	4.899	-	-	-
Foreign exchange withdrawals	-	-	-	-	-	-
Derivative financial liabilities						
Other forward exchange contracts	-	-	-	-	-	-
Output	-	-	-	-	-	-
Input	(2.584)	(2.584)	(2.584)	-	-	-
	196.764	242.446	85.620	68.422	88.404	-

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

Notes to the financial statements

(iii) Foreign exchange risk

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

	Consolidated	
	USD	
	30-06-2011	31-12-2010
Accounts receivable	30.138	32.665
Foreign exchange withdrawals	(4.998)	(2.673)
Guaranteed bank loans	(39.725)	(33.540)
Foreign suppliers	(4.064)	(1.290)
Net balance sheet exposure	(18.649)	(4.838)

The exposure to consolidated foreign exchange risk includes the guaranteed bank loans from Taurus Holdings, Inc. for the amount of USD 32.978 at 30-06-2011 (USD 30.565 at 31-03-2011).

	Parent	
	USD	
	30-06-2011	31-12-2010
Accounts receivable	6.050	7.803
Accounts receivable – overseas related parties	31.754	23.447
Foreign exchange withdrawals	(4.998)	(2.673)
Guaranteed bank loans	(6.747)	(8.850)
Foreign suppliers	(1.481)	(2.014)
Net exposure of the balance sheet	24.578	17.713

The following exchange rates were used during the year:

	Average rate		Spot rate	
	30-06-2011	31-12-2010	30-06-2011	31-12-2010
R$/USD	1,6318	1,7602	1,5611	1,6662

Sensitivity analysis

The strengthening of the Real against the North American dollar, at June 30, 2011, increased equity and the results as reported below. This analysis is based on the change in the foreign exchange rate that the Company considered reasonably possible at the reporting date of the report. The analysis considered that all the other variables, particularly interest rates, would be remain constant. The analysis was made with the same base, for March 31, 2011, despite the reasonably possible change in the foreign exchange rate being different, as presented below:

	Consolidated		Parent	
	Shareholders' equity	Profit or loss for the period	Shareholders' equity	Profit or loss for the period
June 30, 2011				
R$/USD (25%)	7.608	7.608	10.027	10.027
R$/USD (50%)	15.216	15.216	20.053	20.053
December 31, 2010				
R$/USD (25%)	2.015	2.015	7.378	7.378
R$/USD (50%)	4.031	4.031	14.757	14.757

Notes to the financial statements

A devaluation of the Real in relation to the US dollar, at June 30, 2011, would have the same effect, however, with the opposite effect on the currency presented above, considering that all of the other variables remain constant.

(iv) 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, and the Company does not designate derivatives (interest rate *swaps*) as protection instruments using hedge accounting at fair value. Therefore, a change in interest rates at the reporting date would not affect the results.

Sensitivity analysis of cash flows for variable rate instruments

A variation of 10 points in interest rates, on the reporting date of the financial statements, would increase (reduce) the shareholders' equity and profit or loss for the year, by the amounts presented below. The analysis considers that all variables, particularly foreign currency, remain stable. The analysis has been prepared with the same base for December 31, 2010.

		Consolidated
		Carrying
	30-06-2011	**31-12-2010**
Fixed rate instruments		
Financial liabilities	70.703	84.262
Variable rate instruments		
Financial assets	110.638	151.608
Financial liabilities	299.421	287.731

		Parent
		Carrying
	30-06-2011	**31-12-2010**
Fixed rate instruments		
Financial liabilities	17.250	30.863
Variable rate instruments		
Financial assets	76.390	114.695
Financial liabilities	178.533	167.636

Sensitivity analysis of cash flows for variable rate instruments

A variation of 10 points in interest rates, on the reporting date of the financial statements, would increase (reduce) the shareholders' equity and profit or loss for the year on the balance for interest not liquidated, by the amounts presented below. The analysis considers that all variables, particularly foreign currency, remain stable.

Notes to the financial statements

	Consolidated	
	Shareholders' equity and results for the period	
	30-06-2011	30-06-2010
Change in interest rate on financing	(1.572)	(1.564)
Change in interest rate on financial investments	579	856

	Parent	
	Shareholders' equity and results for the period	
	30-06-2011	30-06-2010
Change in interest rate on financing	(1.049)	(946)
Change in interest rate on financial investments	400	634

Fair values 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			
	30-06-2011		31-12-2010	
	Carrying values	Fair values	Carrying values	Fair values
Assets stated at fair value				
Forward exchange contracts and interest rate swap contracts used for hedge operations	1.960	1.960	2.584	2.584
Assets stated at amortized cost				
Cash and cash equivalents	186.997	186.997	188.674	188.674
Trade accounts receivable and other receivables	100.973	100.973	151.269	151.269
	287.970	287.970	339.943	339.943
Liabilities stated at amortized cost				
Guaranteed bank loans	231.966	220.162	220.166	220.166
Issue of debt securities	90.318	96.187	106.106	106.106
Foreign exchange withdrawals	4.998	4.998	4.453	4.453
Suppliers and other accounts payable	38.805	38.805	38.538	38.538
Prepaid real estate credits	39.300	41.460	42.117	42.117
	405.387	401.612	411.380	411.380

	Parent			
	30-06-2011		31-12-2010	
	Carrying values	Fair values	Carrying values	Fair values
Assets stated at fair value				
Forward exchange contracts and interest rate swap contracts used for hedge operations	1.960	1.960	2.584	2.584
Assets stated at amortized cost				
Cash and cash equivalents	96.309	96.309	138.370	138.370
Trade accounts receivable and other receivables	79.853	79.853	105.513	105.513
	176.162	176.162	243.883	243.883
Liabilities stated at amortized cost				
Guaranteed bank loans	96.926	96.059	88.789	88.789
Issue of debt securities	90.318	96.187	106.106	106.106
Foreign exchange withdrawals	4.998	4.998	4.453	4.453
Suppliers and other accounts payable	14.125	14.125	14.636	14.636
	206.367	211.369	213.984	213.984

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

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

22 Related parties

Controlling company and final controlling party

The controlling company of the Group is Forjas Taurus S.A. and the final controlling party is Polimetal Participações S.A.

Remuneration of key management personnel

At June 30, 2011, remuneration paid to key management personnel, which included the directors and the Company’s management board, amounted to R$ 18.647 (R$ 17.693 at June 30, 2010), and includes salaries, fees and benefits.

Notes to the financial statements

Remuneration of key management personnel includes:

	Consolidated		Parent	
	30-06-2011	**30-06-2010**	**30-06-2011**	**30-06-2010**
Remuneration and benefits of statutory directors and management board	10.586	10.546	10.586	9.677
Remuneration of key personnel	8.061	7.147	4.293	4.781
Total	18.647	17.693	14.879	14.458

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

Operations of directors and key management personnel

The directors and key management personnel directly control 8% of the Company's voting capital.

Some of the key management personnel hold quotas in other entities, resulting in them having control or significant influence over the financial or operating policies of these companies. The pending balances with these related parties are evaluated based on market terms and are detailed below:

Transactions between related parties not eliminated on consolidation

In the consolidated financial statements at June 30, 2011 and December 31, 2010, the Company reported a balance receivable from Wotan Máquinas Ltda., for the amount of R$ 34.136.

Notes to the financial statements

Sureties between related parties

The loans and financing are guarantees by promissory notes, chattel mortgages over machinery and equipment, real estate mortgages and sureties from the directors. The sureties granted by the directors, the parent company and the sureties granted by the company to its subsidiaries and parent company are presented below:

Sureties from directors:

	30-06-2011	31-12-2010
Forjas Taurus S.A.	24.545	16.636

The Company provides sureties to its subsidiaries and parent company, as presented below:

Sureties to subsidiaries:

	30-06-2011	31-12-2010
Taurus Máquinas-Ferramenta Ltda.	31.080	31.256
Taurus Holdings, Inc.	51.482	42.533
	85.562	73.789

Sureties to Parent:

	30-06-2011	31-12-2010
Polimetal Participações S.A.	126.417	162.873

Sureties from Parent:

	30-06-2011	31-12-2010
Polimetal Participações S.A.	101.790	119.458

23 Capital and reserves (Parent)

Capital and reserves

Authorized shares (in thousands of shares)

	30-06-2011	31-12-2010
Ordinary shares	51.851	50.000
Preference shares	103.702	100.000
	155.553	150.000

Shares issued and fully paid up

	Ordinary		Preference	
	Number in thousands	R$ 000	Number in thousands	R$ 000
At December 31, 2010				
ON - R$ 5,50 - PN - R$ 4,10*	42.745	235.098	85.489	350.505
At June 30, 2011				
ON - R$ 3,36 - PN - R$ 3,40 *	47.019	157.984	94.038	319.729

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

Legal reserve

This is registered at the rate of 5% of net profit earned each year, in accordance with the terms of art. 193 of law 6.404/76, up to a limit of 20% of capital.

Statutory reserve and profit retention

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

Equity evaluation adjustments

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

Accumulated conversion adjustments

Accumulated conversion adjustments include all of the foreign currency differences arising from conversion of the financial statements of foreign entities.

Earnings per share

	30-06-2011	30-06-2010
Profit for the year	6.926	33.989
Number of shares held at the reporting date	141.057	128.234
Earnings per share for the period	0,04910	0,26505

24 Operational income

	Consolidated		Parent	
	30-06-2011	**30-06-2010**	**30-06-2011**	**30-06-2010**
Sales of products	374.978	362.798	188.641	237.015
Services rendered	2.259	1.713	73	22
Total income	377.237	364.511	188.714	237.037

The reconciliation between gross sales for tax purposes and income reported in the statements of income is presented below:

	Consolidated		Parent	
	30-06-2011	**30-06-2010**	**30-06-2011**	**30-06-2010**
Gross tax income	377.237	364.511	188.714	237.037
Sales taxes	(56.223)	(53.484)	(24.605)	(24.273)
Returns and discounts	(2.599)	(937)	(2.547)	(771)
Total book income	318.415	310.090	161.562	211.993

25 Other operational expenses, net

	Consolidated		Parent	
	30-06-2011	**30-06-2010**	**30-06-2011**	**30-06-2010**
Research and development	(1.683)	(1.293)	(1.561)	(1.219)
Cost of fixed assets sold	(516)	(29)	(490)	(1)
Amortization of intangible assets	(462)	-	(454)	-
Employee profit sharing	(591)	(4.951)	-	(3.062)
Idle capacity	(849)	(1.229)	-	-
Other	(2.111)	(1.115)	(34)	(589)
	(6.212)	(8.617)	(2.539)	(4.871)
Other operational income	2.881	1.508	509	60
	(3.332)	(7.109)	(2.030)	(4.811)

26 Financial income and expenses

	Consolidated		Parent	
	30-06-2011	**30-06-2010**	**30-06-2011**	**30-06-2010**
Financial expenses				
Interest	(19.072)	(15.016)	(11.627)	(8.856)
Capitalized interest on fixed assets	938	475	851	327
Exchange variations	(2.908)	(4.926)	(2.785)	(4.477)
IOF	(281)	(225)	2	(20)
Other expenses	(4.954)	(1.979)	(4.163)	(1.035)
	(26.277)	(21.671)	(17.722)	(14.061)
Financial income				
Interest	6.169	7.645	5.510	6.240
Exchange variations	2.035	7.732	1.865	7.464
Other income	3.265	3.147	1.808	980
	11.469	18.524	9.183	14.684
Net financial results	(14.808)	(3.147)	(8.539)	623

27 Income tax and social contribution expense

The reconciliation of the expense calculated using the combined tax rates and the income tax and social contribution expense debited to profit and loss is demonstrated below:

	Consolidated		Parent	
	30-06-2011	**30-06-2010**	**30-06-2011**	**30-06-2010**
Book profit before income tax and social contribution	22.127	48.771	7.783	42.419
Combined tax rate	34%	34%	34%	34%
Income tax and social contribution:				
At the combined tax rate	(7.523)	(16.582)	(2.646)	(14.422)
Permanent additions:				
Non deductible expenses	(45)	(94)	(44)	(94)
Profits available from overseas	-	-	-	-
Permanent exclusions:				
Tax exempt income – equity in income	-	247	6.845	3.314
Other – Law 11.196/05	23	1.274	-	1.249
Interest on own capital	-	3.052	-	3.052
Tax loss not recognized to assets	(9.397)	-	(4.940)	-
Statutory participation	-	-	-	-
Other items	1.761	(2.664)	(72)	(1.529)
Income tax and social contribution on the results for the year	(15.181)	(14.767)	(857)	(8.430)
Composition of income tax and social contribution on the results for the year:				
Current	(9.543)	(18.924)	(487)	(8.004)
Deferred	(5.638)	4.157	(370)	(426)
	(15.181)	(14.767)	(857)	(8.430)
Effective rate	68,61%	30,29%	11,01%	19,87%

28 Insurance coverage

The Company adopts the policy to contract insurance coverage for assets subject to risks for amounts considered sufficient to cover claims, considering the nature of its activities. The risk premises adopted, given their nature, are not part of the scope of an audit of the financial statements, consequently, they were not analyzed by our independent auditors.

At June 30, 2011, the Company's insurance coverage was as follows:

	30-06-2011	
	Consolidated	**Parent**
Material damage	160.759	103.796
Civil responsibility	7.480	7.480
Lost profits	3.100	-

29 Subsequent events

a. Capital increase

The Ordinary and Extra-ordinary General Meeting held on 29-04-2011, determined and approved a capital increase from R$ 201.000 to R$ 219.000 through the capitalization of reserves, for the total amount of R$ 18.000, derived from the investment reserve account, with the consequent issue and distribution to the shareholders, in proportion to the number of shares in circulation, of 12.823.416 new shares, all with no par value, being 4.274.472 ordinary and 8.548.944 preference shares, by means of a crediting 1 (one) new share for each group of 10 (ten) shares, observing the existing types.

b. Corporate restructuring

On May 27, 2011, the Extraordinary General Meeting and the Company's Special Preferred shareholders Meeting, approved the proposal to implement the corporate restructuring presented by the indirect controlling shareholder, Sr. Luis Fernando Costa Estima, involving the Company and its direct parent company Polimetal Participações S.A. ("Restructuring"), which involved the following five stages: (i) the incorporation of all of the shares issued by Taurus to the equity of Polimetal, in accordance with the terms of articles 252 and 264 of corporation law, which permits the temporary migration of the non controlling shareholders from Taurus to Polimetal; (ii) the redemption of shares issued by Taurus, the support of the existing revenue reserves account, without reducing capital, in accordance with the terms of article 44 of corporation law, for the amount of R$ 165 million, to settle the debt registered in the balance sheet of Polimetal ("Debt"); (iii) the subsequent incorporation of all of the shares issued by Polimetal to the equity of Taurus, with the definitive conversion of Polimetal into a wholly owned subsidiary of Taurus, in accordance with the terms of articles 252 to 264 of corporation law, which permitted the return of the share base to Taurus; (iv) the segmentation of the activities undertaken by Taurus into the Taurus segment and the Polimetal segment, to be implemented by means of a future capital increase of Polimetal, by means of a contribution, by Taurus, of assets and participations that refer to the Polimetal segment, and also the incorporation of other companies operating in the Polimetal segment, currently controlled by Taurus (this process, the "Segmentation"); and (v) adhesion by Taurus to Level 2 Corporate Governance from BM&FBOVESPA S.A. – Futures and Commodities Stock Exchange ("BM&FBOVESPA"), formalized on July 07, 2011, and the adoption of additional governance, through the total reform of Taurus' Statutes.

As a result of the incorporations of the shares included in stages (i) and (iii) of the Restructuring, at the end of the Restructuring, Polimetal was converted into a wholly owned subsidiary of Taurus, with the effect being a dilution of the controlling shareholder to the benefit of the non controlling shareholders of Taurus as the corresponding entry for payment of the Debt.

The Restructuring will be considered fully implemented with the total transfer, to Polimetal, of the activities involving the manufacture and commercialization of the business for forged and machined parts in general, metal injection (*MIM technology - Metal Injection Molding*), thermal treatment of metals, manufacture of helmets and accessories for motorbike riders, bullet proof jackets, plastic containers and manual tools and other activities not exclusively related to Weapons manufacture ("Polimetal Segment"), which is anticipated to occur by January 01, 2012.

REPORT ON THE REVIEW OF THE QUARTERLY INFORMATION

To
The Management Board and the Shareholders
Forjas Taurus S.A.
Porto Alegre – Rio Grande do Sul

Introduction

We have revised the individual and consolidated interim financial statements of Forjas Taurus S.A., included in the Quarterly Information Forms, for the quarter ended June 30, 2011, which include the balance sheet at June 30, 2011, and related statements of income, comprehensive income for the six months then ended, the statements of changes in shareholders' equity and cash flows for the six months then ended, including a summary of the significant accounting policies and other notes to the financial statements.

Management is responsible for preparing the individual interim financial statements in accordance with Technical Pronouncement CPC 21 - Interim Statements and the consolidated interim financial statements in accordance with Technical Pronouncement CPC 21and the international standard IAS 34 – *Interim Financial Reporting*, issued by the *International Accounting Standards Board* – IASB, and for presenting this information in a manner consistent with the norms issued by the Securities Commission, applicable for preparing Quarterly Information - ITR. Our responsibility is to express a conclusion on these interim financial statements based on our review.

Extent of our review

We performed our review in accordance with Brazilian and international standards for reviewing interim information (NBC TR 2410 – Review of Interim Information Performed by the Entity's Auditors and ISRE 2410 - *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, respectively). A review of interim information consists of making enquiries, mainly of persons responsible for financial and accounting issues and applying analytical procedures and other review procedures. The extent of our review is significantly less than that for an audit undertaken in accordance with auditing standards and consequently, did not enable us to obtain assurance that we were informed of all of the significant issues that could be identified during an audit. Therefore, we do not express an audit opinion.

Conclusion on the individual interim financial statements

Based on our review, we are not aware of any fact that leads us to understand that the aforementioned individual interim financial statements included in the Quarterly Information referred to above were not prepared, in all material respects, in accordance with CPC 21 applicable to the preparation of Quarterly Information – ITR and presented in a manner consistent with the norms issued by the Securities Commission.

Conclusion on the consolidated interim financial statements

Based on our review, we are not aware of any fact that leads us to understand that the aforementioned consolidated interim financial statements included in the Quarterly Information referred to above were not prepared, in all material respects, in accordance with CPC 21 and IAS 34 applicable to the preparation of Quarterly Information – ITR and presented in a manner consistent with the norms issued by the Securities Commission.

Other issues

Interim statements of added value

We also reviewed the individual and consolidated interim statements of added value, for the six months ended June 30, 2011, which are management's responsibility and presentation of which in the interim statements is required according to the norms issued by the Securities Commission CVM, applicable for preparing Quarterly Information - ITR and considered supplementary information by the IFRS, which do not require a statement of added value to be reported. These statements were subject to the same review procedures described previously, and based on our review, we are not aware of any fact that leads us to understand that they were not prepared, in all material respects, in accordance with the interim individual and consolidated statements taken as a whole.

Porto Alegre, August 09, 2011.

KPMG Auditores Independentes
CRC 2SP014428/F-RS

Original in Portuguese signed by
Cristiano Jardim Seguecio
Accountant CRC SP244525/O-9-T-RS