



RELEASE

4Q14



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A Nova Bolsa

Índice de  
Ações com Governança  
Corporativa Diferenciada

IGC

Índice de  
Ações com Tag Along  
Diferenciado

ITAG

NÍVEL 2  
BM&FBOVESPA

FJTA3  
NÍVEL 2  
BM&FBOVESPA

FJTA4  
NÍVEL 2  
BM&FBOVESPA

**Porto Alegre, March 26, 2015 - Forjas Taurus S.A.** (BM&FBOVESPA: FJTA3, FJTA4), a company in the segments of (i) Defense and Security – as the largest firearm manufacturer in Latin America and one of the largest in the world; and of (ii) Metallurgy and Plastics – as market leader in the production of helmets for motorcyclists, and in the production of bulletproof vests, antiriot shields, plastic containers and forged and molded parts (M.I.M – Metal Injection Molding), informs hereby the results for the 4th quarter of 2014 (4Q14) and the year ended December 31, 2014 (12M14).

## 1. HIGHLIGHTS FOR THE 4th QUARTER OF 2014 (4Q14)

- ✓ **Consolidated net revenue amounts to R\$ 166.9 milhões**, 35.1% up as compared with 3Q14 and 6.9% up as compared with 4Q13;
- ✓ **Breakdown of net revenue in 4Q14:** 41% - domestic market; 45% - US market; and 14% - other countries;
- ✓ **Exports amounting to R\$ 99.1 million in the quarter**, 49.7% up as compared with 3Q14 with signs of US market recovery and strong performance of sales to other countries, reaching 18% of participation in Taurus firearms sales in 4Q14;
- ✓ **Revenue from the firearms segment amounts to R\$ 125.7 million in 4Q14**, as compared with R\$ 86.2 million in 3Q14, increasing participation to 75% of new revenue in 4Q14;
- ✓ **Net sales of firearms in 4Q14 in the domestic market.** In this quarter, the performance of sales in the Northeastern and Mid-western regions is noteworthy, having grown 34.3% and 27.0% respectively, as compared with 3Q14.
- ✓ **Revenue from helmets amounts to R\$ 33.3 million in 4Q14**, as compared with R\$ 28.3 million in 3Q14 and R\$ 30.3 million in 4Q13, maintaining participation around 20% of net revenue in 2014;
- ✓ **Market share of helmets** remained stable as compared with the prior quarter, around 45% in Dec/14;
- ✓ **Consolidated gross profit amounted to R\$ 51.1 million**, having presented operating income both in the firearms segment and in the helmets segment, with margins of 33.3% and 33.5%, respectively;
- ✓ **Operating expenses** decreased by 21.2% in 4Q14 as compared with 4Q13, and by 19.6% as compared with 3Q14;
- ✓ **Significant improvement** (i) in the firearms/man/year productivity index both for pistols and revolvers; (ii) in quality reflected in products compliance; and (iii) in production levels; all measured in Dec/14 and compared with Sept/14; and
- ✓ **Seasonal increase in demand in the domestic market in 4Q14 and clear recovery in sales to the US**, with significant orders to be delivered as from the beginning of 2015.



## 2. Subsequent events

### 2.1 Concentration Act – Taurus and Companhia Brasileira de Cartuchos

**On January 23, 2015**, Brazil's Administrative Council for Economic Defense ("CADE") approved, with no restrictions, Concentration Act No. 08700.003843/2014-96 related to Forjas Taurus S.A. and Companhia Brasileira de Cartuchos ("CBC") through Decision No. 109 published in the Federal Official Gazette of January 26, 2015.

**On February 11, 2015**, Brazil's Administrative Council for Economic Defense (CADE) issued a certificate informing that this proceeding had been completed and shelved since, within the fifteen-day term as from date when the decision approving referred to concentration act was published, no appeal or petition for writ of certiorari had been filed, as provided for in article 65 of Law No. 12529/11. Accordingly, Taurus disclosed under Significant Facts that CBC is entitled to exercise the political rights granted by 100% of its shares, which as at March 30, 2015, represent 4,985,422 common shares (59.07% of common registered shares - ON) and 71,790 preferred shares (0.93% of preferred registered shares - PN), totaling 5,057,212 shares (31.33% of total capital).

### 2.2 Reverse Split of Shares

**On January 19, 2015**, Taurus informed its shareholders and the market in general that, at the Special Shareholders' Meeting held on December 19, 2014 at 11:00 a.m., Company shareholders had approved a reverse share split in the proportion of 11 to 1 (eleven shares of each type (common and preferred) to one of the respective type), as from January 20, 2015; after this measure was taken, Company common and preferred shares are now traded exclusively at the ratio resulting from the reverse split of Company shares and for a single share price on BM&FBOVESPA.

After approval of this reverse split of shares at the Shareholders' Meeting, Company shareholders had a thirty-day period to sell or purchase, at their sole discretion, the common and/or preferred shares necessary to eliminate the fractions of shares resulting from the split process. In February 2015, the Company sold the shares arising from this operation and proportionally transferred the resulting sales amount to the shareholders holding fractions of shares.

The reverse split of shares did not impact: (i) the amount in reais of Company capital; (ii) the rights attributed to common and preferred shares; and (iii) the interest held by each shareholder in Company capital, except in the hypotheses in which, through the reverse split of shares, a shareholder held fractions of shares, as the case may be.



BM&FBOVESPA  
A Melhor Bolsa

Índice de  
Ações com Governança  
Corporativa Diferenciada **IGC**

Índice de  
Ações com Tag Along  
Diferenciado **ITAG**



## 2.3 Legal Advisory Services – Civil Liability Suit

On January 20, 2015, Company Board of Directors approved the hiring of law firm L.O. Baptista, Schmidt, Valois, Miranda, Ferreira, Agel, to provide legal advisory services aimed at taking the measures decided by majority of votes of the shareholders present at the Special Shareholders' Meeting held on December 19, 2014 concerning a civil liability suit to be filed by the Company against Mr. Luis Fernando Costa Estima, under the terms of article 159 of Law No. 6404/1976. Additionally, in a Communication to the Market, Taurus informed that its internal legal department will monitor *pari passu* the operational aspects and the procedural steps of the suit.

## 3. Consolidated Economic and Financial Performance

Company consolidated economic and financial performance in 2014 as compared with 2013 is as follows:

### Consolidated Economic and Financial Performance

In millions of Brazilian reais, unless otherwise stated

Ratios	4Q14	3Q14	2Q14	1Q14	4Q13	2014	2013	Variation %		
								2014/2013	4Q14/4Q13	4Q14/3Q14
<b>Net revenue</b>	<b>166.9</b>	<b>123.6</b>	<b>132.9</b>	<b>168.1</b>	<b>156.1</b>	<b>591.5</b>	<b>807.3</b>	<b>-26.7%</b>	<b>6.9%</b>	<b>35.1%</b>
Domestic market	67.9	57.4	59.9	62.4	59.0	247.5	260.0	-4.8%	15.1%	18.3%
Foreign market	99.1	66.2	73.1	105.8	97.1	344.1	547.3	-37.1%	2.0%	49.7%
COGS	115.8	105.2	106.8	122.4	120.6	450.3	565.6	-20.4%	-4.0%	10.0%
Gross Profit	51.1	18.3	26.1	45.7	35.5	141.3	241.7	-41.6%	44.0%	179.0%
<b>Gross Margin - %</b>	<b>30.6%</b>	<b>14.8%</b>	<b>19.6%</b>	<b>27.2%</b>	<b>22.7%</b>	<b>23.9%</b>	<b>29.9%</b>	<b>-6.1 p.p.</b>	<b>7.9 p.p.</b>	<b>15.8 p.p.</b>
Operating Expenses	-69.2	-86.2	-37.5	-41.2	-87.8	-234.1	-225.7	3.7%	-21.2%	-19.6%
Operating Profit (EBIT)	-18.1	-67.8	-11.4	4.5	-52.3	-92.9	16.0	-679.3%	-65.4%	-73.3%
<b>EBIT Margin - %</b>	<b>-10.8%</b>	<b>-54.9%</b>	<b>-8.6%</b>	<b>2.7%</b>	<b>-33.5%</b>	<b>-15.7%</b>	<b>2.0%</b>	<b>-17.7 p.p.</b>	<b>22.7 p.p.</b>	<b>44.1 p.p.</b>
Net Financial Income	-35.6	-30.3	-16.4	-9.9	-20.2	-92.2	-73.6	25.3%	76.5%	17.6%
Depreciation and amortization <sup>(1)</sup>	8.4	8.6	8.2	8.1	9.1	33.3	35.3	-5.6%	-7.5%	-2.4%
Net Income - Consolidated	-60.7	-94.6	-25.6	-4.5	-70.2	-185.4	-80.3	130.9%	-13.6%	-35.9%
<b>Net Income Margin - Consolidated</b>	<b>-36.3%</b>	<b>-76.6%</b>	<b>-19.3%</b>	<b>-2.7%</b>	<b>-45.0%</b>	<b>-31.3%</b>	<b>-9.9%</b>	<b>-21.4 p.p.</b>	<b>8.7 p.p.</b>	<b>40.2 p.p.</b>
Adjusted EBITDA <sup>(2)</sup>	5.3	-2.8	13.5	28.8	-12.6	44.8	100.0	-55.2%	-142.1%	-286.5%
<b>Adjusted EBITDA Margin - %</b>	<b>3.2%</b>	<b>-2.3%</b>	<b>10.2%</b>	<b>17.1%</b>	<b>-8.1%</b>	<b>7.6%</b>	<b>12.4%</b>	<b>-4.8 p.p.</b>	<b>11.2 p.p.</b>	<b>5.5 p.p.</b>
Total Assets	979.8	1,024.5	1,091.1	1,089.2	1,184.1	979.8	1,184.1	-17.3%	-17.3%	-4.4%
Equity	52.1	96.6	104.1	134.7	146.0	52.1	146.0	-64.3%	-64.3%	-46.1%
Investments (CAPEX)	3.4	4.4	5.1	3.1	7.6	16.0	28.2	-43.5%	-55.1%	-23.5%

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

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



BM&F BOVESPA  
A Melhor Bolsa

Índice de  
Ações com Governança  
Corporativa Diferenciada **IGC**

Índice de  
Ações com Tag Along  
Diferenciado **ITAG**

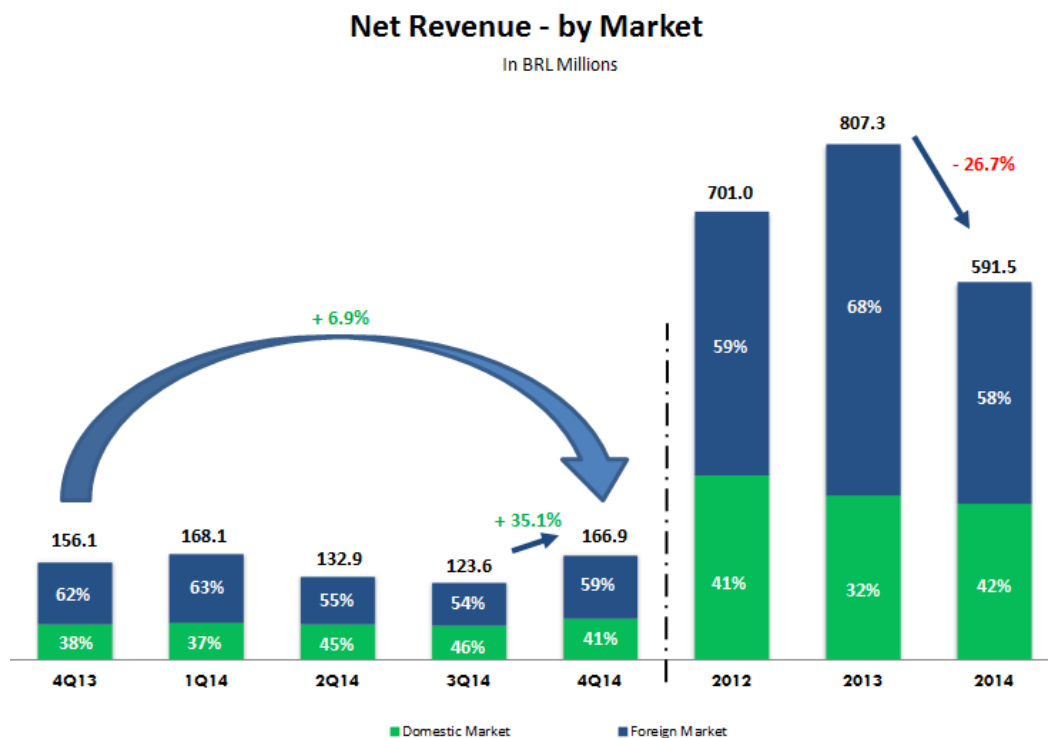
**NÍVEL 2**  
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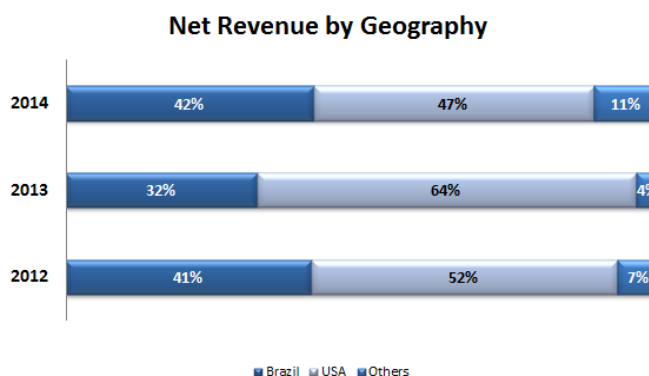
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## Net revenue

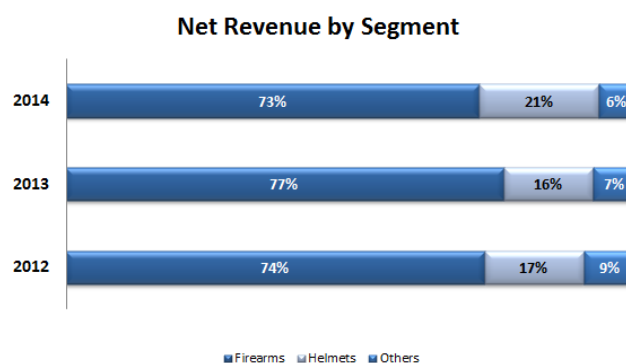
In 2014, Forjas Taurus S.A. presented consolidated net revenue of R\$ 591.5 million, which represented a decrease of 26.7% as compared to the R\$ 807.3 million in 2013, which had been 15.2% above 2012, a performance mostly explained by a cyclic slowdown in the North American market, major consumer of Company products. In 4Q14, the Company presented a strong recovery as compared with the prior quarter (+35.1%) and also with 4Q13 (+6.9%), thus evidencing the first signs of both operational and market recovery.



As a consequence, the geographic distribution of Company sales was significantly changed. Brazil's participation in net revenue increased from 32% in 2013 to 42% in 2014. Sales in the Brazilian market amounted to R\$ 247.5 million in 2014, approximately R\$ 12 million below prior year. However, the sales of firearms in the domestic market increased in 2014, which was negatively offset by the decrease in revenue from helmets and other products, such as products forged for third parties. Worth mentioning, on the positive side, the strong sales to other counties to which Taurus exports. This market was responsible for an increase by R\$ 30 million in sales, which represents double the sales to other counties as compared with 2013, reaching 10% participation in consolidated net revenue and in line with the strategy adopted, which aims at diversifying Company export markets.



Consolidated net revenue per business segment is distributed as follows and shows that the segment of hand guns and long guns continues to represent the largest market share of Taurus (73%), followed by helmets (21%) and other products (6%) such as containers, motorcycle trucks, M.I.M. (Metal Injection Molding) and vests.



## Segment information

The table below sets out consolidated financial highlights by segment:

### RESULTS BY BUSINESS SEGMENT

Consolidated amount in millions of reais

#### Comparative - Year over Year

	Net Revenue					Gross Income			Gross Margin			Income before taxes		
	2014	Part. %	2013	Part. %	Var.	2014	2013	Var.	2014	2013	Var.p.p	2014	2013	Var.
Firearms	430.0	72.7%	621.1	76.9%	-30.8%	92.4	162.3	-43.0%	21.5%	26.1%	-4.6	(167.4)	(74.7)	124%
Helmets	124.5	21.0%	127.6	15.8%	-2.4%	40.4	45.6	-11.3%	32.5%	35.7%	-3.3	22.8	23.9	-5%
Others	37.1	6.3%	58.7	7.3%	-36.8%	8.4	33.8	-75.2%	22.7%	57.7%	-35.0	(40.4)	(6.8)	NS
Total	591.5	100.0%	807.3	100.0%	-26.7%	141.3	241.7	-41.6%	23.9%	29.9%	-6.1	(185.0)	(57.6)	NS

#### Comparative Quarter - Year over Year

	Net Revenue					Gross Income			Gross Margin			Income before taxes		
	4Q14	Part. %	4Q13	Part. %	Var.	4Q14	4Q13	Var.	4Q14	4Q13	Var.p.p	4Q14	4Q13	Var.
Firearms	125.7	75.3%	117.8	75.5%	6.7%	41.8	(2.7)	NS	33.3%	-2.2%	35.5	(57.7)	(93.9)	-39%
Helmets	33.3	20.0%	30.3	19.4%	10.0%	11.2	8.8	27.3%	33.5%	28.9%	4.6	4.6	1.4	NS
Others	7.9	4.7%	7.9	5.1%	-0.8%	(1.9)	29.4	-106.4%	-23.7%	370.2%	-393.9	(0.6)	19.9	-103%
Total	166.9	100.0%	156.1	100.0%	6.9%	51.1	35.5	44.0%	30.6%	22.7%	7.9	(53.7)	(72.5)	-26%

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

	Net Revenue					Gross Income			Gross Margin			Income before taxes		
	4Q14	Part. %	3Q14	Part. %	Var.	4Q14	3Q14	Var.	4Q14	3Q14	Var.p.p	4Q14	3Q14	Var.
Firearms	125.7	75.3%	86.2	69.7%	45.9%	41.8	5.6	NS	33.3%	6.5%	26.7	(57.7)	(65.6)	-12%
Helmets	33.3	20.0%	28.3	22.9%	17.9%	11.2	7.7	44.6%	33.5%	27.3%	6.2	4.6	4.4	5%
Others	7.9	4.7%	9.1	7.4%	-13.9%	(1.9)	5.0	NS	-23.7%	54.2%	-78.0	(0.6)	(36.9)	-98%
Total	166.9	100.0%	123.6	100.0%	35.1%	51.1	18.3	NS	30.6%	14.8%	15.8	(53.7)	(98.1)	-45%

## I. Firearms

This segment includes handguns (revolvers and pistols for public and private security, and for military and civil restricted use), long guns (rifles and carbines) and submachine guns. Operations in this segment are conducted by Forjas Taurus S.A. in Porto Alegre/RS, Polimetal Metalurgia e Plásticos Ltda. in São Leopoldo/RS and Taurus Holdings, Inc. in the USA.



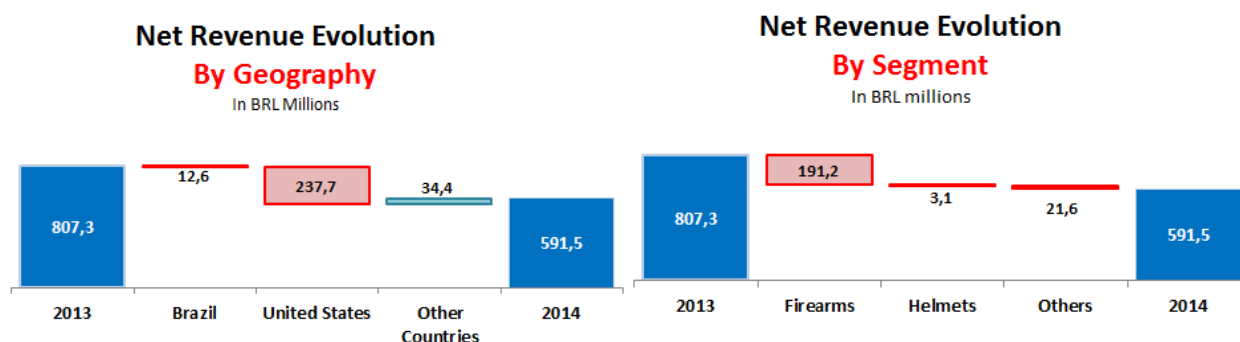
NET REVENUE	4Q14	3Q14	2Q14	1Q14	4Q13	2014	2013	Variation %		
								2014/2013	4Q14/4Q13	4Q14/3Q14
<b>Firearms</b>	<b>125.7</b>	<b>86.2</b>	<b>94.1</b>	<b>124.0</b>	<b>117.8</b>	<b>430.0</b>	<b>621.1</b>	<b>-30.8%</b>	<b>6.7%</b>	<b>45.9%</b>
<b>Brazil</b>	<b>27.9</b>	<b>21.2</b>	<b>21.7</b>	<b>19.4</b>	<b>22.0</b>	<b>90.3</b>	<b>79.5</b>	<b>13.5%</b>	<b>27.0%</b>	<b>31.6%</b>
Southeast	9.3	9.8	3.4	3.5	1.4	26.0	21.2	22.7%	584.0%	-4.4%
South	5.7	2.6	3.3	7.6	14.4	19.2	23.4	-18.0%	-60.3%	121.3%
Northeast	7.0	4.1	5.4	4.2	1.9	20.7	18.7	10.5%	264.1%	68.3%
North	1.9	0.9	3.8	2.8	2.4	9.5	6.1	55.6%	-19.9%	108.1%
Midwest	3.9	3.8	5.8	1.4	1.9	15.0	10.2	47.1%	112.7%	4.1%
<b>USA</b>	<b>74.6</b>	<b>47.9</b>	<b>60.5</b>	<b>92.0</b>	<b>95.8</b>	<b>275.0</b>	<b>511.5</b>	<b>-46.2%</b>	<b>-22.1%</b>	<b>55.9%</b>
<b>Other Countries</b>	<b>23.1</b>	<b>17.0</b>	<b>11.9</b>	<b>12.6</b>	<b>0.1</b>	<b>64.7</b>	<b>30.1</b>	<b>114.9%</b>	<b>NA</b>	<b>35.8%</b>
<b>Exports</b>	<b>97.8</b>	<b>64.9</b>	<b>72.4</b>	<b>104.6</b>	<b>95.9</b>	<b>339.7</b>	<b>541.6</b>	<b>-37.3%</b>	<b>2.0%</b>	<b>50.6%</b>

**Net sales of firearms in 4Q14** amounted to R\$ 125.7 million, 45.9% above the R\$ 86.2 million in the prior quarter and 6.7% above the same period of prior year. In the domestic market, it is worth mentioning the Northern region, which increased both as compared with 3Q14 (+68.3%) and as compared with 4Q13 (+264.1%), reaching participation of 25% in the sales of firearms in Brazil in 4Q14. In the foreign market, two highlights: US market sales, which presented signs of recovery and increased by 55.9% as compared with 3Q14, and sales to other countries, whose performance was 35.8% up as compared with the prior quarter, having reached 18% participation in Taurus firearms sales in 4Q14.

In 4Q14, significant evidence may be identified that the larger volume obtained and corrective measures taken in 2014 directly impacted Company gross margin. As compared with the prior quarter, gross profit increased by R\$ 36.2 million, from gross margin of 6.5% to 33.3%.

In 2014, net revenue decreased by 30.8% as compared with 2013, totaling R\$ 430.0 million. Gross profit amounted to R\$ 92.4 million, approximately R\$ 70 million down as compared with 2013, which represents a decrease of 43.0%. Consequently, gross margin was 4.6 p.p. down, from 26.1% in 2013 to 21.5% in 2014, which also had an impact on pre-tax income.

The sharp decrease in net revenue from this segment as compared with 2013, and the consequent loss of profitability due to fixed costs and expenses are explained by the significant slowdown in the North American market, specifically firearms, which decreased Company results.



It should be noted that, between the end of 2012 and early 2013, the US market presented an increase in demand in view of the proposals made by the Obama Government with the purpose of restricting firearms

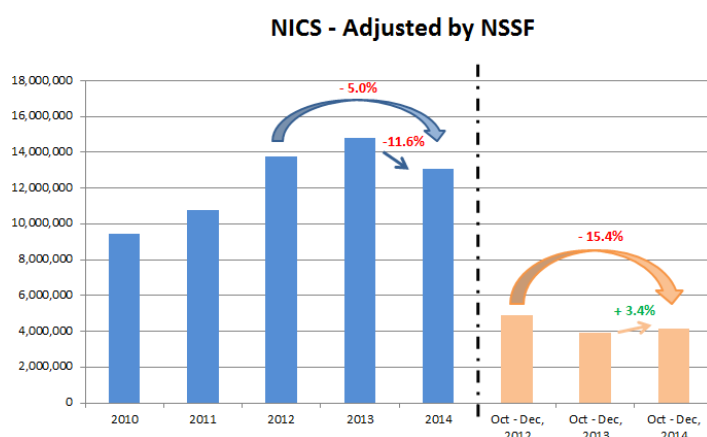


acquisition. Although not approved by the US Congress, such measures made the US citizens purchase more in referred to period – in fear of a possible limitation to firearms acquisition, which caused the number of checks in the National Instant Criminal Background Check System (“NICS”) to reach historic levels in 2013. The evolution of this indicator is presented in the table below, which evidences that in 2014, a decrease by 11.6% as compared with 2013 and by 5% as compared with 2012. Given this scenario, in 2014, competition was fiercer and caused discounts and promotions to decrease market margins as a whole. In addition to that, Company major distributors still had high levels of inventories, which resulted in greater caution and bargaining power by large customers at the time of purchase.

However, in the last months of 2014, signs of recovery began to be identified, such as an increase of 3.4% in the number of checks as compared with the same period in 2013.

In 2014, Taurus endeavored to adapt its prices and supplier chain to this market configuration.

Company management trusts that the growth in American culture in relation to firearms acquisition will be maintained, which is in line with Company DNA - for over 75 years, a manufacturer of products which protect people.



## II. Helmets

The helmet segment is Company’s second largest, accounting for 21% of net sales in 2014. Taurus helmets are produced by Taurus Blindagens Ltda. in Mandirituba/PR, as well as in the unit which serves the Northern and Northeastern regions of Brazil, Taurus Blindagens Nordeste Ltda. in Simões Filho/BA. Taurus supplies basically the domestic market and sells to Latin American countries from time to time.

								Variation %		
NET REVENUE	4Q14	3Q14	2Q14	1Q14	4Q13	2014	2013	2014/2013	4Q14/4Q13	4Q14/3Q14
<b>Capacetes</b>	<b>33.3</b>	<b>28.3</b>	<b>30.3</b>	<b>32.6</b>	<b>30.3</b>	<b>124.5</b>	<b>127.6</b>	<b>-2.4%</b>	<b>10.0%</b>	<b>17.9%</b>
<b>Brazil</b>	<b>33.3</b>	<b>28.1</b>	<b>30.3</b>	<b>32.6</b>	<b>30.3</b>	<b>124.2</b>	<b>127.1</b>	<b>-2.3%</b>	<b>10.1%</b>	<b>18.5%</b>
Southeast	8.7	8.0	9.1	8.5	8.5	34.3	31.9	7.5%	3.1%	9.3%
South	1.7	1.3	1.6	1.5	1.6	6.1	6.2	-1.6%	9.0%	29.1%
Northeast	11.1	8.3	7.0	11.8	9.2	38.2	39.6	-3.5%	20.8%	34.3%
North	5.9	5.9	7.3	5.9	6.5	25.0	28.7	-13.1%	-9.6%	-0.4%
Midwest	5.9	4.6	5.2	4.9	4.6	20.6	20.7	-0.2%	29.5%	27.0%
<b>Exports</b>	<b>0.0</b>	<b>0.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.3</b>	<b>0.4</b>	<b>-34.4%</b>	<b>-45.8%</b>	<b>-83.9%</b>

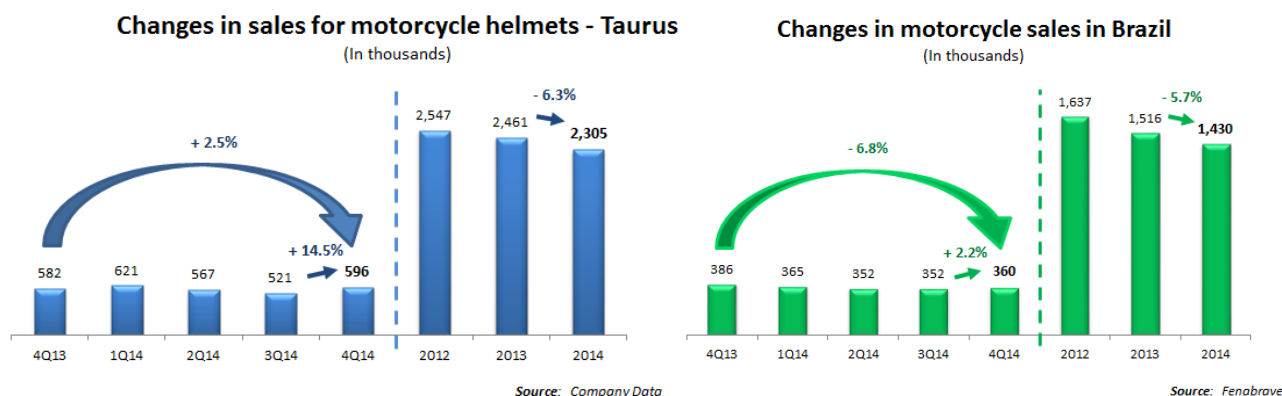
**Net sales of firearms in 4Q14** amounted to R\$ 33.3 million, 17.9% up as compared with R\$ 28.3 million of the prior quarter and 10.0% up as compared with the same period of the prior year. In this quarter, the



performance of sales in the Northeastern and Mid-western regions is noteworthy, having grown 34.3% and 27.0% respectively, as compared with 3Q14. Additionally, gross profit of the segment in 4Q14 amounted to R\$ 41.8 million, above the R\$ 5.6 million of the prior quarter and 39.3% above the R\$ 30.0 million as compared with the same period of the prior year. This performance increase gross margin of the segment by 7.8 p.p. as compared with 4Q13 and by 6.2 p.p. as compared with 3Q14.

In 2014, this segment suffered the impact from the decrease in the demand for motorcycles in Brazil, which is obviously highly correlated with the results of this business unit. As such, net revenue from helmets totaled R\$ 124.5 million in 2014, which corresponds to 2.4% down as compared with 2013 sales. Gross profit amounted to R\$ 40.4 million, representing gross margin of 32.5% in 2014, a decrease of 11.3% in gross profit and of 3.3 p.p. in margin, which was 35.7% in 2013. The margin decrease may be explained by the following factors: (i) decrease in the helmets demand in 2014 as compared with 2013; (ii) decrease in sale prices in order to increase volume, maintenance of market share and inventory turnover; and (iii) decrease in the average price of helmets also due to the mix sold.

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



In the tables above, it may be noted that the decrease in the number of helmets sold in 2014 (-6.3%) is in line with the slowdown in the Brazilian motorcycle market (-5.7%), which caused Company market share, which was 45% at year end, to be maintained.

### III. Other

In addition to firearms and helmets, Taurus also has other segments such as manufacture of bulletproof vests, anti-riot shields, plastic containers, motorcycle trucks and M.I.M. (*Metal Injection Molding*) pieces. Polimetal Metalurgia e Plásticos Ltda. em São Leopoldo/RS is exclusively dedicated to metal injecting molding (M.I.M.). All the other products are manufactured in the Paraná units – Taurus Blindagens Ltda. and TaurusPlast Produtos Plásticos Ltda.



								Variation %		
NET REVENUE	4Q14	3Q14	2Q14	1Q14	4Q13	2014	2013	2014/2013	4Q14/4Q13	4Q14/3Q14
Other Products	7.9	9.1	8.6	11.5	7.9	37.1	58.7	-36.8%	-0.8%	-13.9%
Brazil	6.6	8.1	7.9	10.4	6.7	33.0	53.3	-38.2%	-1.4%	-17.7%
Exports	1.2	1.1	0.7	1.1	1.2	4.1	5.3	-22.7%	2.2%	14.5%

In 4Q14, the other Company segments, represented by aforementioned products, recorded net sales amounting to R\$ 7.9 million, which is stable as compared with the same period of the prior year, and which are 13.9% down as compared with 3Q14. This significant decrease basically resulted from the winding up of the forging to third parties business at the end of 2013. Currently forging services are provided only to meet Company internal demand relating to firearms manufacturing.

In 2014, revenue from this segment amounted to R\$ 37.1 million, 36.8% down as compared with R\$ 58.7 million recorded in 2013. Gross profit amounted to R\$ 8.4 million and gross margin was 22.4% in 2014, which represents a decrease by -35.0 p.p. as compared with 2013. This decrease in profitability results from the product mix sold in 2014, which was less favorable to the Company.

## Operating Expenses

Operating expenses totaled R\$ 234.1 million in 2014, in line with expenses in 2013. However, while in 2013 they represented 28% of net revenue, in 2014 they represented 39% of the Company's sales. The percentage of selling, general and administrative expenses (SG&A) as well as of other operating expenses increased in relation to net revenue.

The main increase in operating expenses is attributed to "Other operating expenses" account. This increase is due to the additional provisions for judicial proceedings, as described in Note 19 to the financial statements at December 31, 2014. Basically, the referred to provisions were made due to the restatement of the risk of loss on proceedings assessed by outside legal advisors. The main proceeding refers to the claim by Hunter Douglas NV against subsidiary Taurus Máquinas-Ferramenta Ltda., of which the provision amounts to R\$ 27.2 million at 12/31/14. Provisions represent probable expenses and may be reversed in full or in part if not realized, thus not necessarily representing a cash outflow. In this case, it is most probable that there will be an agreement within the amount provisioned, which would result in cash outlay, reason why the Board of Directors recommended a new capitalization for an amount that is sufficiently to bear the necessary disbursements.

In addition, the increase in operating expenses mainly results from the corporate events occurred at the Company in 2014, which generated nonrecurring expenses such as, for instance, with lawyer fees and legal publications. In addition, there were expenses with technical consulting for implementing and monitoring a lean manufacturing method, specialized consulting to change senior management structure and additional



BM&F BOVESPA  
A Melhor Bolsa

Índice de  
Ações com Governança  
Corporativa Diferenciada

IGC

Índice de  
Ações com Tag Along  
Diferenciado

ITAG

NÍVEL 2  
BM&F BOVESPA

FJTA3  
NÍVEL 2  
BM&F BOVESPA

FJTA4  
NÍVEL 2  
BM&F BOVESPA

expenses with independent audit due to the restatement made in March 2014 of the financial statements and the quarterly information for 2012 and 2013.

## Adjusted EBITDA

Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization), defined by CVM Ruling No. 527/12, was calculated eliminating nonrecurring expenses, as well as P&L of subsidiary Taurus Máquinas-Ferramenta Ltda., since it is a non-operating company. Nonrecurring expenses basically include severance pay, inventory adjustments, expenses with technical consulting and legal advisory related to atypical events, not related to the Company's business.

PERIOD	2013	2014
= NET LOSS	(80,310)	(185,422)
(+) IR/CSLL	22,744	381
(+) Net Financial Expenses	175,731	221,970
(-) Net Interest Income	(102,136)	(129,789)
(+) Depreciation/Amortization	35,307	33,343
= EBITDA CVM Reg. 527/12	51,336	(59,517)
(+) Loss of Taurus Máquinas-Ferramenta Ltda.	27,356	39,001
(+) Non-recurring Costs and Expenses	21,331	65,306
= ADJUSTED EBITDA	100,023	44,790

(1) The Company Management considered the results of Taurus Máquinas-Ferramenta Ltda. as non-recurrent in view of its operational divestment.

**Consolidated cash generation in 4Q14**, measured by adjusted EBITDA, amounted to R\$ 5.3 million, reaching a margin of 3.2%. This performance was in excess of adjusted EBITDA for 4Q13 (R\$ -12.6 million and margin of -8.1%) and of the 3Q14 (R\$ -2.8 million and margin of -2.3%).

**In 2014, adjusted EBITDA** amounted to R\$ 44.8 million with adjusted margin of 7.6% (R\$ 100 million and adjusted EBITDA margin of 12.4% in 2013). Among other purposes, EBITDA is used as an indicator in Company commitments related to loans, financing and debentures.

The decrease of R\$ 55.2 million in adjusted EBITDA in relation to 2013 is mainly due to (i) decrease in production and sales volume due to the slowdown in the US market, and (ii) and idle production capacity in the firearms segment. As a consequence, there was a marked decrease in gross profit, as well as the negative effect of the increase in operating expenses, even after the elimination of nonrecurring expenses.

## Financial income (expenses)

**In 4Q14** there was net financial expenses of R\$ 35.6 million compared to R\$ 20.2 million in 4Q13 and R\$ 30.3 million in 3Q14, and 8.4% increase in the exchange rate in Dec/14 compared to Sep/14. In addition, there was SELIC rate increase from 10% in Dec/13 to 11.75% in Dec/14.



**Net financial expenses in 2014** totaled R\$ 92.2 million, up 25.3% compared to R\$ 73.6 million in 2013. This increase is due to the increase in the basic interest rate and the net negative exchange variation from Taurus' asset and liability exposure.

Approximately 45% of the Company's gross indebtedness is related to the US dollar, mostly protected by hedge operations. This mark-to-market of these operations results in the recording of financial expenses, even if there are no disbursements. On the other hand, approximately 60% of net revenue results from exports, which positively influences in a scenario of Brazilian currency devaluation.

## Consolidated P&L

In 2014, Forjas Taurus S.A. and subsidiaries posted loss of R\$ 185.4 million, compared to loss of R\$ 80.3 million in 2013. The reasons for posting such result below Company management expectation were described in the previous items of this report, the main being as follows: (i) marked slowdown in the US firearms market, (ii) decrease in profitability due to decrease in volumes and thus increase in idle production capacity, and (iii) provisions recorded due to the increase in the chances of loss on civil proceedings.

## 4. Financial Position

Cash and cash equivalents and short-term investments totaled R\$ 159.8 million at 12/31/14, down 24% compared to R\$ 210.2 at 09/30/14 and down 43% compared to R\$ 281.1 million at 12/31/13, mostly remunerated at rates varying from 98% to 103% of CDI, taken out with first-tier banks.

Consolidated short and long term loans and financing totaled R\$ 695.8 million at 12/31/14, down 3% compared to the position at 09/30/14 and down 15% compared to same prior year period, which is in line with the casg level adjustment policy, in order to settle more onerous liabilities. Thus, net debt after cash and cash equivalents totaled R\$ 536.1 million, up 5% compared to the balance at 09/30/14 and stable in relation to 12/31/13. We set out below the Company's financial position at 12/31/14 compared to the balances at 09/30/14 and 12/31/13, as well as the main related covenants:



	In millions BRL				
	<u>12/31/2014</u>	<u>09/30/2014</u>	<u>12/31/2013</u>	<u>Var. Dec/14 x Sep/14</u>	<u>Var. Dec/14 x Dec/13</u>
Short term indebtedness	258.9	240.9	388.5	7%	-33%
Long term indebtedness	231.8	265.8	273.2	-13%	-15%
Exchange Serves	57.9	52.8	0.0	10%	NA
Debentures	125.8	133.2	57.6	-5%	119%
Antecipation Mortgages	8.5	11.5	19.6	-26%	-56%
Advance on Receivables	25.1	29.9	116.0	-16%	-78%
Derivatives	-12.2	-15.7	-35.6	-22%	-66%
<b>Gross Indetbetedness</b>	<b>695.8</b>	<b>718.5</b>	<b>819.2</b>	-3%	-15%
(-) Cash available and financial investments	159.8	210.2	281.1	-24%	-43%
<b>Net Indebtedness</b>	<b>536.1</b>	<b>508.2</b>	<b>538.1</b>	5%	0%
Adjusted EBITDA	44.8	26.9	100.0	66%	-55%
<b>Net Indebtedness/Adjusted EBITDA</b>	<b>11.97x</b>	<b>18.88x</b>	<b>5.38x</b>		
<b>Adjusted EBITDA/Financial Expenses Net</b>	<b>0.49x</b>	<b>0.35x</b>	<b>1.36x</b>		

Debentures totaled R\$ 125.8 million at 12/31/14, adding the 2nd and 3rd issues. From 2010 to 2014, Taurus issued three debênture series of R\$ 103 million, R\$ 50 million and R\$ 100 million, respectively:

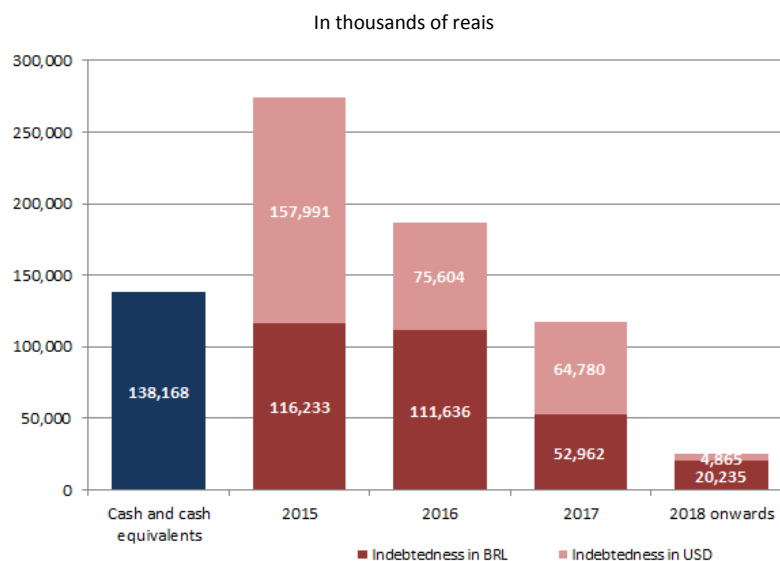
- The 1st issue, in April 2010 bearing DI + 4.1%, was liquidated in April 2014 (balance of R\$ 15.7 million);
- The 2nd issue, in August 2011 bearing DI + 2.8%, still has 7 remaining quarterly installments, started in August 2013 and the balance of R\$ 27. million at 12/31/14; and
- The 3rd issue in June 25, 2014 bearing DI + 3.25% and market covenants, measured annually. The total period is of three years, with grace period of two years, in connection with the process of extending debt payment term, with balance of R\$ 98.5 million at 12/31/14.

In 2014, the Company held meetings with debenture holders of 2nd and 3<sup>rd</sup> issue to decide for waiver of accelerarted maturity due to the noncompliance with covenants and change Taurus' controlling interest resulting from capital increase. The Company succeeded in the negotiations, reflecting in the financial position proper classification of maturity of its debts.

The graph below sets out the maturity schedule of the consolidated debt.



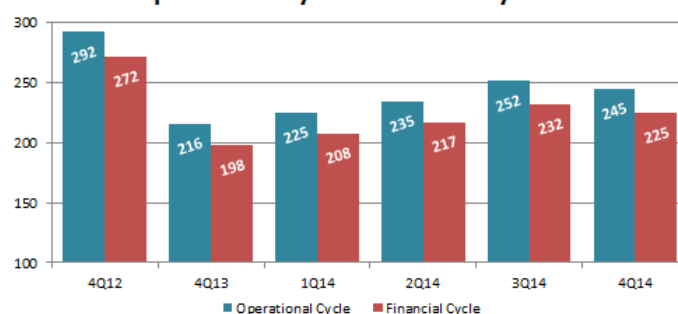
## Maturity of Consolidated Debt



## 5. Working capital

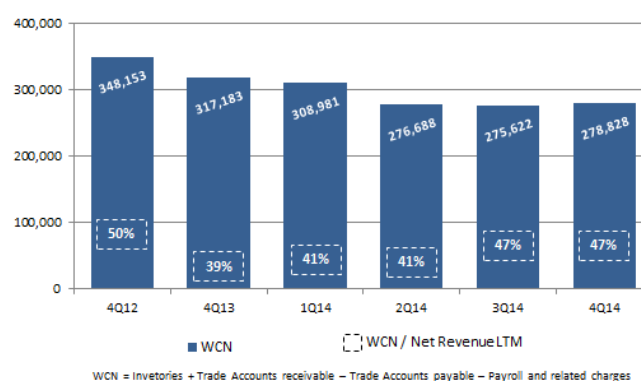
The Company's operating cycle in 2014 was of 245 days, of which 170 days of inventories and 75 days related to term to received from customers. Compared to prior year, there was 24% increase in inventory days (137 days in 2013), but a 5% decrease in the latter (79 days in 2013). In relation to the financial cycle, represented by the operating cycle less term to pay suppliers, despite the improvements in the average term to pay suppliers from 18 days in 2013 to 21 days in 2014, the financial cycle was of 225 days, up 14% compared to 197 days in 2013.

### Operational Cycle x Financial Cycle



The amount of funds that the Company needs to finance its operating items, measured by the Need of Investment in Working Capital (NIG) was of R\$ 278.8 million in 2014, which evidences a decrease in relation to 2013 (-12%) and 2012 (-20%). NIG represent 47% of net revenue in 2014, and 39% and 50% in 2013 and 2012, respectively. Said decrease in the Company's NIG represents an improvement in the release of funds for investments and decrease in indebtedness.

### Working Capital Needs



## 6. Cash flow

In 2014, there was negative Free Cash Flow generation after investing and financing activities of R\$ 176.6 million, while it was positive of R\$ 100.3 million in 2013. See below, cash flow breakdown showing the changes in the main accounts for 2014 and 2013.

CASH FLOW - CONSOLIDATED	2014	2013	Var. %
<b>Cash at beginning of year</b>	<b>281,119</b>	<b>180,781</b>	<b>55.5%</b>
<b>Cash flow from operating activities</b>	<b>51,513</b>	<b>101,710</b>	<b>-49.4%</b>
Loss before income and social contribution taxes	-185,041	-57,566	221.4%
Depreciation and amortization	33,343	35,307	-5.6%
Cost of fixed assets written off	3,378	6,142	-45.0%
Equity pickup	1,142	1,349	-15.3%
Provision for financial charges	94,803	80,310	18.0%
Provision for contingencies	32,688	4,848	574.3%
Allowance for doubtful accounts	5,713	3,822	49.5%
Provision for inventory loss	-	-8,254	-100.0%
Provision for guarantees	4,030	6,149	-34.5%
Changes in assets and liabilities	65,693	48,562	35.3%
Income and social contribution taxes paid	-5,407	-20,084	-73.1%
Others	1,171	1,125	4.1%
<b>Cash flow from investing activities</b>	<b>-71,185</b>	<b>-28,247</b>	<b>152.0%</b>
Property, plant and equipment	-14,646	-26,271	-44.3%
Intangible assets	-1,315	-1,976	-33.5%
Short-term investments-held	-55,224	-	-
<b>Cash flow from financing activities</b>	<b>-156,911</b>	<b>26,875</b>	<b>-683.9%</b>
Loans raised	283,465	296,431	-4.4%
Loans and financing repaid	-450,063	-219,401	105.1%
Interest paid	-57,392	-42,801	34.1%
Capital increase	67,079	-	-
Dividends and interest on equity capital paid	-	-7,354	-100.0%
<b>Increase (decrease) in cash and cash equivalents</b>	<b>-176,583</b>	<b>100,338</b>	<b>-276.0%</b>
<b>Cash at end of year</b>	<b>104,536</b>	<b>281,119</b>	<b>-62.8%</b>

In April 2014, Company shareholders decided to increase capital through private subscription of shares on BM&FBOVESPA which, after two rounds of remaining shares, totaled R\$ 67 million with the following cash inflow schedule:

- 06/30/14: R\$ 21.5million, of the capital increase after the end of the period for exercising right of first refusal;
- 07/11/14: R\$ 38,5 million, after 1st apportionment of remaining shares;



BM&FBOVESPA  
A Melhor Bolsa

Índice de  
Ações com Governança  
Corporativa Diferenciada

IGC

Índice de  
Ações com Tag Along  
Diferenciado

ITAG

NÍVEL 2  
BM&FBOVESPA

FITA3  
NÍVEL 2  
BM&FBOVESPA

FITA4  
NÍVEL 2  
BM&FBOVESPA

- 07/21/14: R\$ 7 million, after 2nd apportionment of remaining shares;

In this period, there was also realization of 3rd issue of nonconvertible debentures in the amount of R\$ 100 million, of which the cash inflow also took place at Jun/30/ 14. The funds are mainly destined to: (i) reduce working capital needs; (ii) investments to modernize industrial premises; and (iii) finance exports.

## 7. Consolidated investments

Consolidated investments in 2014 totaled R\$ 16.0 million (R\$ 28.2 million in 2013). 18% of these funds were allocated to expansion of the production capacity of the Company and its subsidiaries, 57% to modernize industrial premises, and 25% to continuous improvement and other investments. Depreciation and amortization amounted to R\$ 33.3 million in 2014, in line with R\$ 35.2 million recorded in 2013.

In analyzing investments in property, plant and equipment in 2014 as compared with 2013, the efforts made by Company management to maintain Company businesses by allocating funds to modernize industrial premises and continuous improvement are evidenced.

At the Board of Directors Meeting held on March 26, 2015, Company directors approved Company capital budget for 2015 in the amount of R\$ 31.2 million, which will be proposed at the next General Shareholders' Meeting to be held on Apr/30/15.

Investments budgeted and made by the Company in 2014, in addition to CAPEX budgeted for 2015 per company are as follows:

Description	BUDGET 2014		PERFORMED 2014		BUDGET 2015	
	BRL thousands	USD thousands	BRL thousands	USD thousands	BRL thousands	USD thousands
<b>Forjas Taurus S.A. - Headquarters</b>	<b>26,856</b>	<b>11,190</b>	<b>3,073</b>	<b>1,308</b>	<b>7,254</b>	<b>2,790</b>
Products and processes' reasearch and development	8,971	3,738	1,296	551	-	-
Modernization and expansion of production capacity	7,031	2,930	1,777	756	4,876	1,875
Licensing, improvements and implementation of ERP modules	10,854	4,522	-	-	2,378	915
<b>Forjas Taurus S.A. - Long Guns</b>	<b>3,181</b>	<b>1,325</b>	<b>222</b>	<b>94</b>	<b>366</b>	<b>141</b>
Products and processes' reasearch and development	1,866	778	68	29	-	-
Productivity improvement of manufacturing processes	1,315	548	-	-	366	141
Modernization and expansion of production capacity	-	-	3	1	-	-
Indemnity molds for discontinued products	-	-	150	64	-	-
<b>Taurus Blindagens Ltda.</b>	<b>6,000</b>	<b>2,500</b>	<b>1,098</b>	<b>467</b>	<b>5,511</b>	<b>2,120</b>
Products and processes' reasearch and development	-	-	535	228	-	-
Modernization and expansion of production capacity	6,000	2,500	563	240	5,511	2,120
<b>Polimetal Metalúrgia e Plásticos Ltda.</b>	<b>12,920</b>	<b>5,383</b>	<b>6,063</b>	<b>2,580</b>	<b>9,016</b>	<b>3,468</b>
Modernization and expansion of production capacity	12,920	5,383	5,405	2,300	9,016	3,468
Products and processes' reasearch and development	-	-	658	280	-	-
<b>Taurus Holdings, Inc. - USA</b>	<b>6,226</b>	<b>2,594</b>	<b>5,506</b>	<b>2,343</b>	<b>9,100</b>	<b>3,500</b>
Modernization and expansion of production capacity	6,226	2,594	5,506	2,343	9,100	3,500
<b>Total</b>	<b>55,182</b>	<b>22,993</b>	<b>15,962</b>	<b>6,792</b>	<b>31,247</b>	<b>12,018</b>

\* Resources: Debt

\* BRL/USD 2,40

\* BRL/USD 2,35

\* BRL/USD 2,60



BM&F BOVESPA  
A Melhor Bolsa

Índice de  
Ações com Governança  
Corporativa Diferenciada **IGC**

Índice de  
Ações com Tag Along  
Diferenciado **ITAG**

**NÍVEL 2**  
BM&F BOVESPA

**FJTA3  
NÍVEL 2**  
BM&F BOVESPA

**FJTA4  
NÍVEL 2**  
BM&F BOVESPA

## 8. Capital Market and Corporate Governance

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

### 8.1 Capital Increase / Ownership Interest / Cancellation of Treasury Shares / Reverse Split of Shares

In order to reinforce Company capital structure and render investments feasible, a capital increase was approved at the Special Shareholders' Meeting held on April 29, 2014.

Upon end of the term for exercising the right of first refusal referring to the shares which would be subsequently issued and the 1st and 2nd apportionment of the remaining shares, 48,522,214 common shares and 85,703 preferred shares were subscribed, amounting to R\$ 67.1 million, therefore in excess of the minimum limit of R\$ 50 million for the capital increase.

The capital increase was approved at the Special Shareholders' Meeting held on August 20, 2014 by majority voting of the shareholders present. Referred to capital increase resulted in a significant change to Company shareholding structure, which entailed a change in ownership interest, as follows:

Shareholders	Before capital increase Base: Jul/2014			After capital increase: Base: Oct/2014			Reverse Split of Shares Base: Jan/2015		
	Total	Common shares (ON)	Preferred Shares (PN)	Total	Common shares (ON)	Preferred Shares (PN)	Total	Common shares (ON)	Preferred Shares (PN)
CBC	6,0%	15,6%	0,9%	27,9%	52,5%	0,9%	31,3%	59,1%	0,9%
ESTIMAPAR	12,8%	37,3%	0,1%	12,1%	23,2%	0,0%	9,0%	17,2%	0,0%
PREVI	26,8%	15,3%	32,7%	19,4%	7,3%	32,7%	17,6%	7,2%	29,0%
FIGI	3,5%	10,1%	0,0%	2,5%	4,8%	0,0%	3,5%	6,6%	0,0%
Other	50,9%	21,7%	66,3%	38,1%	12,2%	66,4%	38,6%	9,9%	70,1%
Number of Shares (thousand)	141.413	47.138	94.275	177.585	92.833	84.752	16.144	8.439	7.705

At the end of 2014, the Company had issued 177,584,427 shares, 92,832,547 of which were common shares and 84,751,880 pf which were preferred shares. Worth mentioning, this procedure comprises the





production levels have been stabilized, processes have been reviewed and new management tools have been introduced in order to render the disclosure of projected future performance (guidance) more precise.

Concerning CAPEX for 2015, management will submit to shareholders' approval at the Shareholders' Meeting the amount of R\$ 31.2 million, distributed in order to supply current needs, therefore to be mostly allocated to manufacture improvements.

## 10. Prospects

In analyzing the core pillar of the **firearms and accessories** for 2015, Company management believes that the growth rates in the US market before 2014 will be maintained, considering the historical analysis of the main market indicator (NICS) and the behavior of the American society, which has numerous times demonstrated its passion for our products. In the domestic market, the current unsafe scenario renders it essential for Brazilian private and public forces to be well-equipped in order to contain the increase in crime rates in Brazil. In addition, the Company may enjoy the advantages resulting from its registration as a Strategic Defense Company (EED) with the Ministry of Defense, becoming a qualified supplier of products to the armed forces in 2013. In this context, the growth strategies set out by management for Company main segment are as follows: (i) developing specific products for the civil and *law enforcement* markets; (ii) improve and capitalize the post-sale services offered, such as maintenance and *retrofit*; (iii) increase sales in the Brazilian civil market; and (iv) improve the perception of Taurus brand.

For 2015, concerning the **helmets and accessories** segment, perspectives point to a lower demand from the motorcycle market with which, as widely known, the helmets and accessories segment is strongly correlated. Recent measures adopted to facilitate the recovery of assets by banks are positive for the sector, since this type of action provides a favorable environment for granting credit, important for the motorcycle market. In this context, the Company plans to grow in terms of market share, adopting the following strategies: (i) creating a *vintage* products line; (ii) efficiently exploring the export market; (iii) considering opportunities to produce higher value-added helmets; (iv) intensifying marketing actions: fairs, specialized magazines, among others; and (v) investing in the line of helmets for cyclists.

Management is of the belief that the restructuring under way may bring satisfactory results, measured by a higher cash generation, increase in productivity and recovery of Company margins. It also believes that increased profitability will allow defining more consistent strategic directives for the next years.



BM&F BOVESPA  
A Melhor Bolsa

Índice de  
Ações com Governança  
Corporativa Diferenciada **IGC**

Índice de  
Ações com Tag Along  
Diferenciado **ITAG**

