Financial statements

Forjas Taurus S.A.

December 31, 2014 and 2013
with Independent Auditor's Report.

Forjas Taurus S.A.

Financial statements

December 31, 2014 and 2013

Contents

MANAGEMENT REPORT 2014

MESSAGE TO SHAREHOLDERS

Dear Shareholders,

Management of Forjas Taurus S.A. ("Company") hereby submits for your appreciation the Management Report, Company Financial Statements and Independent Auditor's Report - Ernst & Young - for the year ended December 31, 2014.

Looking back on 2014, we note that it was a distinctive year for the Company, considering that a series of events foreign to Company business caused managing difficulties and additional costs significant to Company net income. The management efforts that resulted in the restatement of the financial statements for 2012 and quarterly information for 2012 and 2013, and the capital increase process which, after confirmed by Brazil's Administrative Council for Economic Defense ("CADE"), culminated in change of Company control were some of the significant factors which made such year atypical and complex, both in the corporate sphere as well as at market and operational level.

2014, however, was mostly marked by change, with actions focused on promoting deep modifications in the Company, particularly in its operational efficiency and management model. We are of the understanding that significant actions were taken which will lead the Company to regain its market position and profitability. The core pillars of the Company, resulting from the reduction in its production complexity and value chain re-dimensioning, were resumed and will allow the Company to achieve greater efficiency in the manufacturing process and working capital optimization.

Indeed, as we will see hereunder, productivity levels are already on the rise, accompanied with higher production volume, better process quality, cost reduction and structure maximization, thus improving Company potential for providing services and generating margin.

Expenditures on this ongoing operational restructuring were significant this year and contributed to the increase in expenses incurred. Considering terminations only, inventory adjustment costs and lack of productivity of the plant amounted to over R$ 32 million recorded in 2014.

Additionally, in 2014, the Firearms market in the USA suffered a strong cyclic slowdown, which further intensified the competition via prices. Concomitantly, major distributors found themselves with high levels of inventories from 2013, which contributed to a decrease in purchases and impacted the results of the key players in the world's Firearms market.

Under these adverse circumstances faced in the North American Firearms market, Taurus recorded net revenue amounting to R$ 591.5 million, which represents a decrease of 26.7% as compared with 2013, when sales totaled R$ 807.3 million. The participation of exports in Company net revenue decreased from 68% in 2013 to 58% in 2014.

In 2014, however, exports to other countries presented a large increase (+112.4%). These sales represented 11% of total Company sales whereas in 2013, they responded for only 4% thereof. In absolute terms, the Company doubled its sales to these markets, which, in conjunction with satisfactory margins, allows us to foresee a favorable scenario over the following years.

Adjusted EBITDA amounted to R$ 44.8 million, which is lower than the 2013 adjusted EBITDA of R$ 100.0 million. This performance is explained by the decrease in gross margin, mainly due to the reduction in sales volume, lower production process efficiency and increase in operating expenses.

In 2014, the Company recorded loss in the amount of R$ 185.4 million, which is explained by the increase in expenses with lack of productivity and of quality, the nonrecurring events which occurred in the year, in addition to net financial expenses and operating expenses.

From a demand standpoint, Company management identifies, through concrete evidence such as the significant increase in the order portfolio, positive signs of US market recovery at the end of 2014 and beginning of 2015, which endorses the idea that the Firearms purchase pattern in this important market has not changed. This understanding reinforces the internal challenge faced by Taurus to render its operational integration feasible in order to meet this demand.

In the domestic market, after being recognized as a Strategic Defense Company, Taurus believes that Brazil will offer great opportunities over the following years. As to the helmet segment, the Company bets on its innovative high-quality products, in addition to an efficient structure to increase its market share, currently around 45%.

Concerning corporate structure after capital increase, Taurus management considers positive the entry of Companhia Brasileira de Cartuchos ("CBC") as a new shareholder, since this company's know how in the Defense & Security segment both in the domestic and international market is widely-recognized. Furthermore, there is a range of evident gains derived from market synergies for both companies, which may speed up the development of their operations and business. Worth mentioning, both companies are recognized by Brazil's Ministry of Defense as Strategic Defense

Companies, which is in consonance with the government's policy to create and strengthen a National Defense Base.

As such, with the measures adopted, the action plan and the industrial, commercial and marketing strategies well oriented and aligned with financial management assumptions turned to working capital reduction, in 2015 the focus will be on managing cash generation increase and Company operating income.

Finally, we would like to thank our Customers, Shareholders, Suppliers, the Community and mainly our Employees for their trust in us.

The Management

Taurus Profile

Forjas Taurus S.A. (“Company”), with its registered office in Porto Alegre – Rio Grande do Sul state – Brazil, is a publicly-held company existing for over 30 years and which has been listed in Corporate Governance Level 2 of BM&FBOVESPA for almost 4 years (under tickers **FJTA3** and **FJTA4**).

Taurus is one of the three largest handgun manufacturers in the world and has one of the four largest weapon distribution networks in the USA. In Brazil, Taurus is recognized as a Strategic Defense Company (EED, in the Portuguese acronym) and as such, may provide its products to Brazil’s Armed Forces.

In addition to being well-known in the defense segment, the Company distinguishes itself as a production and sales leader in the competitive Brazilian market of helmets for motorcyclists. Furthermore, in line with the new urban mobility trends, in 2014, the Company launched a line of helmets for cyclists.

In Brazil, the 6 business units are distributed as follows:

- ✓ Rio Grande do Sul: production of hand guns and long guns in Porto Alegre and São Leopoldo;
- ✓ Paraná: production of helmets, motorcycle trucks, containers and vests in the city of Mandirituba; and
- ✓ Bahia: production of helmets and containers in the city of Simões Filho.

Abroad, Taurus Holdings, Inc. is located in Miami, Florida (USA) and, in addition to distributing products of TAURUS and ROSSI makes produced in Brazil, this unit manufactures TAURUS pistols and HERITAGE revolvers, and distributes globally DIAMONDBACK sporting rifles and pistols.

Taurus was organized in 1939 and in 2014, celebrated its 75th anniversary counting on approximately 3,500 employees. We are together going through major transformations which involve: (i) new organizational structure; (ii) new manufacture management model; (iii) focus on productivity; (iv) trademark revitalization; and (v) orientation to results and cash generation.

Management Discussion and Analysis – MD&A

1. Considerations about the Financial Statements

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

Company consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), implemented in Brazil through the Brazilian FASB (CPC) and its technical interpretations ("ICPC") and guidance ("OCPC"), approved by the Brazilian Securities and Exchange Commission ("CVM"). The amounts presented herein are expressed in millions of Brazilian reais except where otherwise indicated thus are subject to rounding.

The following companies were considered direct or indirect subsidiaries totaling shareholding interest of 100% for consolidation purposes: Taurus Blindagens Ltda. (BR); Taurus Blindagens Nordeste Ltda. (BR); Taurus Holdings, Inc. (EUA); Taurus Security Ltda. (BR); Taurus Máquinas-Ferramenta Ltda. (BR); Taurus Investimentos Imobiliários Ltda. (BR); and Polimetal Metalurgia e Plásticos Ltda. (BR).

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

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.

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 and 2012 performance, is as follows:

Consolidated Economic and Financial Performance

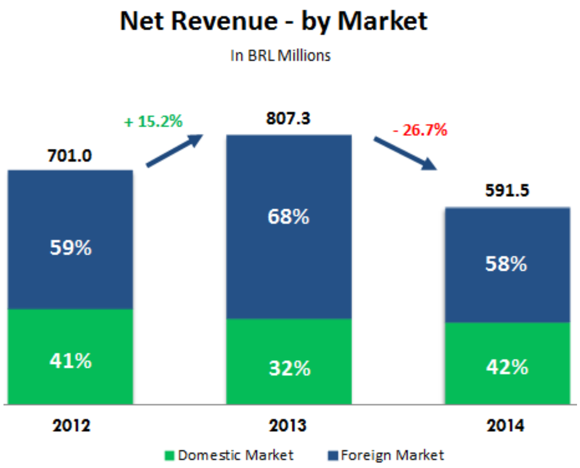
In millions of Brazilian reais, unless otherwise stated

				Variation %	
Ratios	**2014**	**2013**	**2012**	**2014/2013**	**2014/2012**
Net revenue	**591,5**	**807,3**	**701,0**	**-26,7%**	**-15,6%**
Domestic market	247,5	260,0	290,4	-4,8%	-14,8%
Foreign market	344,1	547,3	410,6	-37,1%	-16,2%
COGS	450,3	565,6	434,2	-20,4%	3,7%
Gross Profit	141,3	241,7	266,7	-41,6%	-47,0%
Gross Margin - %	**23,9%**	**29,9%**	**38,1%**	**-6,1 p.p.**	**-14,2 p.p.**
Operating Expenses	-234,1	-225,7	-182,6	3,7%	28,2%
Operating Profit (EBIT)	-92,9	16,0	84,2	-679,3%	-210,3%
EBIT Margin - %	**-15,7%**	**2,0%**	**12,0%**	**-17,7 p.p.**	**-27,7 p.p.**
Net Financial Income	-92,2	-73,6	-44,5	25,3%	106,9%
Depreciation and amortization (1)	33,3	35,3	31,2	-5,6%	6,7%
Net Income - Continuing Operations	-185,4	-80,3	17,8	130,9%	-1142,8%
Net Income Margin - Cont. Operations	**-31,3%**	**-9,9%**	**2,5%**	**-21,4 p.p.**	**-33,9 p.p.**
Net Income - Descontinuing Operations	0,0	0,0	-135,0	NA	NA
Net Income - Consolidated	-185,4	-80,3	-117,2	130,9%	58,2%
Net Income Margin - Consolidated	**-31,3%**	**-9,9%**	**-16,7%**	**-21,4 p.p.**	**-14,6 p.p.**
Adjusted EBITDA (2)	44,8	100,0	130,3	-55,2%	-65,6%
Adjusted EBITDA Margin - %	**7,6%**	**12,4%**	**18,6%**	**-4,8 p.p.**	**-11,0 p.p.**
Total Assets	979,8	1.184,1	1.114,3	-17,3%	-12,1%
Equity	52,1	146,0	201,8	-64,3%	-74,2%
Investiments (CAPEX)	16,0	28,2	90,2	-43,5%	-82,3%

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

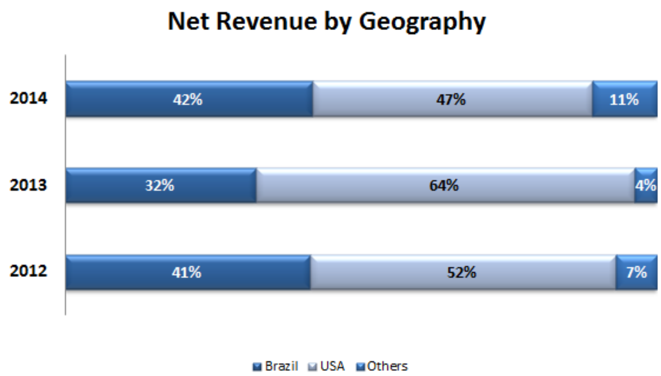
(2) Adjusted EBITDA: Earnings before interest, tax, depreciation and amortization and net earnings from non-recurring operations. The computing process was developed acording the CVM nº 527 instruction of October 04, 2012.

Net revenue

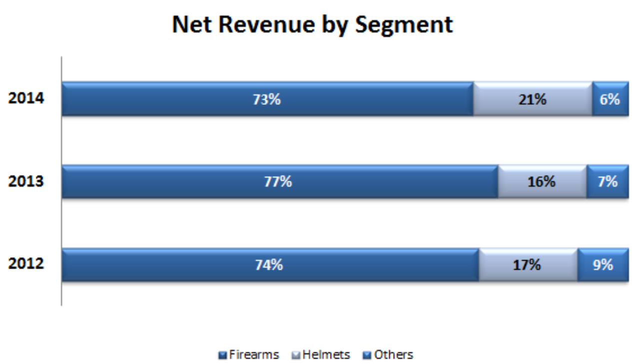


In 2014, Forjas Taurus S.A. presented consolidated net revenue of R$ 591.5 million, which represented a decrease of 26.7% as compared to the R$ 807.3 million in 2013, which had been 15.2% above 2012, a performance mostly explained by a cyclic slowdown in the North American market, major consumer of Company products.

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.



Information by Business Segment

I. Firearms

Net Revenue		
2014	**2013**	**Var.**
430.0	621.2	-30.8%

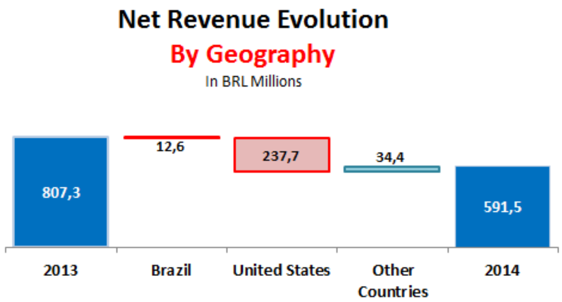
Gross Profit & Gross Margin		
2014	**2013**	**Var.**
92.4	162.3	-43.0%
21.5%	26.1%	-4.6 p.p.

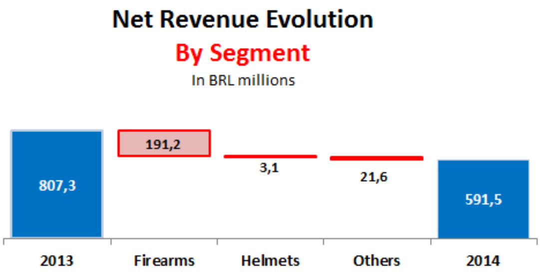
Income (loss) before income and social contribution taxes		
2014	**2013**	**Var.**
(167.4)	(74.7)	124.0%

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 decreased by 30.8% as compared with 2013, totaling R$ 430.0 million in 2014. Gross profit amounted to R$ 92.4 million, approximately R$ 70 million down 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.

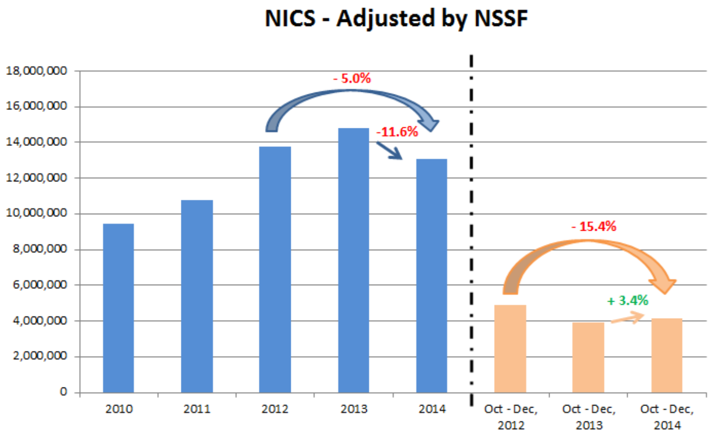
The sharp decrease in net revenue from this segment as compared with 2013, and the consequent loss of profitability due to fixed costs and expenses are explained by the significant slowdown in the North American market, specifically Firearms, which decreased Company results.





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 of 11.6% as compared with 2013 and of 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.

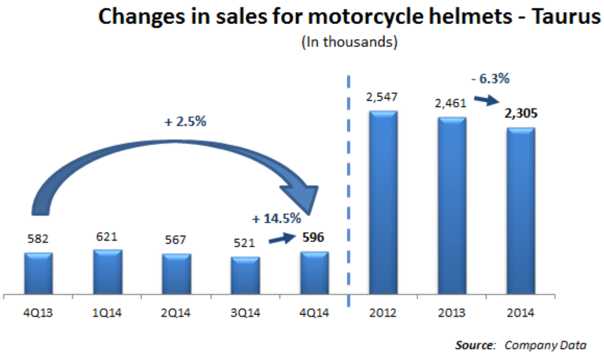


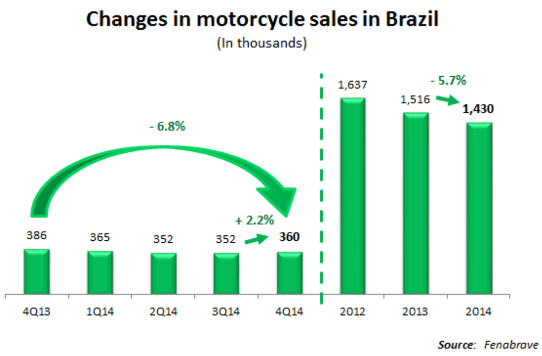
In 2014, Taurus endeavored to adapt its prices and supplier chain to this market configuration. Company management trusts that the growth in American culture in relation to Firearms acquisition will be maintained, which is in line with Company DNA - for over 75 years, a manufacturer of products which protect people.

II. Helmets

Net Revenue		
2014	**2013**	**Var.**
124.5	127.6	-2.4%
Gross Profit & Gross Margin		
2014	**2013**	**Var.**
40.4	45.6	-11.3%
32.5%	35.7%	-3.3 p.p.
Income (loss) before income and social contribution taxes		
2014	**2013**	**Var.**
22.8	23.9	-4.8%

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 basically supplies the domestic market and sells to Latin American countries from time to time. 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, maintain market share and for inventory turnover purposes; and (iii) decrease in the average price of helmets also due to the mix sold.





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 Products

Net Revenue		
2014	**2013**	**Var.**
37.1	58.7	-36.8%
Gross Profit & Gross Margin		
2014	**2013**	**Var.**
8.4	33.8	-75.2%
22.4%	57.7%	-35.0 p.p.
Income (loss) before income and social contribution taxes		
2014	**2013**	**Var.**
(40.4)	(6.8)	NS

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. in 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.

In 2014, revenue from this segment amounted to R$ 37.1 million, 36.8% down as compared with the R$ 58.7 million recorded in 2013. 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.

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 (57.7%). This decrease in profitability results from the product mix sold in 2014, which was less favorable to the Company.

Operating expenses

In 2014, operating expenses amounted to R$ 234.1 million, in line with the 2013 expenses. In 2013, however, expenses accounted for 28% of net revenue whereas in 2014, these expenses responded for 39% of Company sales. Worth mentioning, the participation of both selling and administrative expenses (SG&A) and other operating expenses increased as compared with net revenue.

Worth noting, the major increase in operating expenses is recorded under "Other Operating Expenses". This increase is explained by the additional provisions for legal proceedings (Note 19 to the financial statements for the year ended December 31, 2014). Basically, referred to provisions were recorded in order to update the likelihood of loss in proceedings assessed by Company external legal advisors. The major proceeding refers to a claim filed by Hunter Douglas NV against subsidiary Taurus Máquinas-Ferramenta Ltda., whose provision amounts to R$ 27.2 million at December 31, 2014. We highlight that the provisions represent probable expenses and may be largely reversed if not used, thus not necessarily representing cash outflow. In this case, an agreement within the amount accrued is likely to occur, which would involve the payment of funds, reason why the Board of Directors recommended a new capitalization at an amount sufficient to support the required disbursements.

SG&A	2014	2013	Var.
Operational Expenses	(234.1)	(225.7)	3.7%
Non-Recurrent Operational Expenses	(35.6)	(17.4)	104.2%
Adjusted Operational Expenses	(198.6)	(208.3)	-4.7%
Net Renevue	591.5	807.3	-26.7%
% Operational Expenses	**-39.6%**	**-28.0%**	-11.3 p.p.
% Adjusted Operational Expenses	**-33.6%**	**-25.8%**	-7.5 p.p.

Also, the increase in operating expenses results mostly from corporate events occurring in the Company in 2014, which generated nonrecurring expenses such as legal fees and publications provided for by law. Additionally, expenses were incurred with technical advisory services for implementing and monitoring lean manufacturing/production, with specialized legal advisors to change upper management structure, and additional expenses with external auditors on account of the restatements to Financial Statements in March 2014 and Quarterly Information for 2012 and 2013.

Adjusted EBITDA

Consolidated cash generation in 2014, as compared with adjusted EBITDA, amounted to R$ 44.8 million with negative 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 referring to loans, financing and debentures.

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.

Adjusted EBITDA (pre-tax income, taxes, depreciation and amortization), as defined by CVM Rule No. 527/12, was calculated by eliminating nonrecurring expenses, as well as P&L of subsidiary Taurus Máquinas-Ferramenta Ltda., in light of the fact that this company is nonoperational. Nonrecurring expenses basically refer to employee termination, inventory adjustments, expenses with technical advisory services and legal advisory services linked to atypical events, foreign to Company business.

The decrease in adjusted EBITDA by R$ 55.2 million as compared with 2013 results mainly from: (i) the decreased production and sales volumes due to the US market cyclic slowdown previously mentioned; and (ii) the lack of productivity incurred in the Firearms segment. Consequently, there was a significant decrease in gross profit, and the negative contribution represented by the increase in operating expenses, even after the nonrecurring expenses were eliminated.

Financial income (expenses)

Net financial expenses in 2014 amounted to R$ 92.2 million, which corresponds to an increase by 25.3% as compared with R$ 73.6 million recorded in 2013. This increase is due to the increase in the basic interest rate and to net exchange loss in view of the asset and liability positions of Taurus.

Approximately 45% of Company exposure in loans and financing is related to the US dollar and largely to hedge operations. As such, the mark-to-market of these operations results in financial expenses recorded, even if no disbursements occur. On the other hand, approximately 60% of Company net revenue derives from export transactions, which has a positive impact in a scenario where the Brazilian currency is subject to depreciation.

Consolidated Net Income (Loss)

In 2014, Forjas Taurus S.A. and subsidiaries recorded losses amounting to R$ 185.4 million, as compared with losses amounting to R$ 80.3 million in 2013. This result – below Company management expectations – was evidenced and explained in the items above, to wit: (i) strong cyclic slowdown in the US Firearms market, (ii) loss of profitability due to volume decrease and lack of productivity, and (iii) provisions recorded due to the increase in the likelihood of loss in civil proceedings.

4. Financial Position

Total cash and cash equivalents and short-term investments amounted to R$ 159.8 million as of December 31, 2014, 24% down as compared with the balance of R$ 210.2 as of September 30, 2014 and down 43% as compared with R$ 281.1 million as of December 31, 2013, mostly remunerated at rates ranging between 98% and 103% of CDI, held in first tier financial institutions.

Current and noncurrent consolidated loans and financing amounted to R$ 695.8 million as of December 31, 2014, a decrease by 3% as compared with September 30, 2014 and by 15% as compared with the same period of the prior year, in line with the policy adopted by the Company to adjust cash level, in order to settle more onerous liabilities. As such, net debt after cash and cash equivalents amounted to R$ 536.1 million, 5% up as compared with the balance as of September 30, 2014 and remained stable as compared with December 31, 2013. Company financial position as of December 31, 2014 as compared with the balances recorded as of September 30, 2014 and December 31, 2013, as well related key indicators (covenants) are as follows:

					In millions BRL
	12/31/2014	09/30/2014	12/31/2013	Var. Dec/14 x Sep/14	Var. Dec/14 x Dec/13
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 Mortages	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%
Gross Indetbetedness	**695.8**	**718.5**	**819.2**	-3%	-15%
(-) Cash available and financial investments	159.8	210.2	281.1	-24%	-43%
Net Indebtedness	**536.1**	**508.2**	**538.1**	5%	0%
Adjusted EBITDA	44.8	26.9	100.0	66%	-55%
Net Indebtedness/Adjusted EBITDA	**11.97x**	**18.88x**	**5.38x**		
Adjusted EBITDA/Financial Expenses Net	**0.49x**	**0.35x**	**1.36x**		

Debentures amounted to R$ 125.8 million as of December 31, 2014, considering 2nd and 3rd issues. From 2010 to 2014, Taurus issued three series of debentures amounting to R$ 103 million, R$ 50 million and R$ 100 million, respectively:

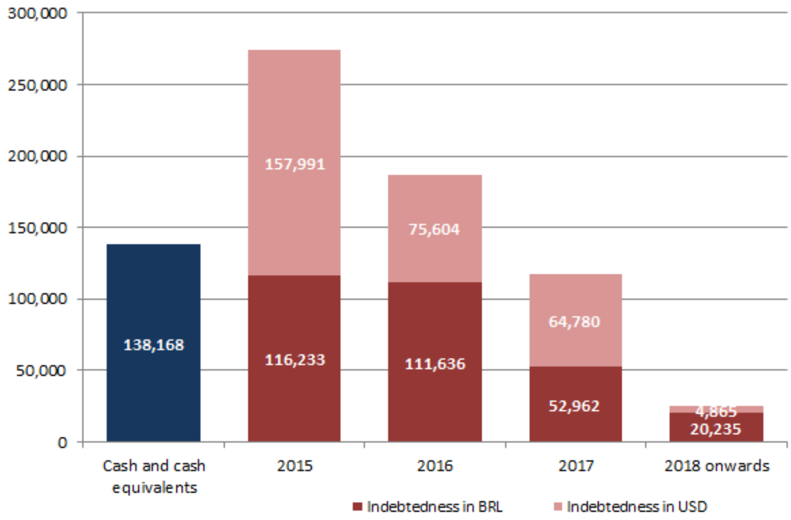
- The 1st issue, in April 2010 bearing DI + 4.1%, whose balance amounted to R$ 15.7 million, was liquidated in April 2014;
- The 2nd issue, in August 2011 bearing DI + 2.8%, still has 7 remaining quarterly installments, started in August 2013 and whose balance amounts to R$ 27.3 million at Dec/30/14; 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 Dec/31/14.

In 2014, the Company held meetings with debenture holders of the 2nd and 3rd issue in order to decide on their waiver of early maturity - waivers for noncompliance with covenants and change in controlling interest due to capital increase. The Company was successful in the negotiations reflecting the appropriate classification of debt maturity on its financial position.

The graph below sets out the consolidated debt maturity schedule.

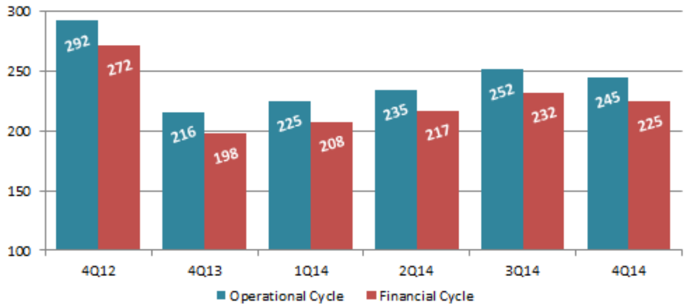
Maturity of Consolidated Debt

In thousands of Reais



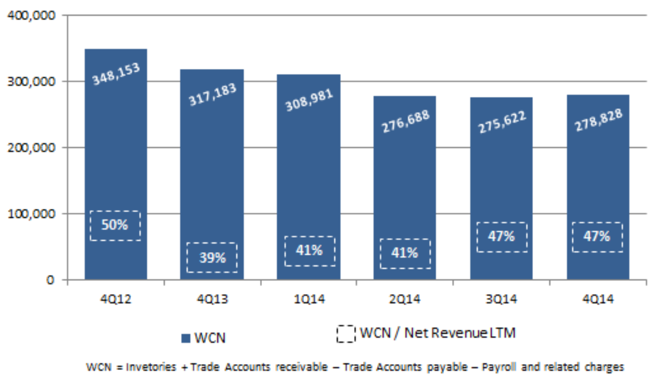
5. Working Capital

Operational Cycle x Financial Cycle



Company operating cycle in 2014 was 245 days, 170 days of which referred to inventories and 75 days to day sales outstanding (DSO). As compared with the prior year, inventory days increased by 24% (137 days in 2013) and DSO decreased by 5% (79 days in 2013). Despite the increase in the average term for payment to suppliers, which increased from 18 days in 2013 to 21 days in 2014, the financial cycle, represented by Company operating cycle less term for payment to suppliers, was 225 days, 14% up the 197 days presented in 2013.

Working Capital Needs



The funds which the Company needs to finance its operations, measured by the Working Capital Investment Needs (NIG), amounted to R$ 278.8 million at the end of 2014, a decrease as compared with 2013 (-12%) and 2012 (-20%). When compared with annualized net revenue, NIG represented 47% in 2014, whereas in 2013 and 2012, it represented 39% e 50%, respectively. This decrease in Company NIG is advancement in terms of release of funds for investments and debt reduction.

6. Cash Flow

In 2014, the Free Cash Flow (FCF) generated after investing and financing activities was negative by R$ 176.6 million, whereas in 2013 FCF was positive by R$ 100.3 million. Detailed information on cash flow and the changes in major accounts for 2014 and 2013 are as follows:

CASH FLOW - CONSOLIDATED	2014	2013	Var. %
Cash at beginning of year	**281,119**	**180,781**	**55.5%**
Cash flow from operating activities	**51,513**	**101,710**	**-49.4%**
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 witten 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%
Cash flow from investing activities	**-71,185**	**-28,247**	**152.0%**
Property, plant and equipament	-14,646	-26,271	-44.3%
Intangible assets	-1,315	-1,976	-33.5%
Short-term investments-held	-55,224	-	-
Cash flow from financing activities	**-156,911**	**26,875**	**-683.9%**
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%
Increase (decrease) in cash and cash equivalents	**-176,583**	**100,338**	**-276.0%**
Cash at end of year	**104,536**	**281,119**	**-62.8%**

Worth mentioning, in April 2014, Company shareholders decided on a capital increase through private subscription on BM&FBOVESPA which, after two apportionments 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 end of the period for exercising right of first refusal;
- 07/11/14: R$ 38.5 million, after the 1st apportionment of remaining shares;
- 07/21/14: R$ 7 million, after the 2nd apportionment of remaining shares.

In this period, there was also realization of the 3rd issue of nonconvertible debentures in the amount of R$ 100 million, whose 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. Equity

Consolidated Company equity at Dec/31/14 amounted to R$ 52.1 million, with equity value of R$ 0.29 per share (R$ 1.13 at Dec/31/13), represented by 171,584,427 shares outstanding. We stress that the equity value and the number of shares still do not reflect the reverse share split approved in December 2014, since referred to shares began to be traded at the ratio resulting from this share split only in January 2015 (Item 2 - Subsequent Events).

8. Value added

The Company generated consolidated value added (wealth generated by the Company and its subsidiaries) of R$ 241.1 million in 2014, down 48% as compared with 2012 (R$ 459.7 million), distributed as follows:

In millions BRL

	2014	2013	Var.
Employees	153.0	186.9	-18%
Government	43.1	157.9	-73%
Funders	230.5	195.2	18%
Shareholders	-	-	-
Reinvestments	-185.4	-80.3	131%
Total	**241.1**	**459.7**	**-48%**

9. 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:

CAPEX	BUDGET 2014		PERFORMED 2014		BUDGET 2015	
Description	BRL thousands	USD thousands	BRL thousands	USD thousands	BRL thousands	USD thousands
Forjas Taurus S.A. - Headquarters	**26,856**	**11,190**	**3,073**	**1,308**	**7,254**	**2,790**
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
Forjas Taurus S.A. - Long Guns	**3,181**	**1,325**	**222**	**94**	**366**	**141**
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	-	-
Taurus Blindagens Ltda.	**6,000**	**2,500**	**1,098**	**467**	**5,511**	**2,120**
Products and processes' reasearch and development	-	-	535	228	-	-
Modernization and expansion of production capacity	6,000	2,500	563	240	5,511	2,120
Polimetal Metalúrgia e Plásticos Ltda.	**12,920**	**5,383**	**6,063**	**2,580**	**9,016**	**3,468**
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	-	-
Taurus Holdings, Inc. - USA	**6,226**	**2,594**	**5,506**	**2,343**	**9,100**	**3,500**
Modernization and expansion of production capacity	**6,226**	2,594	**5,506**	2,343	**9,100**	3,500
Total	**55,182**	**22,993**	**15,962**	**6,792**	**31,247**	**12,018**
* Resources: Debt		* BRL/USD 2,40		* BRL/USD 2,35		* BRL/USD 2,60

10. 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.

10.1 Capital Increase / Ownership Interest / Cancelation 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: Mar/2014		
	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. As such, as from January 20, 2015, 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.

10.2 Performance of Shares

Changes in key liquidity indicators of Company-issued shares, such as number of transactions, financial volume and number of shares traded, as well as market value of Taurus, are as follows: Devaluation is due to operating and market aspects in connection with corporate events evidenced herein, which increase market's risk perception reflected in share price.

Performance of Shares

		2014		2013		2012	2014 x 2013	2014 x 2012
1. Stock Price								
ON - FJTA3*	R$	0.76	R$	2.66	R$	3.25	-71%	-77%
PN - FJTA4*	R$	0.47	R$	2.28	R$	2.90	-79%	-84%
IBOVESPA*		50,007		51,507		60,952	-3%	-18%
* last quotation								
2. Market Cap - in thousands of BRL								
ON - FJTA3	R$	70,553	R$	125,386	R$	153,197	-44%	-54%
PN - FJTA4	R$	39,833	R$	214,947	R$	273,398	-81%	-85%
TOTAL	R$	110,386	R$	340,333	R$	426,595	-68%	-74%
3. Liquidity Indicators								
ON - FJTA3								
Trades*		10		9		12	8%	-19%
Financial Volume*		127,037		29,640		26,004	329%	389%
Shares traded*		76,612		10,067		10,931	661%	601%
* period average								
PN - FJTA4								
Trades*		159		233		163	-32%	-2%
Financial Volume*		338,545		540,736		639,017	-37%	-47%
Shares traded*		354,765		220,992		274,407	61%	29%

11. Relationship with Independent Auditors

In order to meet the requirements of CVM Rule 381/03, the Company informs hereby that audit firm Ernst & Young Auditores Independentes S.S. rendered independent audit services in the year ended Dec/31/14. In addition to these audit services, other nonrelated services were contracted, such as tax review and risk analysis, and review on 2014 income tax returns, re calendar year 2013. The respective fees were estimated at R$ 207,162.53 and represented approximately 24% of annual audit fees.

Ernst & Young Auditores Independentes S.S. represented that the services rendered did not affect its professional objectivity and independence In relation to independent audit of financial statements.

12. Estimates (*Guidance*)

In 2013, management had elected not to provide estimates of revenue and EBITDA for 2014, considering the transition moment, not only of the manufacturing management model as well as of the new executive board. In line with this decision, management elected again not to provide net income estimates for 2015 until 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.

13. 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.

Porto Alegre, March 26, 2015.

Board of Directors

Jorio Dauster Magalhães e Silva

Chairman

Ruy Lopes Filho

Vice-Chairman

André Ricardo Balbi Cerviño

Durval José Soledade Santos

Fernando José Soares Estima

João Verner Juenemann

Luiz Cláudio Moraes

Manuel Jeremias Leite Caldas

Marcos Bodin de Saint Ange Comnene

Supervisory Board

Amoreti Franco Gibbon

Juliano Puchalski Teixeira

Marcelo de Deus Saweryn

Mauro César Medeiros de Mello

Reinaldo Fujimoto

Statutory Board

André Ricardo Balbi Cerviño - Chairman

Eduardo Ermida Moretti - Sales and Marketing Vice CEO

Thiago Piovesan - Chief Administrative-finance and Investor Relations Officer

Representation of Board Members on the Independent Auditor's Report

Messrs. André Ricardo Balbi Cerviño, Eduardo Ermida Moretti and Thiago Piovesan, Executive Officers of Forjas Taurus S.A., a company with main place of business at Avenida do Forte, nº 511, Vila Ipiranga, Porto Alegre, Rio Grande do Sul State, enrolled with Brazil's IRS Registry of Legal Entities under CNPJ No. 92.781.335/0001-02, abiding by items V and VI, article 25, of Brazilian Securities and Exchange Commission (CVM) Rule No. nº 480, dated December 7, 2009, hereby declare that they reviewed, discussed and agreed with the opinions expressed by Ernst &Young Auditores Independentes S.S., in the Independent Auditor's Report on the Financial Statements for 2014 issued on March 26, 2015.

Porto Alegre, March 26, 2015.

André Ricardo Balbi Cerviño
Chief Executive Officer

Eduardo Ermida Moretti
Sales and Marketing Officer and Vice CEO

Thiago Piovesan
Administrative and Financial Officer and Vice CEO
Chief Investor Relations Officer

Representation of Board Members on the Financial Statements for the year ended December 31, 2014

Messrs. André Ricardo Balbi Cerviño, Eduardo Ermida Moretti and Thiago Piovesan, Executive Officers of Forjas Taurus S.A., a company with main place of business at Avenida do Forte, nº 511, Vila Ipiranga, Porto Alegre, Rio Grande do Sul State, enrolled with Brazil's IRS Registry of Legal Entities under CNPJ No. 92.781.335/0001-02, abiding by items V and VI, article 25, of Brazilian Securities and Exchange Commission (CVM) Rule No. 480, dated December 7, 2009, hereby declare that they reviewed, discussed and agreed with the Financial Statements of Forjas Taurus S.A. and consolidated subsidiaries for the year ended December 31, 2014.

Porto Alegre, March 26, 2015.

André Ricardo Balbi Cerviño
Chief Executive Officer

Eduardo Ermida Moretti
Sales and Marketing Officer and Vice CEO

Thiago Piovesan
Administrative and Financial Officer and Vice CEO
Chief Investor Relations Officer

Report of Supervisory Board

The Supervisory Board of Forjas Taurus S.A., abiding by legal and statutory provisions, examined the Management Report and the Financial Statements for the year ended December 31, 2014, approved by the Board of Directors in a meeting held on March 26, 2015.

Based on the examination made and further considering the unqualified Independent Auditor's Report of Ernst & Young Auditores Independentes S.S. issued on March 26, 2015, as well as the information and clarifications received form Company management during the year, the Supervisory Board concluded that referred to documents are in conditions to be submitted to the General Shareholders' meeting for approval.

Porto Alegre, March 26, 2015.

Amoreti Franco Gibbon

Juliano Puchalski Teixeira

Marcelo de Deus Saweryn

Mauro César Medeiros de Mello

Reinaldo Fujimoto

Report of Audit and Risk Committee

The members of the Audit and Risks Committee of Forjas Taurus S.A., exercising their attributions and legal prerogatives, as provided for by the Statutes of the Board of Directors Advisory Committees, examined and analyzed the financial statements, accompanied with the Independent Auditor's Report and the Management Report for 2014 and, considering the information provided by Company Management and Ernst & Young Auditores Independentes S.S, recommend that the documents be approved by the Board of Directors and that they be submitted to the General Shareholders' Meeting, on the terms of Brazil's Corporation Law.

Porto Alegre, March 26, 2015.

João Verner Juenemann

Ruy Lopes Filho

Thiago Piovesan

Capital Expenditures Budget for 2015

Capital Expenditures Budget for 2015 by Company

Description	BRL thousands	USD thousands
Forjas Taurus S.A. - Headquarters	**7,254**	**2,790**
Modernization and expansion of production capacity	4,876	1,875
Licensing, improvements and implementation of ERP modules	2,378	915
Forjas Taurus S.A. - Long Guns	**366**	**141**
Productivity improvement of manufacturing processes	366	141
Taurus Blindagens Ltda.	**5,511**	**2,120**
Modernization and expansion of production capacity	5,511	2,120
Polimetal Metalúrgia e Plásticos Ltda.	**9,016**	**3,468**
Modernization and expansion of production capacity	8,366	3,218
Completion of the Long Guns Unit Transfer to Polimetal plant	650	250
Taurus Holdings, Inc. - USA	**9,100**	**3,500**
Modernization and expansion of production capacity	9,100	3,500
Total CAPEX for 2015	**31,247**	**12,018**

* BRL/USD 2,60
* Resources: Debt

Independent auditor's report on Financial Statements

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

We have audited the accompanying individual and consolidated financial statements of Forjas Taurus S.A. ("Company"), identified as Company and Consolidated, respectively, which comprise the balance sheet as at December 31, 2014, and the related statements of operations, statements of comprehensive income (loss), statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting practices and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the individual and consolidated financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of Forjas Taurus S.A. as at December 31, 2014, its individual and consolidated operating performance, and its individual and consolidated cash flows for the year then ended in accordance with the accounting practices adopted in Brazil and with international financial reporting standards (IFRS) issued by the International Accounting Standards Board (IASB).

Other matters

Statements of value added

We have also audited the individual and consolidated statements of value added (SVA), for the year ended December 31, 2014, prepared under Company management responsibility, whose presentation is required by Brazil's Corporation Law for publicly-traded companies and as supplementary information under IFRS, which do not require SVA presentation. These statements were submitted to the same audit procedures previously described and, in our opinion, are fairly presented in all material respects, in relation to the overall financial statements.

Porto Alegre, March 26, 2015.

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

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

Forjas Taurus S.A.

Balance sheets
December 31, 2014 and 2013
(In thousands of reais)

		Consolidated		Company	
	Note	**2014**	**2013**	**2014**	**2013**
Assets					
Current assets					
Cash and cash equivalents	8	**104,536**	281,119	**25,161**	27,874
Short-term investments	8	**33,632**	-	**12,347**	-
Trade accounts receivable	9	**139,720**	161,660	**50,876**	171,648
Inventories	10	**200,524**	218,269	**67,054**	80,702
Derivative financial instruments	20	**36,106**	45,212	**36,098**	45,096
Prepaid expenses		**11,533**	9,059	**3,582**	1,897
Taxes recoverable	11	**23,419**	35,785	**9,719**	25,195
Receivables from related parties	21	**-**	-	**9,814**	9,414
Other accounts receivable		**20,396**	25,980	**7,751**	8,676
		569,866	777,084	**222,402**	370,502
Assets held for sale	7	**4,417**	5,588	**-**	-
		574,283	782,672	**222,402**	370,502
Noncurrent assets					
Short-term investments	8	**21,592**	-	**21,592**	-
Receivables from related parties	21	**-**	-	**88,647**	21,115
Deferred tax assets	12	**39,627**	44,364	**4,746**	-
Taxes recoverable	11	**1,048**	2,179	**450**	859
Other accounts receivable		**4,540**	4,271	**2,337**	2,462
		66,807	50,814	**117,772**	24,436
Investments					
Subsidiaries	14	**-**	-	**396,024**	430,287
Affiliates	14	**13,052**	14,194	**-**	-
Other investments		**349**	349	**190**	190
Property, plant and equipment	15	**257,222**	268,484	**47,731**	57,379
Intangible assets	16	**68,050**	67,581	**3,730**	4,642
		338,673	350,608	**447,675**	492,498
Total assets		**979,763**	1,184,094	**787,849**	887,436

		Consolidated		Company	
	Note	2014	2013	2014	2013
Liabilities and equity					
Current liabilities					
Trade accounts payable		**36,321**	32,978	**40,988**	63,487
Loans and financing	17	**258,865**	388,530	**192,987**	324,403
Debentures	18	**15,933**	57,565	**15,933**	57,565
Advances on foreign exchange contracts		**57,856**	-	**57,856**	-
Payroll and related charges		**25,095**	29,768	**14,878**	18,149
Taxes, duties and charges		**17,621**	18,287	**3,684**	3,508
Advance on receivables		**25,114**	115,972	**-**	71,040
Advances from customers		**10,258**	8,311	**8,996**	8,025
Derivative financial instruments	20	**23,898**	9,595	**23,163**	9,010
Advance on real estate credits	13	**8,548**	19,606	**-**	-
Commissions payable		**5,999**	1,588	**5,089**	745
Dividends payable		**6**	7	**6**	7
Provision for civil, labor and tax contingencies	19	**37,734**	6,897	**3,902**	3,135
Payables to related parties	21	**-**	-	**32,609**	13,660
Provision for product warranty		**11,028**	6,998	**4,067**	4,734
Other accounts payable		**26,432**	41,372	**8,498**	14,113
		560,708	737,474	**412,656**	591,581
Noncurrent liabilities					
Loans and financing	17	**231,821**	273,151	**155,550**	110,425
Debentures	18	**109,898**	-	**109,898**	-
Taxes payable		**2,469**	4,371	**1,098**	1,444
Deferred tax liabilities	12	**9,803**	12,872	**-**	3,456
Provision for civil, labor and tax contingencies	19	**9,240**	7,389	**980**	388
Other accounts payable		**3,709**	2,844	**55,552**	34,149
		366,940	300,627	**323,078**	149,862
Total liabilities		**927,648**	1,038,101	**735,734**	741,443
Equity	22				
Capital		**324,876**	257,797	**324,876**	257,797
Treasury shares		**-**	(32,895)	**-**	(32,895)
Capital transactions		**(40,996)**	(40,996)	**(40,996)**	(40,996)
Accumulated losses		**(317,290)**	(99,659)	**(317,290)**	(99,659)
Equity valuation adjustments		**36,685**	37,483	**36,685**	37,483
Cumulative translation adjustments		**48,840**	24,263	**48,840**	24,263
Total equity		**52,115**	145,993	**52,115**	145,993
Total liabilities and equity		**979,763**	1,184,094	**787,849**	887,436

See accompanying notes.

Forjas Taurus S.A.

Statements of operations
Years ended December 31, 2014 and 2013
(In thousands of reais)

	Note	Consolidated		Company	
		2014	**2013**	**2014**	**2013**
Net sales revenue	23	**591,536**	807,340	**286,626**	384,100
Selling costs	26	**(450,272)**	(565,619)	**(215,782)**	(311,813)
Gross profit		**141,264**	241,721	**70,844**	72,287
Operating income (expenses)					
Selling expenses	25	**(113,750)**	(126,341)	**(50,401)**	(47,399)
Administrative and general expenses	25	**(78,916)**	(77,885)	**(35,367)**	(35,895)
Other operating income (expenses), net	25	**(40,316)**	(20,117)	**(8,981)**	(5,438)
		(232,982)	(224,343)	**(94,749)**	(88,732)
Income (loss) before net financial income (expenses), equity pickup and taxes		**(91,718)**	17,378	**(23,905)**	(16,445)
Financial income	24	**129,789**	102,136	**116,550**	86,024
Financial expenses	24	**(221,970)**	(175,731)	**(197,843)**	(148,791)
Financial income (expenses), net		**(92,181)**	(73,595)	**(81,293)**	(62,767)
Equity pickup	14	**(1,142)**	(1,349)	**(88,426)**	(488)
Income (loss) before income taxes		**(185,041)**	(57,566)	**(193,624)**	(79,700)
Income and social contribution taxes	12	**(381)**	(22,744)	**8,202**	(610)
Loss for the year		**(185,422)**	(80,310)	**(185,422)**	(80,310)
Loss per common share – basic and diluted (in R$)	22.d			**(13.8920)**	(6.8494)
Loss per preferred share – basic and diluted (in R$)	22.d			**(13.8920)**	(6.8494)

See accompanying notes.

Statements of comprehensive income (loss)
Years ended December 31, 2014 and 2013
(In thousands of reais)

	Consolidated		Company	
	2014	**2013**	**2014**	**2013**
Loss for the year	**(185,422)**	(80,310)	**(185,422)**	(80,310)
Other comprehensive income (loss) Other comprehensive income (loss) to be classified in P&L for the year in subsequent periods:				
Cumulative translation adjustments	**24,577**	23,879	**24,577**	23,879
Adjustments of financial instruments, net of tax effects	**-**	965	**-**	965
Total comprehensive income (loss)	**(160,845)**	(55,466)	**(160,845)**	(55,466)

See accompanying notes.

Forjas Taurus S.A.

Statements of changes in equity
Years ended December 31, 2014 and 2013
(In thousands of reais)

	Note	Capital	Treasury shares	Capital transactions	Equity valuation adjustments	Cumulative translation adjustments	Dividends to be assigned	Accumulated losses	Total equity
Balance at December 31, 2012		257,797	(32,895)	(40,996)	37,773	384	321	(20,604)	201,780
Approval of prior year proposed dividends		-	-	-	-	-	(321)	-	(321)
Cumulative translation adjustments		-	-	-	-	23,879	-	-	23,879
Realization of equity valuation adjustment – appreciation of assets, net of tax effects		-	-	-	(633)	-	-	633	-
Realization of equity valuation adjustments – appreciation of assets of subsidiaries, net of tax effects		-	-	-	(622)	-	-	622	-
Unrealized gains with hedge instruments, net of tax effects		-	-	-	965	-	-	-	965
Loss for the year		-	-	-	-	-	-	(80,310)	(80,310)
Balance at December 31, 2013		257,797	(32,895)	(40,996)	37,483	24,263	-	(99,659)	145,993
Capital increase		**67,079**	**-**	**-**	**-**	**-**	**-**	**-**	**67,079**
Treasury shares cancelled		**-**	**32,895**	**-**	**-**	**-**	**-**	**(32,895)**	**-**
Cumulative translation adjustments		**-**	**-**	**-**	**-**	**24,577**	**-**	**-**	**24,577**
Realization of equity valuation adjustment – appreciation of assets, net of tax effects		**-**	**-**	**-**	**(497)**	**-**	**-**	**497**	**-**
Realization of equity valuation adjustments – appreciation of assets of subsidiaries, net of tax effects		**-**	**-**	**-**	**(189)**	**-**	**-**	**189**	**-**
Equity valuation adjustments due to merger	14	**-**	**-**	**-**	**(112)**	**-**	**-**	**-**	**(112)**
Loss for the year		**-**	**-**	**-**	**-**	**-**	**-**	**(185,422)**	**(185,422)**
Balance at December 31, 2014	22	**324,876**	**-**	**(40,996)**	**36,685**	**48,840**	**-**	**(317,290)**	**52,115**

See accompanying notes.

Cash flow statements

Years ended December 31, 2014 and 2013
(In thousands of reais)

	Consolidated		Company	
	2014	**2013**	**2014**	**2013**
Cash flow from operating activities				
Loss before income and social contribution taxes	**(185,041)**	(57,566)	**(193,624)**	(79,700)
Adjustments to reconcile net income to cash and cash equivalents provided by operating activities:				
Depreciation and amortization	**33,343**	35,307	**11,152**	11,925
Cost of fixed assets written off	**1,474**	4,673	**2,794**	1,059
Cost of intangible asset written off	**1,904**	1,469	**-**	-
Provision for impairment of assets held for sale	**1,171**	863	**-**	-
Allowance for doubtful accounts	**5,713**	3,822	**3,333**	1,603
Provision for inventory loss	**-**	(8,254)	**-**	(422)
Provision for contingencies	**32,688**	4,848	**1,359**	(334)
Provision for guarantees	**4,030**	6,149	**(667)**	4,734
Equity pickup	**1,142**	1,349	**88,426**	488
Exchange variation - intangible assets	**-**	-	**76**	-
Loss from change in investment in subsidiaries	**-**	-	**137**	106
Provision for interest on loans and financing	**77,201**	93,644	**53,237**	71,930
Derivative financial instruments	**17,602**	(13,334)	**16,998**	(13,217)
	176,268	130,536	**176,845**	77,872
Changes in assets and liabilities				
Decrease in inventories	**17,395**	51,512	**13,648**	23,671
(Increase) decrease in trade accounts receivable	**16,229**	(16,635)	**117,439**	(115,448)
Decrease in other accounts receivable	**37,100**	30,954	**20,941**	11,345
(Decrease) increase in trade accounts payable	**3,343**	(1,980)	**(22,499)**	22,745
Increase (decrease) in accounts payable	**(8,374)**	(15,289)	**15,792**	2,016
Dividends and interest on equity received	**-**	262	**-**	17,000
Income and social contribution taxes paid	**(5,407)**	(20,084)	**-**	-
	60,286	28,740	**145,321**	(38,671)
Net cash flow provided by (used in) operating activities	**51,513**	101,710	**128,542**	(40,499)
Cash flow from investing activities				
Receivables from related companies	**-**	-	**(67,532)**	(30,903)
Investments	**-**	-	**(9,017)**	(1,686)
Property, plant and equipment	**(14,646)**	(26,271)	**(3,400)**	(7,223)
Intangible assets	**(1,315)**	(1,976)	**-**	(616)
Short-term investments - held	**(55,224)**	-	**(33,939)**	-
Net cash flow used in investing activities	**(71,185)**	(28,247)	**(113,888)**	(40,428)
Cash flow from financing activities				
Capital increase	**67,079**	-	**67,079**	-
Dividends and interest on equity capital paid	**-**	(7,354)	**-**	(7,354)
Loans raised	**283,465**	296,431	**274,818**	230,185
Loans and financing repaid	**(450,063)**	(219,401)	**(313,021)**	(181,117)
Interest paid	**(57,392)**	(42,801)	**(46,243)**	(34,473)
Net cash provided by (used in) financing activities	**(156,911)**	26,875	**(17,367)**	7,241
Increase (decrease) in cash and cash equivalents	**(176,583)**	100,338	**(2,713)**	(73,686)
Statement of changes in cash and cash equivalents				
At beginning of year	**281,119**	180,781	**27,874**	101,560
At end of year	**104,536**	281,119	**25,161**	27,874
Increase (decrease) in cash and cash equivalents	**(176,583)**	100,338	**(2,713)**	(73,686)

See accompanying notes.

Forjas Taurus S.A.

Statement of value added
Years ended December 31, 2014 and 2013
(In thousands of reais)

	Consolidated		Company	
	2014	**2013**	**2014**	**2013**
Revenues				
Goods and products sold and services rendered	**717,042**	897,065	**352,214**	450,924
Other revenues	**11,908**	10,689	**7,212**	2,717
Allowance for doubtful accounts	**(5,713)**	(3,822)	**(3,333)**	(1,603)
	723,237	903,932	**356,093**	452,038
Inputs acquired from third parties, including the amount of taxes – ICMS, IPI, PIS and COFINS				
Cost of products and goods sold and services rendered	**327,064**	279,472	**101,793**	162,850
Materials, electric energy, third-party services and other	**250,381**	230,252	**170,313**	118,157
	577,445	509,724	**272,106**	281,007
Gross value added	**145,792**	394,208	**83,987**	171,031
Depreciation and amortization	**33,343**	35,307	**11,152**	11,925
Net value added produced by the Company	**112,449**	358,901	**72,835**	159,106
Value added received in transfer				
Equity pickup	**(1,142)**	(1,349)	**(88,426)**	(488)
Financial income	**129,789**	102,136	**116,550**	86,024
	128,647	100,787	**28,124**	85,536
Total value added to be distributed	**241,096**	459,688	**100,959**	244,642
Distribution of value added				
Personnel				
Salaries	**125,895**	160,577	**58,316**	80,586
Benefits	**18,356**	16,481	**9,111**	10,578
Unemployment Compensation Fund (FGTS)	**8,718**	9,873	**5,305**	6,406
	152,969	186,931	**72,732**	97,570
Government				
Federal	**22,525**	126,164	**4,752**	40,498
State	**20,456**	31,696	**4,648**	24,289
Municipal	**95**	6	**3**	5
	43,076	157,866	**9,403**	64,792
Financing agents				
Interest	**221,970**	172,395	**197,843**	148,791
Rent	**8,140**	15,116	**6,403**	6,331
Other	**363**	7,690	**-**	7,468
	230,473	195,201	**204,246**	162,590
Equity remuneration				
Accumulated losses, net of realization of equity valuation adjustments	**(185,422)**	(80,310)	**(185,422)**	(80,310)
	(185,422)	(80,310)	**(185,422)**	(80,310)
	241,096	459,688	**100,959**	244,642

See accompanying notes.

1. Operations

Forjas Taurus S.A. ("Company") is a Brazilian stock corporation, with its registered office in Porto Alegre (RS), primarily engaged in the manufacture and sale of revolvers, military and civilian pistols, ammunition and investing in other companies. The subsidiary companies produce and sell civilian pistols, glasses, metal parts to order, bullet proof vests, motorcycle 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. Company shares, ON (FJTA3) and PN (FJTA4), have been listed on Bovespa since March 1982.

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

Sales made by the Company and its subsidiaries are directed mainly to private customers in the foreign market, particularly those located in North America, and also public bodies in the domestic market, mainly the state, civil and military police.

Restructuring

In 2014, the Company continued recording operating losses and negative cash flows, mainly due to low productivity, decreased sales in the US market, high current debts and significant additional expenses incurred in the year.

Management plans to reverse this scenario and return to profitability include various actions, such as reviewing production processes, increasing productivity and manufacturing efficiency, reducing expenses and costs, increasing the volume of sales with recovery of the US market, as well as growing in other export markets, re-profiling maturity of short-term debt.

Management anticipates that these actions, some already implemented and others which are under way, will result in enough momentum for Company growth and profitability to be recovered.

Authorization for conclusion of financial statements

The annual financial statements were approved and authorized for disclosure by Company Supervisory Board and Board of Directors on March 26, 2015.

2. Presentation of financial statements

2.1. Basis of preparation

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

Company financial statements comprise the following companies:

a) Consolidated financial statements

Company consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the *International Accounting Standards Board* ("IASB") and interpretations issued by the *International Financial Reporting Interpretations Committee* ("IFRIC"), implemented in Brazil through the Brazilian FASB (CPC) and its technical interpretations ("ICPC") and guidance ("OCPC"), approved by the Brazilian Securities and Exchange Commission ("CVM").

b) Company individual financial statements

Company individual financial statements were prepared in accordance with accounting practices adopted in Brazil, which include the provisions of Brazil's Corporation Law, provided for in Law No. 6404/76 as amended by Laws No. 11638/07 and No. 11941/09, and accounting pronouncements, interpretations and guidance issued by the Brazilian FASB (CPC) and approved by the Brazilian SEC (CVM). Until December 31, 2013, these practices differed from IFRS applicable to separate financial statements solely with respect to the measurement of investments in subsidiaries, affiliates and jointly-controlled subsidiaries under the equity method, while such investments would be measured at cost or fair value for IFRS purposes.

Upon issue of IAS 27 (Separate Financial Statements) revised by the IASB in 2014, separate financial statements under IFRS began to allow the equity method to be used for measuring investments in subsidiaries, affiliates and jointly-controlled subsidiaries. In December 2014, the Brazilian FASB (CVM) issued Rule No. 733/2014, which approved the Amended Accounting Pronouncements Document No. 07 referring to Pronouncements CPC 18, CPC 35 and CPC 37 issued by the Brazilian SEC (CPC), which included referred to amendment to IAS 27 and allowed adoption thereof as from the years ended December 31, 2014. Accordingly, Company individual financial statements have been compliant with IFRS since 2014.

(In thousands of Reais, unless otherwise stated)

2. Presentation of financial statements (Continued)

2.1. Basis of preparation (Continued)

Certain cash flow statements for the year ended December 31, 2013 were reclassified for comparison purposes in relation to the classification adopted in 2014.

2.2. Basis of consolidation

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

(*) The investments reported represent the percentage interest held by the Company, either directly or indirectly in the capital of the subsidiary companies.
(**) Not consolidated.
(***) At December 30, 2014, the Shareholders' Meeting approved the merger of this entity by Taurus Blindagens Ltda. Net assets merged amounted to R$ 55,110 and the merger was carried out based on book value and on an appraisal report for merger purposes issued by independent valuers. This merger aimed at rationalizing administrative and operational activities.

In processing the consolidation of balance sheet and profit or loss accounts, the following items were eliminated:

- Interest in capital, reserves and retained earnings (accumulated losses) of consolidated companies;
- Balances of asset and liability accounts held among consolidated companies;
- Balances of income and expenses of significant transactions carried out among the consolidated companies; and
- Unrealized gains from transactions with investees stated by the equity method in proportion to Company ownership interest in investee. Unrealized losses alike the elimination of unrealized gains, but only to the point that there is no evidence of impairment loss of the asset.

2. Presentation of financial statements (Continued)

2.3. Functional and reporting currency

The individual and consolidated financial statements are presented in Brazilian Reais, which is the functional currency of the Company and its subsidiaries located in Brazil. The functional currency of subsidiary Taurus Holdings, Inc., located in the United States, is the US dollar, its assets and liabilities are translated into reais at the exchange rate effective at balance sheet date and the related statements of operations are translated at the monthly average exchange rate. Translation gains or losses are recorded under other comprehensive income (loss) and presented in equity.

Transactions in foreign currency are translated to Company functional currency at the exchange rate of transaction date. Monetary assets and liabilities denominated and computed in foreign currency at the reporting date are translated to the functional currency at the exchange rate of that date. All currency translation differences are recognized in P&L.

3. Significant accounting judgments and sources of uncertainties in estimates

When applying accounting practices, management must make judgments and prepare estimates related to carrying amounts of assets and liabilities not easily obtained from other sources. The estimates and respective assumptions are based on historical experience and other factors considered significant. Actual results may differ from these estimates.

Information on key judgments referring to accounting policies adopted that affect the amounts recognized in the individual and consolidated financial statements and information about uncertainties, assumptions and estimates is included in the following notes: 12 – Income and social contribution taxes, 16 – Intangible Assets, 19 – Provision for civil, labor and tax contingencies and 21 – Financial instruments.

4. Summary of significant accounting practices

Significant accounting practices adopted by the Company are described in specific notes, relating to the items presented; those generally applicable, in different aspects of the financial statements, are presented in this section.

Accounting practices considered not significant were not included in the financial statements. The accounting practices are consistently applied by Company investees.

a) Financial instruments

(i) *Nonderivative financial assets*

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

These assets are classified under loans and receivables.

Such loans and receivables are initially recognized at fair value increased by any attributable transaction costs. After initial recognition, loans and receivables are measured at amortized cost through the effective interest method, adjusted by any impairment loss.

(ii) *Nonderivative financial liabilities*

The Company has the following nonderivative financial liabilities: loans, financing, nonconvertible debentures, bank overdraft facility, trade accounts payable and other accounts payable. These liabilities are initially recognized at fair value increased by any attributable transaction costs. After initial recognition, these financial liabilities are measured at amortized cost through the effective interest method.

4. Summary of significant accounting practices (Continued)

a) Financial instruments (Continued)

(iii) *Derivative financial instruments*

The Company maintains derivative financial instruments to provide hedge against currency and interest rate risk.

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

Financial assets and liabilities are offset and their net amount is reported in the balance sheet when the Company has a legally enforceable right to offset the amounts recognized and intends to settle them on a net base, or realize the asset and settle the liability simultaneously.

(iv) *Impairment*

The Company and its subsidiaries evaluate at balance sheet date if there is any objective evidence indicating that the financial asset or group of financial assets is not recoverable. A financial asset or group of financial assets is considered not recoverable if and only if there is objective evidence of impairment as a result of one or more events that have happened after the initial recognition of assets (a "loss event" incurred) and this loss event has an impact on estimated future cash flows of the financial asset or group of financial assets that can be reasonably estimated.

b) Statements of value added

The statement of value added (SVA) is not required under IFRS and is being provided as supplementary information for purposes of Brazil’s Corporation Law in order to evidence the wealth created by the Company over the year and demonstrate its distribution among the various agents.

(In thousands of Reais, unless otherwise stated)

4. Summary of significant accounting practices (Continued)

c) New standards, amendments and interpretations of standards

i) New or amended standards adopted for the first time in 2014

The Company and its subsidiaries are of the understanding that the amendments and revised standards issued by the IASB in effect as from January 1, 2014 had no significant impacts on the financial statements.

ii) New standards early applied in 2014

The IASB issued Amendment to IAS 27 – Equity method in separate financial statements, in effect as from January 01, 2016. This amendment allows adoption of the equity method for investments in subsidiaries in the separate financial statements. The Company already adopts the equity method for purposes of its separate financial statements, as mentioned in item 2.1 b.

iii) New or revised standards in effect as from January 1, 2015:

IFRS 9 Financial Instruments (Effective as from 01/01/2018)	This standard ultimately aims at replacing IAS 39. Major changes are as follows: (i) upon initial recognition, all financial assets are recorded at fair value; (ii) the standard divides all financial assets into: amortized cost and fair value; and (iii) the concept of embedded derivatives was extinguished.
IFRS 15 Revenue from Contracts with Customers (in effect as from 01/01/2017)	Its main purpose is to provide clear principles for revenue recognition and simplify the reporting process.
Amended IFRS 11 – Interests in Joint Operations (Effective as from 01/01/2016)	Entities participating in a joint venture must apply the principles referring to business combinations, including as regards disclosure requirements.
Amendment to IAS 16 and IAS 38 Acceptable Depreciation and Amortization Methods (effective as from 01/01/2016)	Depreciation and amortization methods must be based on the economic benefits obtained through use of the asset.
Amendment to IFRS 10, IFRS 12 and IAS 28 Investment Entities - consolidation exceptions (effective as from 01/01/2016)	Among other clarifications, this amendment establishes that a noninvestment entity may maintain, in applying the equity method, measurement at fair value through profit or loss used by its investments.
Amendment to IAS 1 (effective as from 01/01/2016)	The purpose of this amendment is to emphasize that financial and accounting information must be objective and easy to understand.

4. Summary of significant accounting practices (Continued)

c) New standards, amendments and interpretations of standards (Continued)

iii) New or revised standards in effect as from January 1, 2015 (Continued)

Amendments to existing pronouncements

IFRS 7 Third-party service agreements	Service agreements usually characterize continuing involvement in a financial asset transferred for disclosure purposes. This continuing involvement will be confirmed if its characteristics meet the definitions described in the standard (paragraphs B30 and 42C). Effective as from 01/01/2016.
IFRS 5 Reclassification of noncurrent assets held for sale and maintained for distribution to partners/shareholders	This standard clarifies, through the guidance issued, the circumstances in which an entity reclassifies assets held for sale into assets maintained for distribution to partners/shareholders (and vice-versa) and the cases in which assets maintained for distribution to partners/shareholders no longer meet the criterion for referred to classification. Effective as from 01/01/2016.

The Brazilian FASB (CPC) has not yet issued the pronouncements and amendments related to the new amended international financial reporting standards presented above. As a consequence of the commitment from the CPC and CVM to keep an updated set of standards issued based on the amendments made by IASB, it is expected that these pronouncements and amendments will be issued by the CPC and approved by the CVM until the date of their mandatory application.

The Company also understands that there are no other standards and interpretations issued but not yet adopted that may, in the opinion of management, significantly impact Company disclosed net income or equity. Management intends to adopt such standards when they become applicable to the Company.

5. Financial risk management

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 Company activities.

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

5. **Financial risk management** (Continued)

5.1 Credit risk

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

Trade accounts receivable and other receivables

The Company and its subsidiaries adopt the practice to analyze the financial situation of counterparties, and also define credit limits and permanently accompany outstanding balances. The Company's sales revenue is not concentrated on a single client and there is no credit risk concentration.

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

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

(In thousands of Reais, unless otherwise stated)

5. Financial risk management (Continued)

5.1 Credit risk (Continued)

Exposure to credit risk

Maximum exposure to credit risk at the reporting date was as follows:

	Consolidated		Company	
	Book value		Book value	
	2014	2013	2014	2013
Financial assets held to maturity				
Trade accounts receivable	**163,477**	179,814	**57,925**	175,243
Other loans and receivables	**19,586**	20,691	**16,755**	16,905
Cash and cash equivalents	**104,536**	281,119	**25,161**	27,874
Short-term investments	**55,224**	-	**33,939**	-
Foreign exchange forward and interest rate swap contracts used for asset hedging	**36,106**	45,212	**36,098**	45,096
Total	**378,929**	526,836	**169,878**	265,118

Maximum exposure to credit risk for trade accounts receivable at the reporting date by geographic region was as follows:

	Consolidated		Company	
	Book value		Book value	
	2014	2013	2014	2013
Domestic - trade accounts receivable	**80,104**	84,788	**29,316**	20,622
United States – trade accounts receivable	**67,026**	79,346	**9,077**	142,465
Other	**16,347**	15,680	**19,532**	12,156
Total	**163,477**	179,814	**57,925**	175,243

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

	Consolidated		Company	
	Book value		Book value	
	2014	2013	2014	2013
Customers – public bodies	**36,782**	33,745	**31,914**	27,971
Customers - distributors	**117,703**	135,153	**24,361**	146,276
End customers	**8,992**	10,916	**1,650**	996
Total	**163,477**	179,814	**57,925**	175,243

(In thousands of Reais, unless otherwise stated)

5. **Financial risk management** (Continued)

5.1 **Credit risk** (Continued)

Impairment losses

Company and subsidiaries set up a provision for impairment losses which represents its estimate of losses incurred from trade accounts receivable, other receivables and investments. Loans and receivables granted at the balance sheet date mature as follows:

				Consolidated
	Gross	Gross	Impairment	Impairment
	2014	2013	2014	2013
Falling due	**135,921**	158,818	**-**	-
Overdue between 0-30 days	**7,890**	990	**(4,184)**	-
Overdue between 31-360 days[1]	**5,330**	2,813	**(5,237)**	(1,883)
Overdue for more than one year	**14,336**	17,193	**(14,336)**	(16,271)
Total	**163,477**	179,814	**(23,757)**	(18,154)

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

				Company
	Gross	Gross	Impairment	Impairment
	2014	2013	2014	2013
Falling due	**45,660**	169,540	**-**	-
Overdue between 0-30 days	**3,995**	569	**(594)**	-
Overdue between 31-360 days[1]	**4,758**	1,603	**(2,943)**	(399)
Overdue for more than one year	**3,512**	3,531	**(3,512)**	(3,196)
Total	**57,925**	175,243	**(7,049)**	(3,595)

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

5.2 **Liquidity risk**

This is the risk that the Company will face difficulties in fulfilling its obligations associated with its financial liabilities which are settled with cash payments or with other financial assets.

(In thousands of Reais, unless otherwise stated)

5. Financial risk management (Continued)

5.2 Liquidity risk (Continued)

Company and subsidiaries monitor their operating cash flow requirements, excluding the potential impact from extreme circumstances that cannot be reasonably forecast, such as natural disasters. The Company maintains credit facilities approved, however not contracted, amounting to approximately R$ 150,000, under terms and at rates used in the market. Additionally, subsidiary Taurus Holdings, Inc. has credit facilities amounting to USD 75,000 in December 2014, USD 23,170 of which has been used. Therefore, it is possible to guarantee that these companies have balances in treasury which are sufficient to meet their operating working capital requirements, including compliance with financial obligations.

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
						2014
	Book Value	**Contractual Cash Flow**	**Within 1 year**	**1-2 years**	**2-5 years**	**Over 5 years**
Nonderivative financial liabilities						
Trade accounts payable	**36,321**	**36,321**	**36,321**	**-**	**-**	**-**
Loans and financing	**490,686**	**552,133**	**279,784**	**141,391**	**128,208**	**2,750**
Debentures	**125,831**	**169,769**	**17,497**	**100,623**	**51,649**	**-**
Advance on real estate credits	**8,548**	**9,817**	**9,817**	**-**	**-**	**-**
Advances on foreign exchange contracts	**57,856**	**60,849**	**60,849**	**-**	**-**	**-**
Advance on receivables	**25,114**	**25,114**	**25,114**	**-**	**-**	**-**
Derivative financial instruments						
Derivative instruments (assets)	**(36,106)**	**(36,106)**	**(36,106)**	**-**	**-**	**-**
Derivative instruments (liabilities)	**23,898**	**23,898**	**23,898**	**-**	**-**	**-**
	732,148	**841,795**	**417,174**	**242,014**	**179,857**	**2,750**

						Consolidated
						2013
	Book Value	**Contractual Cash Flow**	**Within 1 year**	**1-2 years**	**2-5 years**	**Over 5 years**
Nonderivative financial liabilities						
Trade accounts payable	32,978	32,978	32,978	-	-	-
Loans and financing	661,681	744,177	416,440	117,318	186,083	24,336
Debentures	57,565	64,997	64,997	-	-	-
Advance on real estate credits	19,606	22,516	22,516	-	-	-
Advance on receivables	115,972	115,972	115,972	-	-	-
Derivative financial instruments						
Derivative instruments (assets)	(45,212)	(45,212)	(45,212)	-	-	-
Derivative instruments (liabilities)	9,595	9,595	9,595	-	-	-
	852,185	945,023	617,286	117,318	186,083	24,336

(In thousands of Reais, unless otherwise stated)

5. Financial risk management (Continued)

5.2 Liquidity risk (Continued)

						Company 2014
	Book Value	**Contractual Cash Flow**	**Within 1 year**	**1-2 years**	**2-5 years**	**Over 5 years**
Nonderivative financial liabilities						
Trade accounts payable	**40,988**	**40,988**	**40,988**	**-**	**-**	**-**
Loans and financing	**348,537**	**395,968**	**209,230**	**117,160**	**66,868**	**2,710**
Debentures	**125,831**	**169,769**	**17,497**	**100,623**	**51,649**	**-**
Advances on foreign exchange contracts	**57,856**	**60,849**	**60,849**	**-**	**-**	**-**
Derivative financial instruments						
Derivative instruments (assets)	**(36,098)**	**(36,098)**	**(36,098)**	**-**	**-**	**-**
Derivative instruments (liabilities)	**23,163**	**23,163**	**23,163**	**-**	**-**	**-**
	560,277	**654,639**	**315,629**	**217,783**	**118,517**	**2,710**

						Company 2013
	Book Value	**Contractual Cash Flow**	**Within 1 year**	**1-2 years**	**2-5 years**	**Over 5 years**
Nonderivative financial liabilities						
Trade accounts payable	63,487	63,487	63,487	-	-	-
Loans and financing	434,828	486,876	348,332	67,598	67,935	3,011
Debentures	57,565	64,997	64,997	-	-	-
Advance on receivables	71,040	71,040	71,040	-	-	-
Derivative financial instruments						
Derivative instruments (assets)	(45,096)	(45,096)	(45,096)	-	-	-
Derivative instruments (liabilities)	9,010	9,010	9,010	-	-	-
	590,834	650,314	511,770	67,598	67,935	3,011

5.3 Market Risk

This is the risk that variation in market prices, such as foreign exchange rates and interest rates, will affect the results of Company and subsidiaries or the amount of their investment 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.

Company and subsidiaries use derivative financial instruments and also fulfill their financial obligations to manage market risks. All of these operations are undertaken within the guidelines established by management.

5. Financial risk management (Continued)

(In thousands of Reais, unless otherwise stated)

5.3 Market risk (Continued)

(i) Currency risk

Company and subsidiaries are subject to currency risk from sales, purchases and loans denominated in a currency other than the respective functional currencies of Company entities, which in the majority of cases is the Real (R$), but also 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 months. The Company uses futures contracts to hedge against exchange risk, the majority of which mature in less than one year from the date of the financial statements. When necessary, the futures contracts are renewed upon maturity.

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.

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

	Consolidated		Company	
	USD thousand		USD thousand	
	2014	**2013**	**2014**	**2013**
Trade accounts receivable	**32,873**	45,914	**7,353**	4,302
Accounts receivable from foreign related parties	**-**	-	**3,417**	63,269
Advances on foreign exchange contracts	**(21,781)**	-	**(21,781)**	-
Loans and financing	**(108,561)**	(149,096)	**(86,356)**	(101,524)
Trade accounts payable - foreign	**(3,504)**	(5,723)	**(484)**	(738)
Net balance sheet exposure	**(100,973)**	(108,905)	**(97,851)**	(34,691)

The exposure to consolidated currency risk includes the guaranteed bank loans from Taurus Holdings, Inc. for the amount of USD 21,180 in 2014 (USD 45,381 in 2013).

The following exchange rates were used in 2014 and 2013:

	Average rate		Spot rate	
	2014	**2013**	**2014**	**2013**
R$/USD	**2.3599**	2.1741	**2.6562**	2.3426

(In thousands of Reais, unless otherwise stated)

5.3 Market risk (Continued)

(i) Currency risk (Continued)

Sensitivity analysis

The impact on the devaluation of the Real to the US dollar in 2014 in equity and P&L is presented below. This analysis is based on the expected exchange rate of year end, which is of R$2.80 (probable scenario), based on the Focus report of December 26, 2014, issued by the Central Bank of Brazil. The analysis considered that all the other variables, particularly interest rates, would remain constant.

	Consolidated		Company	
	Equity	P&L for the year	Equity	P&L for the year
December 31, 2014				
R$/USD (forecast rate 2.80)	**(14,534)**	**(14,534)**	**(14,071)**	**(14,071)**
R$/USD (25% - forecast rate 2.95)	**(85,286)**	**(85,286)**	**(82,566)**	**(82,566)**
R$/USD (50% - forecast rate 3.54)	**(156,038)**	**(156,038)**	**(151,062)**	**(151,062)**

(ii) Interest rate risk

Company and subsidiaries adopt the policy of maintaining a combination of internal and external interest rates on loans, thus keeping 30% of debt in US dollar and 70% in Brazilian reais.

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

	Consolidated		Company	
	2014	2013	2014	2013
Financial assets	**136,530**	119,667	**80,292**	68,868
Financial liabilities	**609,940**	621,435	**529,917**	466,183

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

	Consolidated		Company	
	2014	2013	2014	2013
Change in interest rate on financing	**(2,914)**	(2,741)	**(2,461)**	(2,082)
Change in interest rate on short-term investments	**579**	363	**255**	116

(In thousands of Reais, unless otherwise stated)

5.4 Capital management

The policy adopted by management is to maintain a solid capital base for future business development, adding value to shareholders, creditors and the market in general, by monitoring return on capital. However, the results obtained in the past few years have deteriorated this parameter, as follows:

	Consolidated	
	2014	**2013**
Total liabilities	**927,648**	1,038,101
Less: Cash and cash equivalents, and short-term investments	**(159,760)**	(281,119)
Net debt (A)	**767,888**	756,982
Total equity (B)	**52,115**	145,993
Net debt to equity ratio at December 31, 2014 and December 31, 2013 (A/B)	**14.73**	5.19

The actions taken in order to reestablish this ration are described in Note 1.

6. Operating segments

The Company has four reportable segments represented by strategic business units which are administered separately and differ from one another based on the offer of products and services, technologies and marketing strategies. The following summary describes the operations of each one of Company reportable segments:

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

Helmets – the helmet production process is based on the following stages: injection (based on ABS – Acrylonitrile 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 assembly; these operations are undertaken by Taurus Blindagens Ltda., Taurus Blindagens Nordeste Ltda. and Taurus Helmets Indústria Plástica Ltda., which was merged into Taurus Blindagens Ltda. at December 30, 2014.

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

Other – the result of the forging segment (Polimetal Metalurgia e Plásticos Ltda.); bulletproof vests and plastic products (Taurus Blindagens Ltda.). These also include other operations such as the manufacture and sale of glasses, anti-riot shields and providing services. These segments were added, since they do not fall into the quantitative limits for separated disclosure as a reportable segment.

The segment's profit is used to evaluate performance based on the segment's income before income and social contribution taxes, since management understands that this information is more significant for evaluating the results of certain segments in relation to other entities that operate in these industries.

(In thousands of Reais, unless otherwise stated)

6. Operating segments (Continued)

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

	Weapons		Helmets		Machinery (discontinued)		Other		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
External income	429,970	621,124	124,505	127,565	332	3,874	36,729	54,777	591,536	807,340
Inter-segment income	40,386	78,064	30	494	-	-	14,804	4,755	55,220	83,313
Cost of sales	(337,523)	(458,831)	(84,086)	(81,972)	(410)	(3,631)	(28,253)	(21,185)	(450,272)	(565,619)
Gross profit (loss)	132,833	240,357	40,449	46,087	(78)	243	23,280	38,347	196,484	325,034
Selling expenses	(86,631)	(92,000)	(21,991)	(20,133)	(1,544)	(10,784)	(3,498)	(3,349)	(113,664)	(126,266)
General and administrative expenses	(63,416)	(65,105)	(2,810)	(3,132)	(5,259)	(3,690)	(1,086)	(1,748)	(72,571)	(73,675)
Depreciation and amortization	(7,243)	(4,063)	(190)	(185)	-	-	(1,505)	(1,388)	(8,938)	(5,636)
Other operating income (expenses), net	(9,902)	(7,322)	2,062	1,440	(29,415)	(11,710)	(554)	(1,174)	(37,809)	(18,766)
Equity pickup	-	-	-	-	-	-	(1,142)	(1,349)	(1,142)	(1,349)
	(167,192)	(168,490)	(22,929)	(22,010)	(36,218)	(26,184)	(7,785)	(9,008)	(234,124)	(225,692)
Gross operating profit (loss)	(34,359)	71,867	17,520	24,077	(36,296)	(25,941)	15,495	29,339	(37,640)	99,342
Financial income	115,117	88,620	8,976	6,961	4,449	4,780	1,247	1,775	129,789	102,136
Financial expenses	(207,753)	(157,144)	(3,689)	(6,623)	(5,377)	(5,451)	(5,151)	(6,513)	(221,970)	(175,731)
Financial income (expenses), net	(92,636)	(68,524)	5,287	338	(928)	(671)	(3,904)	(4,738)	(92,181)	(73,595)
Profit (loss) per reportable segment before income and social contribution taxes	(126,995)	3,343	22,807	24,415	(37,224)	(26,612)	11,591	24,601	(129,821)	25,747
Elimination of inter-segment income	(40,386)	(78,064)	(30)	(494)	-	-	(14,804)	(4,755)	(55,220)	(83,313)
Income (loss) before income and social contribution taxes	(167,381)	(74,721)	22,777	23,921	(37,224)	(26,612)	(3,213)	19,846	(185,041)	(57,566)
Income and social contribution taxes	6,097	(17,404)	(3,781)	(3,634)	-	(651)	(2,697)	(1,055)	(381)	(22,744)
Net income (loss) for the year	(161,284)	(92,125)	18,996	20,287	(37,224)	(27,263)	(5,910)	18,791	(185,422)	(80,310)
Assets of reportable segments	555,213	761,299	163,367	162,901	1,454	5,135	259,729	254,759	979,763	1,184,094
Liabilities of reportable segments	780,819	788,295	47,737	60,661	(40,642)	43,359	139,734	145,786	927,648	1,038,101

(In thousands of Reais, unless otherwise stated)

6. Operating segments (Continued)

Geographic information

Information on revenue presented below is based on the customer's geographic location.

	Weapons		Helmets	
	2014	**2013**	**2014**	**2013**
Domestic market				
Southeast	**25,970**	21,165	**34,302**	31,919
South	**19,171**	23,378	**6,109**	6,211
Northeast	**20,718**	18,747	**38,229**	39,634
North	**9,468**	6,086	**24,956**	28,702
Mid-West	**14,965**	10,173	**20,635**	20,681
	90,292	79,549	**124,231**	127,147
Foreign market				
USA	**275,009**	511,482	-	-
Argentina	**2,399**	434	-	-
Bolivia	-	-	-	29
Chile	**3,241**	1,060	-	-
Paraguay	**2,065**	3,673	**274**	364
Peru	**-**	-	-	25
El Salvador	**1,322**	281	-	-
Egypt	**16,733**	-	-	-
South Africa	**1,429**	2,285	-	-
Bangladesh	**3,335**	2,882	-	-
Philippines	**3,237**	1,304	-	-
Lebanon	**2,507**	436	-	-
Pakistan	**1,876**	1,749	-	-
Thailand	**1,045**	488	-	-
Australia	**2,084**	1,714	-	-
Other countries	**23,396**	13,787	-	-
	339,678	541,575	**274**	418
	429,970	621,124	**124,505**	127,565

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

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

(In thousands of Reais, unless otherwise stated)

7. Assets and liabilities held for sale and discontinued operations

Noncurrent assets held for sale and result from discontinued operations

The Company classifies noncurrent assets as held for sale if their book value will be recovered through a sale transaction considered probable.

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

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

Depreciation of assets held for trading ends when a group of assets is designated as held for sale.

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

In 2012, the Company sold SM Metalurgia Ltda. to Renill Participações Ltda. In 2013, the Company renegotiated the sales price and payment conditions, adjusting the overall value of the Contract related to disposal of subsidiary SM Metalurgia Ltda., from R$115,350 to R$ 57,520 subject to TJLP and interest of 1.8% p.a. as from agreement execution, payable as follows:

Number of installments	Principal installment amounts	Maturity
1	1,960	Parts supply
2	2,055	06/30/2014 and 12/30/2014, not received to date.
14	3,675	as from 06/30/2015, biannual installments.

(In thousands of Reais, unless otherwise stated)

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

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

In 2014, the balance receivable is as follows:

	2014	2013
Sales amount (renegotiated)	**57,520**	57,520
Contractual monetary restatement	**10,693**	6,345
Amount received	**(873)**	(293)
Balance receivable	**67,340**	63,572
Provision for loss	**(67,340)**	(62,991)
Total*	**-**	581

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

The Company maintained a provision for loss recorded in 2013 and restated this provision as at December 31, 2014 in the amount of R$ 67,340, since the Company: i) believes that there has been deterioration of the credit conditions; ii) has not yet concluded full formalization of guarantees of the operation; iii) and since buyer is a limited liability company and is undergoing in-court reorganization.

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

At the end of 2013, Company management, aligned with the structural changes in the strategies of focusing on higher value added segments, decided to decommission the production line and forging services to third parties of subsidiary Polimetal. The machines and equipment were made available for sale and recorded as “assets held for sale”. At December 31, 2014, this balance amounts to R$ 4,417 (R$ 5,588 at December 31, 2013). Revenues from forging services to third parties, when in operation, represented less than 5% of Company sales. The other industrial activities of Polimetal continue being normally carried out.

(In thousands of Reais, unless otherwise stated)

8. Cash and cash equivalents, and short-term investments

Cash and cash equivalents

Cash and cash equivalents include cash balances and highly liquid short-term investments, i.e. which may be redeemed within three months as from investment date, without penalties for the Company and with low risk of change in their market value.

	Consolidated		Company	
	2014	**2013**	**2014**	**2013**
Cash balance	**5,420**	1,226	**4,565**	1,165
Demand deposits	**53,917**	205,438	**10,341**	2,937
Short-term investments	**45,199**	74,455	**10,255**	23,772
Cash and cash equivalents	**104,536**	281,119	**25,161**	27,874

Short-term investments classified as cash and cash equivalents are remunerated at rates that vary between 98% and 104% of CDI in 2014 (98% to 104% of CDI in 2013), which are held with top-tier financial institutions.

Short-term investments

	Consolidated	Company
	2014	**2014**
Short-term investments - CDB	**55,224**	**33,939**
Total	**55,224**	**33,939**
Current	**33,632**	**12,347**
Noncurrent	**21,592**	**21,592**

Short-term investments are remunerated at rates ranging from 98 to 104% of CDI in 2014 and are held in guarantee for long-term financing. Redemption thereof is programmed to occur in conjunction with financing amortization and such investments are presented in current and noncurrent assets based on their planned redemption dates.

9. Trade accounts receivable

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

Present value calculation is made for each transaction based on an interest rate that reflects the term, currency and risk of each transaction. In the period, the average rate used by the Company was of approximately 0.87% p.m. The balancing entry of present value adjustments of accounts receivable is posted to gross revenue in P&L. The difference between present value of a transaction and the face value on billing is considered financial income.

(In thousands of Reais, unless otherwise stated)

9. Trade accounts receivable (Continued)

Allowance for doubtful accounts is set up in amount considered sufficient by Management to cover any losses upon realization of accounts receivable.

	Consolidated		Company	
	2014	2013	2014	2013
Customers - domestic	**78,023**	77,608	**22,438**	18,462
Customers – domestic related parties	**-**	-	**7,543**	3,088
Customers - foreign	**87,318**	103,884	**19,532**	6,406
Customers – foreign related parties	**-**	-	**9,077**	148,215
Adjustment to present value	**(1,864)**	(1,678)	**(665)**	(928)
	163,477	179,814	**57,925**	175,243
Allowance for doubtful accounts - domestic	**(17,508)**	(14,853)	**(4,294)**	(3,589)
Allowance for doubtful accounts - foreign	**(6,249)**	(3,301)	**(2,755)**	(6)
	(23,757)	(18,154)	**(7,049)**	(3,595)
Total	**139,720**	161,660	**50,876**	171,648

The Company's exposure to credit and currency risk as well as to impairment of trade accounts and other accounts receivable, including accounts receivable aging, are disclosed in Note 5. Changes in the allowance for doubtful accounts are as follows:

	Consolidated	Company
Balance at December 31, 2013	(18,154)	(3,595)
Additions	**(9,319)**	**(3,882)**
Reversal of allowance for doubtful accounts	**3,606**	**549**
Realization of allowance for doubtful accounts	**632**	**-**
Exchange gains (losses)	**(522)**	**(121)**
Balance at December 31, 2014	**(23,757)**	**(7,049)**

10. Inventories

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

Provision for inventory loss is recorded for slow moving products and for items with sales price lower than build-up cost.

(In thousands of Reais, unless otherwise stated)

10. Inventories (Continued)

	Consolidated		Company	
	2014	**2013**	**2014**	**2013**
Finished goods	**106,929**	121,861	**22,997**	35,946
Work in progress	**34,123**	47,412	**24,595**	25,980
Raw material	**51,586**	42,166	**16,246**	13,575
Ancillary and maintenance materials	**7,886**	7,350	**3,216**	5,201
Provision for inventory losses	**-**	(520)	**-**	-
	200,524	218,269	**67,054**	80,702

Changes in provision for inventory losses are as follows:

	Consolidated
Balance at December 31, 2013	(520)
Realization	**520**
Balance at December 31, 2014	**-**

11. Taxes recoverable

	Consolidated		Company	
	2014	**2013**	**2014**	**2013**
State VAT (ICMS)	**7,970**	6,742	**1,033**	1,260
Federal VAT (IPI)	**1,411**	1,242	**294**	328
PIS	**708**	3,910	**613**	3,636
COFINS	**3,299**	19,075	**2,825**	17,536
Income and social contribution taxes	**11,079**	6,995	**5,404**	3,294
Total	**24,467**	37,964	**10,169**	26,054
Current	**23,419**	35,785	**9,719**	25,195
Noncurrent	**1,048**	2,179	**450**	859

12. Income and social contribution taxes

Current and deferred income and social contribution taxes for the year are calculated at the rate of 15% and surtax of 10% on taxable income in excess of R$240 for income tax and 9% on taxable income for social contribution tax, and consider offset of income and social contribution tax losses, limited to 30% of annual taxable profit. Companies which compute income and social contribution taxes as a percentage of their gross revenue (“*lucro presumido*”) use aforementioned rates, however on billing percentages of 8% and 12%, respectively. The income tax rate for the subsidiary located in the USA is 35%.

Current and deferred taxes are recognized in P&L unless they refer to business combinations or items recognized directly in equity or in other comprehensive income (loss).

(In thousands of Reais, unless otherwise stated)

12. Income and social contribution taxes (Continued)

Deferred taxes are recognized in relation to temporary differences between accounting and tax bases. Deferred income and social contribution tax assets are recognized on unused tax losses, tax credits and deductible temporary differences and when future taxable profits are likely to be available to allow realization thereof.

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

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

a) Breakdown of deferred tax assets and liabilities

	Consolidated		Company	
	2014	2013	2014	2013
On temporary asset differences and income and social contribution tax losses				
Provision for sales commissions	**1,534**	586	**1,495**	547
Adjustment to present value	**870**	432	**446**	342
Provision for labor claims	**3,442**	2,094	**1,586**	1,390
Provision for losses on insurance claims	**782**	782	**782**	782
Allowance for doubtful accounts	**2,702**	2,677	**459**	598
Provision for product warranty	**3,627**	2,775	**1,383**	1,217
Provision for contingencies	**916**	842	**74**	-
Adjustment of deferred revenues	**-**	1,183	-	-
Derivative financial instruments	**8,167**	3,338	**7,875**	3,064
Income and social contribution tax losses (i)	**35,506**	42,665	**7,000**	7,000
Inventories – unrealized profits	**2,633**	5,433	-	-
Other items	**1,568**	2,111	**137**	1,183
	61,747	64,918	**21,237**	16,123
On temporary liability differences				
Equity adjustments	**(1,788)**	(3,097)	**(1,146)**	(1,454)
Depreciation base difference	**(8,090)**	(7,772)	**(1,758)**	(1,663)
Goodwill allocation	**(8,397)**	(6,058)	-	-
Financial charges	**(1,372)**	(1,155)	**(1,314)**	(1,128)
Derivative financial instruments	**(12,276)**	(15,344)	**(12,273)**	(15,334)
	(31,923)	(33,426)	**(16,491)**	(19,579)
Total asset (liability) balance, net	**29,824**	31,492	**4,746**	(3,456)
Classified in noncurrent assets	**39,627**	44,364	**4,746**	-
Classified in noncurrent liabilities	**(9,803)**	(12,872)	**-**	(3,456)

Changes in deferred taxes:

	Consolidated	Company
Opening balance of deferred taxes, net	31,492	(3,456)
Posted to P&L (Note 12.b)	**98**	**8,202**
Allocated to consolidation goodwill	**(2,339)**	**-**
Effect from exchange variation	**573**	**-**
Closing balance of deferred taxes, net	**29,824**	**4,746**

(In thousands of Reais, unless otherwise stated)

12. Income and social contribution taxes (Continued)

a) Breakdown of deferred tax assets and liabilities (Continued)

(i) Company management considered the existence of accumulated income and social contribution tax losses recorded on net income in the Company and in subsidiaries Polimetal Metalurgia e Plásticos Ltda., Taurus Blindagens Ltda. and Taurus Holdings Inc. Assessment of the existence of future taxable income, which supports the recording of deferred tax assets, was based on the operating activities of Company segments.

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

	Consolidated		Company	
Year	**Total**	**Ownership %**	**Total**	**Ownership %**
2015	900	2.53%	-	-
2017	612	1.72%	-	-
2018	1,887	5.31%	-	-
2019	2,661	7.49%	213	3.04%
2020	4,183	11.78%	644	9.20%
2021	5,936	16.72%	1,244	17.77%
2022	7,413	20.88%	2,099	29.99%
2023	8,481	23.89%	2,728	38.97%
2024	3,433	9.68%	72	1.03%
Total	35,506	100.00%	7,000	100.00%

The amount of income and social contribution tax losses on which deferred taxes are not recorded totaled R$416,752 - Consolidated (R$296,978 in 2013) and R$84,665 – Company (R$24,336 in 2013).

The main balances of income and social contribution tax losses refer to subsidiary Taurus Máquinas-Ferramenta Ltda. Tax credits arising from income and social contribution tax losses not recognized by this subsidiary totaled R$ 76,224 (R$ 72,585 in 2013).

(In thousands of Reais, unless otherwise stated)

12. Income and social contribution taxes (Continued)

b) Reconciliation between the tax expense and the result from the multiplication of book profit by the local tax rate is as follows:

	Consolidated		Company	
	2014	**2013**	**2014**	**2013**
Income/loss before income and social contribution taxes	**(185,041)**	(57,566)	**(193,624)**	(79,700)
Combined tax rate	**34%**	34%	**34%**	34%
Income and social contribution taxes:				
At combined tax rate	**62,914**	19,572	**65,832**	27,098
Permanent additions:				
Nondeductible expenses	**(421)**	(338)	**(420)**	(336)
Permanent exclusions:				
Tax exempt income – equity pickup	**(388)**	(459)	**(30,065)**	166
Other – Law No. 11196/05	**-**	176	**-**	-
Unrecognized tax loss	**(52,358)**	(38,500)	**(20,512)**	(21,621)
Nondeductible provisions	**(16,331)**	(5,745)	**(6,709)**	(4,638)
Effects from different rates of subsidiaries taxed based on profit computed as a percentage of gross revenue (“lucro presumido”)	**3,693**	4,885	**-**	-
Other items	**2,510**	(2,335)	**76**	(1,279)
Income and social contribution taxes in P&L for the year	**(381)**	(22,744)	**8,202**	(610)
Income and social contribution taxes in P&L for the year:				
Current	**(479)**	(21,418)	**-**	-
Deferred	**98**	(1,326)	**8,202**	(610)
	(381)	(22,744)	**8,202**	(610)
Effective rate	**0.21%**	39.51%	**-4.24%**	0.77%

c) Law No. 12973 of May 13, 2014

The Company prepared studies on any effects which could derive from application of the provisions of Law No. 12973 and concluded that no significant adjustments to its financial statements as of December 31, 2014 and December 31, 2013 were required.

13. Advance on real estate credits

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

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 last falling due on July 15, 2015. At December 31, 2014, total restated balance amounts to R$ 8,548 (R$ 19,606 at December 31, 2013, R$ 8,548 of which had been reclassified to current liabilities for noncompliance with covenants).

(In thousands of Reais, unless otherwise stated)

14. Investments

	Taurus Blindagens Ltda.	Taurus Blindagens Nordeste Ltda.	Taurus Holdings, Inc.	Taurus Security Ltda. (1)	Taurus Investimentos Imobiliários Ltda.	Polimetal Metalurgia e Plásticos Ltda.	Taurus Máquinas-Ferramenta Ltda.(1)	Famastil Taurus Ferramentas S.A. (2)	Company 2014	Company 2013
Current assets	122,048	27,537	240,649	60	6,209	63,810	2,623	63,980		
Noncurrent assets	58,742	16,358	78,559	241	67,666	271,810	1,066	31,272		
Current liabilities	28,390	8,240	63,560	3	24,640	79,616	49,451	32,177		
Noncurrent liabilities	14,745	8,075	47,500	547	20,746	89,522	50,917	32,160		
Capital	80,209	9,400	810	100	39,917	210,000	233,000	20,000		
Equity	137,655	27,580	208,148	(249)	28,489	166,482	(96,679)	30,915		
Net revenue	73,822	27,208	276,737	-	11,707	52,003	332	86,895		
Net income (loss) for the year	16,100	5,865	(9,430)	-	(1,478)	(63,156)	(39,001)	(2,640)		
Number of shares/units of interest	648	9,400	302,505	100,000	30,752,186	210,000,000	124,368,143	-		
Direct ownership interest (%)	0.01%	0.10%	100%	100%	76.23%	100%	53.38%	-		
Opening balances	1	22	186,699	-	20,464	220,886	-	2,215	430,287	296,369
Capital payment (4)	**-**	**-**	**-**	**-**	**1,794**	**7,223**	**-**	**-**	**9,017**	126,054
Equity pickup (3)	**-**	**6**	**(3,092)**	**-**	**(1,409)**	**(63,113)**	**(20,818)**	**-**	**(88,426)**	(488)
Loss on investments	**-**	**-**	**-**	**-**	**(137)**	**-**	**-**	**-**	**(137)**	(106)
Exchange variation on investments	**-**	**-**	**24,577**	**-**	**-**	**-**	**-**	**-**	**24,577**	23,879
Dividends received	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	(17,000)
Equity valuation adjustments (5)	**-**	**-**	**-**	**-**	**-**	**(112)**	**-**	**-**	**(112)**	-
Reclassified to provision for capital deficiency (1)	**-**	**-**	**-**	**-**	**-**	**-**	**20,818**	**-**	**20,818**	1,579
Closing balances (3)	**1**	**28**	**208,184**	**-**	**20,712**	**164,884**	**-**	**2,215**	**396,024**	430,287

(1) Capital deficiency of subsidiary Taurus Security Ltda. in the amount of R$ 249 and of subsidiary Taurus Máquinas-Ferramenta Ltda. in the amount of R$51,604 is recorded in "Other accounts payable" in current liabilities.
(2) On December 20, 2011, the investment in subsidiary Famastil Taurus Ferramentas S.A. was transferred to subsidiary Polimetal Metalurgia e Plásticos Ltda. as part of the corporate restructuring occurred in 2011. The amount of R$ 2,215 refers to goodwill on the investment in Famastil Taurus Ferramentas S.A. which remains with Forjas Taurus S.A.
(3) For purposes of determining the investment amounts, equity and net income of each investee are adjusted by unrealized profits in transactions among the companies.
(4) Capital increase in subsidiary Taurus Investimentos Imobiliários Ltda. amounting to R$ 1,794 and capital payment in Polimetal Metalurgia e Plásticos Ltda. amounting to R$ 7,223 were made in cash.
(5) Equity valuation adjustment referring to deferred taxes upon merger of subsidiary Taurus Helmets Ltda. into parent company Taurus Blindagens Ltda. due to tax regime differences, reflected on equity Polimetal Metalurgia e Plásticos Ltda. parent company of Taurus Blindagens Ltda.

(In thousands of Reais, unless otherwise stated)

14. Investments (Continued)

Foreign operations

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 the USA, operating mainly in the resale of weapons imported from Forjas Taurus S.A., aimed at the wholesale market. Major book balances of the subsidiary are as follows:

	Taurus Holdings, Inc. Consolidated	
	2014	**2013**
Assets	**319,208**	491,169
Liabilities	**111,060**	298,170
Net revenue	**276,737**	511,482
Net income (loss) for the year	**(9,430)**	27,158

Affiliate

The Company has investments in affiliate Famastil Taurus Ferramentas S.A. that are not consolidated, since the Company has significant influence, but no control, over the affiliate's operating and financial policies. Investments in associated companies are stated by the equity method and initially recognized at cost. Such investments include goodwill on acquisition, net of any accumulated impairment losses (goodwill on associated companies is not separately tested for impairment).

The balances at December 31, 2014 are as follows:

	Famastil Taurus Ferramentas S.A. Consolidated
Current assets	63,980
Noncurrent assets	31,272
Current liabilities	32,177
Noncurrent liabilities	32,160
Capital	20,000
Equity	30,915
Net revenue	86,895
Loss for the year	(2,640)
Number of shares/units of interest	7,000,000
Direct ownership interest (%)	35%
Opening balances (1)	14,194
Equity pickup	**(1,142)**
Closing balances (1)	**13,052**

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

15. Property, plant and equipment

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

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

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

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

Depreciation is recognized in P&L based on the straight line method in relation to the estimated useful life of each asset. The estimated useful lives for current and comparative periods are approximately the following:

Group	Useful life
Buildings	27 years
Machinery and equipment	15 to 20 years
Casts and tooling	5 years
Furniture	15 years
Other components	5 to 6 years

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

(In thousands of Reais, unless otherwise stated)

15. Property, plant and equipment (Continued)

								Consolidated
	Land, buildings and premises	**Machinery and equipment**	**Casts and tooling**	**Furniture and computers**	**Vehicles**	**PPE in progress**	**Advances to suppliers**	**Total**
Cost or deemed cost								
Balance at December 31, 2013	114,910	190,724	48,165	18,523	3,312	28,473	6,049	410,156
Additions	**1,240**	**3,867**	**216**	**968**	**251**	**8,226**	**(122)**	**14,646**
Disposals	**-**	**(2,820)**	**-**	**(253)**	**(462)**	**(4)**	**-**	**(3,539)**
Transfers of assets under construction	**16,741**	**11,605**	**3,832**	**315**	**173**	**(27,036)**	**(5,630)**	**-**
Effect from exchange variation	**5,219**	**3,816**	**-**	**618**	**19**	**-**	**-**	**9,672**
Transfers to other groups	**481**	**(232)**	**365**	**13**	**(2)**	**87**	**-**	**712**
Balance at December 31, 2014	**138,591**	**206,960**	**52,578**	**20,184**	**3,291**	**9,746**	**297**	**431,647**
Depreciation								
Balance at December 31, 2013	15,365	83,174	29,110	11,615	2,408	-	-	141,672
Depreciation in the year	**3,597**	**17,820**	**6,801**	**2,179**	**555**	**-**	**-**	**30,952**
Disposals	**-**	**(1,630)**	**-**	**(216)**	**(219)**	**-**	**-**	**(2,065)**
Effect from exchange variation	**833**	**2,196**	**10**	**445**	**20**	**-**	**-**	**3,504**
Transfers to other groups	**482**	**(140)**	**(19)**	**39**	**-**	**-**	**-**	**362**
Balance at December 31, 2014	**20,277**	**101,420**	**35,902**	**14,062**	**2,764**	**-**	**-**	**174,425**
Book value								
At December 31, 2013	99,545	107,550	19,055	6,908	904	28,473	6,049	268,484
At December 31, 2014	**118,314**	**105,540**	**16,676**	**6,122**	**527**	**9,746**	**297**	**257,222**

(In thousands of Reais, unless otherwise stated)

15. Property, plant and equipment (Continued)

								Company
	Land, buildings and premises	Machinery and equipment	Casts and tooling	Furniture and computers	Vehicles	PPE in progress	Advances to suppliers	Total
Cost								
Balance at December 31, 2013	3,140	62,977	24,225	8,121	1,857	5,199	6	105,525
Additions	**1**	**22**	**70**	**89**	**239**	**2,985**	**(6)**	**3,400**
Disposals	**-**	**(4,622)**	**-**	**(155)**	**(420)**	**(2)**	**-**	**(5,199)**
Transfers of assets under construction	**36**	**2,838**	**1,581**	**257**	**173**	**(4,885)**	**-**	**-**
Transfers to other groups	**-**	**20**	**26**	**(53)**	**(1)**	**3**	**-**	**(5)**
Balance at December 31, 2014	**3,177**	**61,235**	**25,902**	**8,259**	**1,848**	**3,300**	**-**	**103,721**
Depreciation								
Balance at December 31, 2013	734	27,399	14,100	4,667	1,246	-	-	48,146
Depreciation in the year	**310**	**5,183**	**3,610**	**817**	**329**	**-**	**-**	**10,249**
Disposals	**-**	**(2,090)**	**-**	**(115)**	**(200)**	**-**	**-**	**(2,405)**
Balance at December 31, 2014	**1,044**	**30,492**	**17,710**	**5,369**	**1,375**	**-**	**-**	**55,990**
Book value								
At December 31, 2013	2,406	35,578	10,125	3,454	611	5,199	6	57,379
At December 31, 2014	**2,133**	**30,743**	**8,192**	**2,890**	**473**	**3,300**	**-**	**47,731**

Property, plant and equipment in progress

The balance of assets under construction of R$3,300 – Company and R$ 9,746 – Consolidated in 2014 (R$ 5,199 and R$28,473 in 2013, respectively) refers to machinery and equipment still in the phase of being implemented and construction in progress. These assets are expected to become operational in 2015.

Guarantee

Loans raised by the Company from financial institutions are guaranteed by its assets. Although a significant portion of fixed assets is used to guarantee loans and financings, historically the Company has settled its liabilities within the established contractual terms thus it was never necessary to enforce such guarantees. In 2014, guarantees provided by the Company amounted to R$52,764 (R$82,090 in 2013).

16. Intangible assets

Goodwill

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

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

Other intangible assets

Intangible assets acquired separately are measured at cost upon initial recognition, whereas the cost of intangible assets acquired in a business combination is their fair value at acquisition date. Balances are presented less accumulated amortization and impairment losses.

Development expenses which involve a plan or project aimed at producing new or substantially improved products are capitalized only if these development costs may be reliably measured, if the product or process is technically and commercially feasible, if the future economic benefits are likely to arise and if the Company has the intention and sufficient resources to conclude the development and use or sell the asset.

Amortization of intangible assets other than goodwill is based on their estimated useful lives and is recognized in P&L using the straight-line method. The estimated useful lives for current and comparative periods are of approximately 5 years for systems implementation and development costs.

We also clarify that impairment of Company goodwill and indefinite-lived intangible assets is determined on an annual basis using the “value in use” concept, through discounted cash flow models of cash-generating units.

(In thousands of Reais, unless otherwise stated)

16. Intangible assets (Continued)

	Consolidated					
	Goodwill	Trademarks and patents	Development of products	Systems implementation	Other intangible assets	Total
Cost						
Balance at December 31, 2013	39,855	11,378	12,445	2,544	10,657	76,879
Acquisitions	**-**	**-**	**1,273**	**42**	**-**	**1,315**
Write-offs	**-**	**-**	**(1,966)**	**-**	**-**	**(1,966)**
Transfers from other groups	**-**	**-**	**77**	**(38)**	**(62)**	**(23)**
Effect from exchange variation	**968**	**990**	**373**	**-**	**1,107**	**3,438**
Balance at December 31, 2014	**40,823**	**12,368**	**12,202**	**2,548**	**11,702**	**79,643**
Balance at December 31, 2013	-	185	5,614	1,672	1,827	9,298
Amortization for the year	**-**	**94**	**713**	**372**	**1,212**	**2,391**
Write-offs	**-**	**-**	**(62)**	**-**	**-**	**(62)**
Transfers from other groups	**-**	**(4)**	**63**	**(33)**	**(60)**	**(34)**
Balance at December 31, 2014	**-**	**275**	**6,328**	**2,011**	**2,979**	**11,593**
Book value						
At December 31, 2013	39,855	11,193	6,831	872	8,830	67,581
At December 31, 2014	**40,823**	**12,093**	**5,874**	**537**	**8,723**	**68,050**

Impairment test for cash-generating units containing goodwill

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

Cash-generating unit	**2014**	**2013**
Forjas Taurus S.A.	**21,194**	21,194
Taurus Holdings, Inc.	**11,089**	10,121
Taurus Blindagens Ltda.	**7,868**	6,823
Taurus Helmets Indústria Plástica Ltda.	**-**	1,045
Famastil Taurus Ferramentas S.A.	**545**	545
Polimetal Metalurgia e Plásticos Ltda.	**127**	127
Total	**40,823**	39,855

The impairment testing of the aforementioned CGUs is performed annually based on fair value less selling expenses, estimated based on discounted cash flows. At December 31, 2014, the tests performed did not indicate the need to record a provision for impairment on goodwill and indefinite-lived intangible assets.

Main assumptions used in the forecast of discounted cash flows

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

(In thousands of Reais, unless otherwise stated)

16. Intangible assets (Continued)

Cash-generating unit	Discount rate WACC 2014	Average growth rate 2014
Forjas Taurus S.A.	14.7%	8.6%
Taurus Holdings, Inc.	14.6%	8.3%
Taurus Blindagens Ltda.	16.6%	7.5%
Polimetal Metalurgia e Plásticos Ltda.	14.7%	13.1%

Discount rate

The discount rate for all of the CGUs is represented by a pre-tax *rate* based on 20-year fixed income US Treasury Bonds (*T-Bond*), adjusted for a risk premium that reflects the risk from investments in equity securities and the systematic risk of the Unit in question. Based on management's experience with assets from this CGU, the weighted average cost of capital was estimated for the industry in which this CGU operates, which was calculated based on a possible debt/equity ratio of 40.9% and a market interest rate of 7%.

Growth rate and perpetuity

The forecasts are consistent with the Business Plan prepared by Company management. The forecast growth in sales is expected to be in line with the curve observed in previous years and in line with the country's economic growth. After the projection period, growth and a constant percentage for economic growth (growth in perpetuity) were considered.

In perpetuity calculation, a nominal growth rate of 5.3% was adopted, in line with expected long-term inflation projected by the Central Bank of Brazil (BACEN) and macroeconomic indicators published in the Focus report of BACEN and in the Country Forecast of the Economist Intelligence Unit (EIU).

(In thousands of Reais, unless otherwise stated)

17. Loans and financing

Terms and conditions for loans outstanding were as follows:

							Consolidated
					2014		2013
	Currency	**Nominal interest rate**	**Maturity**	**Face value**	**Book value**	**Face value**	**Book value**
Loans and financing							
Working capital	R$	CDI + 2.25 to 3.00% p.a.	2018	128,939	**107,222**	162,000	185,757
Discount of receivables	R$	15.36% p.a.	2013	-	**-**	85	85
FINAME	R$	TJLP + 4.40 to 5.40% p.a.	2014	-	**-**	3,625	96
FINAME	R$	2.50% to 8.70% p.a.	2021	17,675	**5,950**	15,479	9,657
FINEP	R$	TJLP + 0.16% p.a.	2014	-	**-**	11,645	1,919
FINEP	R$	4.00% to 5.25% p.a.	2020	64,240	**33,826**	58,672	36,428
BNDES	R$	3.50% p.a.	2020	9,995	**10,074**	5,205	5,210
BNDES Progeren	R$	TJLP + 4.00 to 4.50% p.a.	2016	63,977	**38,202**	63,977	64,796
FNE	R$	9.50% p.a.	2019	9,806	**7,051**	9,806	8,461
Working capital	USD	*Libor* + 1.55% to 5.60% p.a.	2017	115,300	**120,893**	30,000	149,530
Working capital	USD	3.32% to 5.20% p.a.	2016	76,995	**107,446**	63,849	127,389
Working capital	USD	80 to 90% of CDI	2016	10,619	**25,889**	29,135	21,812
Financing for acquisition of fixed assets	USD	*Libor* + 3.0% p.a.	2014	-	**-**	824	196
Investments	USD	5.33% p.a.	2017	6,035	**14,028**	6,035	12,889
Investments	USD	*Libor* + 2.25% p.a.	2017	1,731	**3,454**	1,731	3,886
FINIMP	USD	*Libor* + 2.23% to 4.41% p.a.	2016	7,055	**16,323**	13,937	33,100
Dell financing	USD	Cost 0%	2016	201	**328**	201	470
Total					**490,686**		661,681
Current liabilities					**258,865**		388,530
Noncurrent liabilities					**231,821**		273,151

							Company
					2014		2013
	Currency	**Nominal interest rate**	**Maturity**	**Face value**	**Book value**	**Face value**	**Book value**
Loans and financing							
Working capital	R$	CDI + 2.25 to 3.91% p.a.	2018	128,939	**107,222**	162,000	185,757
FINAME	R$	TJLP + 4.40% p.a.	2014	-	**-**	1,117	42
FINAME	R$	2.50% to 5.50% p.a.	2021	11,464	**1,862**	8,798	4,071
FINEP	R$	TJLP + 0.16% p.a.	2014	-	**-**	11,645	1,918
BNDES	R$	3.50% p.a.	2020	9,995	**10,074**	5,205	5,210
Working capital	USD	*Libor* + 3.41% to 5.60% p.a.	2017	40,300	**83,643**	30,000	64,077
Working capital	USD	3.40 to 3.91% p.a.	2016	73,849	**106,248**	63,849	124,801
Working capital	USD	85 to 90% of CDI	2016	10,619	**25,889**	29,135	21,812
Financing for acquisition of PPE	USD	*Libor* + 3.0% p.a.	2014	-	**-**	824	196
FINIMP	USD	*Libor* + 2.23% to 4.41%	2016	6,047	**13,599**	11,578	26,944
Total					**348,537**		434,828
Current liabilities					**192,987**		324,403
Noncurrent liabilities					**155,550**		110,425

Maturity dates of noncurrent liabilities are as follows:

		Consolidated		Company
Maturity	**2014**	**2013**	**2014**	**2013**
2015	**-**	100,576	**-**	57,871
2016	**122,695**	43,643	**101,443**	23,258
2017	**83,825**	100,411	**37,509**	20,607
2018	**16,528**	28,521	**12,139**	8,689
2019 onwards	**8,773**	-	**4,459**	-
	231,821	273,151	**155,550**	110,425

(In thousands of Reais, unless otherwise stated)

17. Loans and financing (Continued)

Loans and financing are guaranteed by promissory notes, short-term investments, chattel mortgages for machinery and equipment and real estate mortgages. The sureties granted by the parent company and the sureties granted by the Company to its subsidiaries are reported in Note 21 – Related parties.

Loan and financing contracts agreed between the Company and its subsidiaries include covenants that limit certain corporate alterations, as under: change in direct or indirect controlling interest in the Company, reduction of capital of the Company and/or its subsidiary, distribution of dividends, payment of interest on equity or any other payments to shareholders of the Company and/or its controlling company in case of delay to fulfill any obligation and reduction of Company capital. In addition to these points, they require maintenance of certain financial ratios: indebtedness (net financial debt/EBITDA) lower than 3.5; interest coverage index (EBITDA/net financial expenses) equal to or higher than 2.75 times. If such restrictions are not met, creditors may claim accelerated maturity. All the above ratios are calculated quarterly based on the last twelve months. The Company did not comply with aforementioned covenants; however, the Company received a waiver from the bank in December 2014, informing that they do not intend to claim accelerated maturity.

18. Debentures

Company-issued debentures, in a single series, are not convertible into shares distributed on the secondary market through the National Debenture system, with restrictions on the placing allocated to the 1st and 2nd issue, exclusively to qualified investors and the 3rd issue allocated to banks.

Debentures	Principal R$	Issue date	Outstanding debentures	Financial charges	2014	2013
1st issue (a)	103,000	06/08/2010	10,300	DI rate + 4.1%	**-**	15,008
2nd issue (b)	50,000	09/06/2011	200	DI rate + 2.8%	**27,302**	42,557
3rd issue (c)	100,000	06/13/2014	10,000	DI rate + 3.25%	**98,529**	-
				Total - Principal	**125,831**	57,565
				Current liabilities	**15,933**	57,565
				Noncurrent liabilities	**109,898**	-
				Transaction costs incurred	**2,840**	2,280
				Transaction costs appropriated	**1,200**	1,933
				Transaction costs to appropriate	**1,640**	347

(a) Unit nominal value was paid in 7 bi-annual installments, with grace period of 12 months, the first installment on April15, 2011 and the last settled on April 15, 2014. No guarantees had been given.
(b) Unit nominal value will be paid in 13 quarterly installments, with grace period of 2 years, the first installment on August 23, 2013. These debentures are guaranteed by personal security of Company subsidiaries in Brazil.
(c) Unit nominal value will be paid in 3 quarterly installments, with grace period of 2 years, the first installment on June 30, 2016. No guarantees have been given.

(In thousands of Reais, unless otherwise stated)

18. Debentures (Continued)

<u>This agreement has covenants as follows:</u>

The instrument provides for accelerated maturity in case of noncompliance with respective covenants, which include, among other obligations: maintenance of certain financial ratios, such as: (net debt/EBITDA) equal to or lower 3.25 times (3rd issue) and 3 times (2nd issue) and EBITDA/net financial expenses equal to or higher 2.75 times (3rd issue), in which: net debt is equal to total debts (including sureties and guarantees) less cash and cash equivalents, EBITDA is equal to pre-tax income, interest, taxes, depreciation and amortization for the past 12 months and net financial expenses, which correspond to total financial income less financial expenses for the past 12 months, adjusted for nonrecurring items.

These ratios are duly monitored by management. The contract for the 2nd issue establishes that the ratios must be met quarterly. These ratios were not met in the current year; however, a waiver was obtained from the financial institutions in December 2014 and formalized at the General Debenture-holders Meeting held on January 08, 2015. The contract for the 3rd issue establishes that the ratios must be met annually. These ratios were not met in the current year; however, a waiver was obtained from the financial institutions at the General Debenture-holders Meeting held on December 24, 2014.

19. Provision for civil, labor and tax contingencies

Provisions are set up for all contingencies related to legal proceedings, the settlement of which is likely to result in an outflow of funds, in an amount that can be reliably estimated.

The Company, based on the opinion of its legal advisors and the analysis of judicial proceedings pending judgment, set up a provision for contingencies at an amount considered sufficient to cover estimated losses, as follows:

				Consolidated
			2014	2013
	Provision	Judicial deposit (1)	Net	Net
Labor	**11,246**	**3,345**	**7,901**	4,179
Civil	**29,881**	**-**	**29,881**	-
Tax	**5,847**	**1,184**	**4,663**	3,761
	46,974	**4,529**	**42,445**	7,940
Classified in current liabilities	**37,734**			
Classified in noncurrent liabilities	**9,240**			

(1) Recorded in other accounts receivable under noncurrent assets.

(In thousands of Reais, unless otherwise stated)

19. Provision for civil, labor and tax contingencies (Continued)

Changes in provisions are as follows:

	Consolidated		
	Civil and labor	Tax	Total
Balance at December 31, 2013	7,061	4,945	12,006
Provisions recorded in the year	**33,291**	**1,010**	**34,301**
Provisions used in the year	**(1,225)**	**-**	**(1,225)**
Provision write down	**-**	**(388)**	**(388)**
Reclassification of other noncurrent liabilities	**2,000**	**280**	**2,280**
Balance at December 31, 2014	**41,127**	**5,847**	**46,974**

	Company		
	Civil and labor	Tax	Total
Balance at December 31, 2013	3,135	388	3,523
Provisions recorded in the year	**1,900**	**-**	**1,900**
Provisions used in the year	**(153)**	**-**	**(153)**
Provision write down	**-**	**(388)**	**(388)**
Balance at December 31, 2014	**4,882**	**-**	**4,882**

In 2014, the major proceeding for which a provision was accrued by the Company refers to the claim filed by Hunter Douglas N.V. (company organized under the laws of Curacao, with main office in Rotterdam, Holland) against Wotan Máquinas Ltda. in connection with the collection originating from the loan agreement for export financing purposes executed by these parties in 2001. Subsidiary Taurus Máquinas-Ferramenta Ltda. figures as joint defendant due to the rent of industrial facilities to Wotan Máquinas Ltda. in 2004. The updated case amount is of R$ 65,510.

(In thousands of Reais, unless otherwise stated)

19. Provision for civil, labor and tax contingencies (Continued)

Still in 2014, due to a decision lower court handed down on which appeals may be filed, the Company decided to begin negotiations with Hunter Douglas, which resulted in the execution of a Commitment Agreement referring to the Credit Assignment Sale and Purchase Agreement on March 11, 2015, by means of which the Company or another entity belonging to the Taurus Group will acquire credits from Hunter Douglas N.V. in face of Wotan Máquinas Ltda. and other rights for USD 10,250 thousand (R$ 27,226 at the exchange rate of December 31, 2014). Materialization of this commitment, which is dependent upon agreement formalization ("definitive documents"), will result in the following effects, i.e. the Company shall acquire: i) the credits owned by Hunter Douglas N.V. in face of Wotan Máquinas Ltda.; ii) all rights linked or accessory to these credits, especially referring to mortgages; and iii) all rights deriving from the proceeding, whether or not directly linked to the credits. Additionally, the parties agreed to establish an express resolutory condition, which shall extinguish any obligation in connection with the commitment should the definitive documents relating to the credit assignment and payment not be finalized within 30 (thirty) days as from execution date.

Company and subsidiaries are party to other proceedings assessed by their legal advisors as involving a possible or remote unfavorable outcome, for which no provision has been recorded, given that accounting practices adopted in Brazil do not require this procedure to be performed, as follows:

	Consolidated				Company			
	2014		2013		2014		2013	
	Possible	**Remote**	**Possible**	**Remote**	**Possible**	**Remote**	**Possible**	**Remote**
Tax	**10,568**	**10,973**	6,309	15,529	**766**	**10,545**	1,282	10,065
Civil	**30,473**	**4,340**	29,194	1,555	**7,345**	**530**	6,121	265
Labor	**25.940**	**1,947**	11,098	1,683	**16,124**	-	4,072	35
	66,981	**17,260**	46,601	18,767	**24,235**	**11,075**	11,475	10,365

20. Financial instruments

a) Derivative financial instruments

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

We summarize below our positions with derivative instruments:

	Consolidated		**Company**	
	2014	**2013**	**2014**	**2013**
Derivative financial instruments assets	**36,106**	45,212	**36,098**	45,096
Derivative financial instruments liabilities	**(23,898)**	(9,595)	**(23,163)**	(9,010)
	12,208	35,617	**12,935**	36,086

All of the operations involving financial instruments are recognized in Company financial statements, as follows:

		Consolidated			
		2014		**2013**	
Instrument	**Contract currency with respect to notional value**	**Notional – in thousands**	**Fair value**	**Notional – in thousands**	**Fair value**
Swap Fixed x Libor	US dollars - USD	**5,711**	**(735)**	5,711	(585)
	Reais – BRL	**14,007**	**54**	51,363	556
Swap Interest + E.V. USD x CDI + R$ (iii)	Reais – BRL	**163,200**	**24,844**	170,391	37,039
Nondeliverable forward (exports) (iv)	US dollars - USD	**49,801**	**(16,000)**	20,000	(1,393)
Nondeliverable forward (debt in foreign currency) (v)	US dollars - USD	**73,000**	**4,045**	-	-
			12,208		35,617

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

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

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

(iv) *Nondeliverable forward (export) was taken out to hedge a percentage of export revenue highly susceptive to variations in exchange rate to the US dollar.*

(v) *NDF transactions (debt in foreign currency) taken out to hedge against the foreign exchange effects on the financial flow of loans and financing in foreign currency.*

(In thousands of Reais, unless otherwise stated)

20. Financial instruments (Continued)

a) Derivatives (Continued)

Fair value does not represent the obligation for immediate cash disbursement or receipt, given that this effect will only occur on the contractual dates or maturity dates of each operation. It should be noted that all contracts outstanding at the end of 2014 refer to operations on the over the counter market, registered with the CETIP, without any type of guarantee margin or accelerated maturity clause forced by Mark to Market (MtM) variations.

b) Fair value *versus* book value

Fair value of financial assets and liabilities, together with the carrying amounts reported in the balance sheets, are as follows:

				Consolidated
		2014		2013
	Book value	Fair value	Book value	Fair value
Assets stated at fair value				
Forward exchange contracts and interest rate swap contracts used for hedge operations (i)	**36,106**	**36,106**	45,212	45,212
Assets stated at amortized cost				
Cash and cash equivalents (ii)	**104,536**	**104,536**	281,119	281,119
Short-term investments (ii)	**55,224**	**55,224**	-	-
Accounts receivable (iii)	**139,718**	**139,718**	161,660	161,660
Trade notes receivable (ii)	**-**	**-**	581	581
	299,478	**299,478**	443,360	443,360
Liabilities stated at fair value				
Forward exchange contracts and interest rate swap contracts used for hedge operations (i)	**23,898**	**23,898**	9,595	9,595
Liabilities stated at amortized cost				
Loans and financing (iv)	**490,686**	**521,514**	661,681	621,487
Debentures (iv)	**125,831**	**160,486**	57,565	59,212
Advances on foreign exchange contracts (iv)	**57,856**	**54,539**	-	-
Trade accounts payable and advances on receivables (ii)	**61,435**	**61,435**	148,950	148,950
Advance on real estate credits (iv)	**8,548**	**8,799**	19,606	20,512
	744,356	**806,773**	887,802	850,161

(In thousands of Reais, unless otherwise stated)

20. Financial instruments (Continued)

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

	Company			
		2014		2013
	Book value	Fair value	Book value	Fair value
Assets stated at fair value				
Forward exchange contracts and interest rate swap contracts used for hedge operations (i)	**36,098**	**36,098**	45,096	45,096
Assets stated at amortized cost				
Cash and cash equivalents (ii)	**25,161**	**25,161**	27,874	27,874
Short-term investments (ii)	**33,939**	**33,939**	-	-
Accounts receivable and other receivables (iii)	**53,721**	**53,721**	175,243	175,243
	112,821	**112,821**	203,117	203,117
Liabilities stated at fair value				
Forward exchange contracts and interest rate swap contracts used for *hedge* operations (i)	**23,163**	**23,163**	9,010	9,010
Liabilities stated at amortized cost				
Loans and financing (iv)	**348,537**	**364,049**	434,828	423,207
Debentures (iv)	**125,831**	**160,486**	57,565	59,212
Advances on foreign exchange contracts (iv)	**57,856**	**54,539**	-	-
Trade accounts payable and advances on receivables (ii)	**40,988**	**40,988**	134,527	134,527
	573,212	**620,062**	626,920	616,946

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

(ii) Due to their current nature, fair value of cash and cash equivalents, short-term investments, trade notes receivable, trade accounts payable, other accounts payable and advances on receivables are supposed to approximate book value.

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

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

In accordance with the hierarchical classification criteria for determining fair value, where: Level *1:* quoted prices (unadjusted) in active markets for identical assets and liabilities; Level *2:* quoted prices (adjusted or unadjusted), for similar assets and liabilities in active markets; and Level *3:* assets and liabilities, not based on observable market data (nonobservable inputs). The Company classified in its accounting registers the fair value of its financial instruments as level 2.

(In thousands of Reais, unless otherwise stated)

21. Transactions with related parties

	Outstanding balances of subsidiaries with the Company					Effect from result of operations of subsidiaries with the Company	
	Current assets (iii)	Noncurrent assets (receivables from related parties)	Total assets	Current liabilities (i)	Total liabilities	Revenue	Expense
December 31, 2013							
Taurus Blindagens Ltda.	-	-	-	-	-	-	12
Taurus Holdings, Inc.	148,215	-	148,215	15,635	15,635	248,265	4,542
Taurus Security Ltda.	-	547	547	-	-	-	-
Taurus Investimentos Imobiliários Ltda. (ii)	5,811	-	5,811	-	-	-	4,914
Taurus Máquinas-Ferramenta Ltda.	196	20,568	20,764	-	-	-	-
Polimetal Metalurgia e Plásticos Ltda.	6,494	-	6,494	50,798	50,798	3,558	78,064
	160,716	21,115	181,831	66,433	66,433	251,823	87,532
December 31, 2014							
Taurus Blindagens Ltda.	**36**	**-**	**36**	**-**	**-**	**-**	**-**
Taurus Holdings, Inc.	**9,077**	**-**	**9,077**	**32,781**	**32,781**	**130,360**	**1,728**
Taurus Security Ltda.	**-**	**547**	**547**	**-**	**-**	**-**	**-**
Taurus Investimentos Imobiliários Ltda. (ii)	**5,811**	**-**	**5,811**	**-**	**-**	**-**	**5,125**
Taurus Máquinas-Ferramenta Ltda.	**648**	**37,556 (iv)**	**38,204**	**-**	**-**	**1,777**	**-**
Polimetal Metalurgia e Plásticos Ltda.	**10,862**	**50,544 (iv)**	**61,406**	**24,118**	**24,118**	**3,794**	**40,386**
	26,434	**88,647**	**115,081**	**56,899**	**56,899**	**135,931**	**47,239**

(i) This refers to amounts recorded under trade accounts payable - R$ 24,290 and related parties R$ 32,609.
(ii) Disposal of PPE by the Company to subsidiary.
(iii) This refers to amounts recorded under trade accounts payable - R$164,620 and related parties R$ 9,814.
(iv) These refer to loan agreement executed with parent company Forjas Taurus S.A. and are restated at 100% of CDI (Interbank Deposit Certificates).

(In thousands of Reais, unless otherwise stated)

21. Transactions with related parties (Continued)

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

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

Transactions with related parties are carried out under prices and terms agreed by the parties.

With the approval of capital increase at the Special Meeting held on August 20, 2014, Companhia Brasileira de Cartuchos – “CBC”, started to hold 52.51% of the common shares issued, becoming the controlling company of Forjas Taurus S.A.

At December 31, 2014, the operations involving Forjas Taurus S.A. and CBC mainly refer to sale of weapons to be traded and the purchase of ammunition. The amount of these operations is set out below:

	Current assets	Current liabilities	Revenue	Expense
Companhia Brasileira de Cartuchos	**456**	**483**	**3,012**	**4,349**

<u>Key management personnel compensation</u>

This includes salaries, fees and benefits, as follows:

	Consolidated		Company	
	2014	**2013**	**2014**	**2013**
Compensation and benefits of statutory directors and board members	**6,716**	10,296	**6,716**	10,296
Key personnel compensation	**9,913**	10,386	**4,819**	5,373
Total	**16,629**	20,682	**11,535**	15,669

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

(In thousands of Reais, unless otherwise stated)

21. Transactions with related parties (Continued)

Operations of directors and key management personnel

The directors and key management personnel directly control 0.11% of Company voting capital.

Sureties between related parties

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

	2014	2013
Polimetal Metalurgia e Plásticos Ltda.	**106,616**	118,950
Forjas Taurus S.A.	**8,354**	111,591
	114,970	230,541

22. Equity (Company)

a) Capital

The Special Shareholders' Meeting held on August 20, 2014 approved capital increase amounting to R$ 67,079, for the purpose of reinforcing Company capital structure and reducing debt level. As a result of the reverse split of shares and cancelation of treasury shares, capital is now comprised of 8,439,322 common shares and 7,704,716 preferred shares, totaling 16,144,038 shares amounting to R$ 324,876 (R$ 257,797 at December 31, 2013).

Preferred shares

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

In accordance with article 5, paragraph 4 of Company articles of incorporation, preferred shares are voting shares for any General Meeting resolutions about the following matters, case in which each preferred share entitles holder to one vote:

(i) transformation, takeover, merger or spin-off of the Company;

22. Equity (Company) (Continued)

a) Capital (Continued)

(ii) approval of execution of contracts between the Company and its Controlling Shareholder, as defined in the Level 2 Regulation, directly or through third parties, as well as of other companies in which the Controlling Shareholder has interest, whenever by operation of legal or statutory provision such matters must be submitted to the General Meeting for approval;

(iii) valuation of assets allocated to payment of Company capital increase;

(iv) selection of specialized company to determine Company economic value, on the terms of Chapter VII of the articles of incorporation; and

(v) amendment to or revocation of statutory provisions that amend or change any requirements provided for in item 4.1 of Level 2 Regulation, also such voting right shall prevail only while the Corporate Governance Level 2 Participation Contract is in force.

Authorized shares (in thousands of shares)

The Special Shareholders' Meeting held on December 19, 2014 approved the reverse split of the shares which comprise the capital of Forjas Taurus S.A.

On February 20, 2015, after a series of auctions, the result of this reverse split was materialized as follows: R$ 5.136013976 per common share and R$ 3.276770599 per preferred share.

	2014	**2013**
Common shares	**4,714**	4,714
Preferred shares	**9,427**	9,427
	14,141	14,141

Shares issued and fully paid up

	Common		**Preferred**	
	Number (in thousands)	**R$ thousand**	**Number (in thousands)**	**R$ thousand**
At December 31, 2013				
ON - R$ 29.26 - PN - R$ 25.08*	4,285	125,387	8,570	214,947
At December 31, 2014				
ON - R$ 8.36 - PN - R$ 5.17*	**8,439**	**70,553**	**7,705**	**39,833**

* Quotation for last transaction of shares on the date stated, multiplied by total shares existing on this date and respective effects adjusted at the ratio of 11 to 1, in accordance with the share split.

(In thousands of Reais, unless otherwise stated)

22. Equity (Company) (Continued)

b) Treasury shares

When treasury shares are sold or subsequently re-issued, the amount received is recognized as an increase in equity, and the resulting excess or deficit is transferred to/from retained earnings/accumulated losses. The Company posted loss for 2013 and 2012, consequently does not have sufficient income reserve balance to keep treasury shares. On August 12, 2014, Company Board of Directors decided to cancel common and preferred treasury shares.

c) Equity valuation adjustment

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

Cumulative translation adjustments

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

d) Earnings (loss) per share

	2014	2013
Net loss attributable to shareholders	**(185,422)**	(80,310)
Call options - opening balance	**12,855,692**	12,855,692
Treasury shares cancelled	**(1,130,555)**	-
After cancelation of treasury shares	**11,725,137**	12,855,692
Capital increase and increase in the number of shares	**4,418,902**	-
Total at December 31, 2014	**16,144,039**	12,855,692
Weighted average number of shares, net of treasury shares	**13,347,419**	11,725,137
Basic and diluted earnings (loss) per share – in R$ - weighted average of shares	**(13.8920)**	(6.8494)
Basic and diluted earnings (loss) per share – in R$ - balance of shares at December 31	**(11.4855)**	(6.8494)

Changes in Company shares already consider the effect from the reverse split of shares approved at the Special Shareholders' Meeting of 12/19/2014.

At December 31, 2014 and 2013, Company basic and diluted earnings per share have the same amount since there are no financial instruments convertible into shares and its common shares are not entitled to differentiated participation in profits.

(In thousands of Reais, unless otherwise stated)

22. Equity (Company) (Continued)

e) Capital transactions

The corporate restructuring which occurred on May 27, 2011 and involved subsidiary Polimetal Metalurgia e Plásticos Ltda. and the Company resulted in changes in interest held by the parties amounting to R$ 40,996, which was recorded under capital transactions in equity.

23. Revenue

Sale of goods

Revenue is recognized whenever:

(i) There is sufficient evidence that most significant risks and rewards inherent in the ownership of the assets were transferred to buyer and there is no continuous involvement with the goods sold;

(ii) Future economic benefits are likely to flow to the Company; and

(iii) Associated costs and the possible return of goods may be reliably estimated, there is no continuous involvement with the goods sold, and the revenue amount may be reliably measured.

Sales taxes

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

	Rates
State VAT (ICMS)	0% to 25%
Federal VAT (IPI)	0% to 45%
Contribution Tax on Gross Revenue for Social Security Financing (COFINS)	3% and 7.6%
Social Contribution Tax on Gross Revenue for Social Integration Program (PIS)	0.65% and 1.65%

(In thousands of Reais, unless otherwise stated)

23. **Revenue** (Continued)

	Consolidated		Company	
	2014	**2013**	**2014**	**2013**
Product sales	**702,998**	942,379	**333,225**	437,627
Services rendered	**141**	138	**141**	100
Adjustment to present value	**(8,386)**	(6,933)	**(3,046)**	(2,464)
Total gross revenue	**694,753**	935,584	**330,320**	435,263
ales taxes	**(92,950)**	(115,747)	**(36,719)**	(33,326)
eturns and rebates	**(10,267)**	(12,497)	**(6,975)**	(17,837)
otal net operating revenue	**591,536**	807,340	**286,626**	384,100

24. Financial income (expenses)

Financial income includes interest income on investment funds, changes in fair value of financial assets measured at fair value through profit or loss and gains on hedge instruments. Financial income is recorded on an accrual basis.

	Consolidated		Company	
	2014	**2013**	**2014**	**2013**
Financial expenses				
Interest	**(62,526)**	(56,200)	**(50,131)**	(41,549)
Foreign exchange gains (losses)	**(118,824)**	(70,496)	**(114,932)**	(67,604)
Tax on Financial Transactions (IOF)	**(1,369)**	(931)	**(126)**	(83)
Swap on financial operations	**(27,276)**	(34,004)	**(27,166)**	(32,851)
Adjustment to present value	**(5,946)**	(3,686)	**(5,270)**	(3,077)
Other	**(6,029)**	(10,414)	**(218)**	(3,627)
	(221,970)	(175,731)	**(197,843)**	(148,791)
Financial income				
Interest	**12,615**	5,476	**11,348**	2,560
Foreign exchange gains (losses)	**79,273**	38,342	**77,774**	35,963
Swap on financial operations	**23,878**	43,560	**23,808**	42,985
Adjustment to present value	**9,239**	6,380	**3,309**	2,128
Other	**4,784**	8,378	**311**	2,388
	129,789	102,136	**116,550**	86,024
Financial income (expense), net	**(92,181)**	(73,595)	**(81,293)**	(62,767)

(In thousands of Reais, unless otherwise stated)

25. Expenses by nature

	Consolidated		Company	
	2014	**2013**	**2014**	**2013**
Expenses by function				
Cost of sales	**(450,272)**	(565,619)	**(215,782)**	(311,813)
Selling expenses	**(113,750)**	(126,341)	**(50,401)**	(47,399)
General and administrative expenses	**(78,916)**	(77,885)	**(35,367)**	(35,895)
Other	**(52,285)**	(30,806)	**(16,193)**	(8,155)
	(695,223)	(800,651)	**(317,743)**	(403,262)
Expenses by nature				
Depreciation and amortization	**(33,343)**	(35,307)	**(11,152)**	(11,925)
Personnel expenses	**(227,812)**	(244,567)	**(130,052)**	(133,069)
Legal proceedings	**(32,967)**	(4,848)	**(1,359)**	-
Raw materials, and materials and supplies	**(260,388)**	(268,929)	**(62,385)**	(53,442)
Freight and commissions	**(36,347)**	(49,312)	**(16,045)**	(15,099)
Third-party services	**(20,940)**	(3,554)	**(50,763)**	(77,218)
Advertising and promotion	**(2,722)**	(14,741)	**(1,593)**	(1,894)
Provision for loss on Renill notes	**(4,348)**	(3,539)	**-**	-
Product warranty expenses	**(2,923)**	(32,273)	**(2,923)**	(19,541)
Water and energy	**(10,588)**	(11,710)	**(4,407)**	(4,590)
Travel and lodging	**(2,789)**	(3,721)	**(2,718)**	(3,551)
Insurance expenses	**(2,321)**	(2,866)	**(2,017)**	(2,390)
Cost of PPE written off	**(2,899)**	(6,142)	**(2,724)**	(1,059)
Losses on production process	**(23,477)**	(53,108)	**(6,365)**	(39,686)
Other	**(31,359)**	(66,034)	**(23,240)**	(39,798)
	(695,223)	(800,651)	**(317,743)**	(403,262)

26. Cost of sales

	Consolidated		Company	
	2014	**2013**	**2014**	**2013**
Allocated cost of goods sold	**426,795**	512,511	**209,417**	272,127
Unallocated costs	**23,477**	53,108	**6,365**	39,686
Total cost of goods sold	**450,272**	565,619	**215,782**	311,813

Unallocated costs represent unusual amounts or indirect production costs adventitiously not allocated to products, mainly related to low production volume, directly posted to P&L for the period in which they take place, in a separate account from cost of goods sold.

(In thousands of Reais, unless otherwise stated)

27. Insurance coverage

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

In 2014, Company insurance coverage was as follows:

	2014	
	Consolidated	**Company**
Property damage	260,710	73,701
Civil liability	43,139	8,000
Loss of profits	5,841	-

28. Subsequent events

CADE Decision

On February 11, 2015, Brazil's Administrative Council for Economic Defense ("CADE") issued a certificate informing that the proceeding referring to permission to exercise the political rights granted by 100% of the shares held by Companhia Brasileira de Cartuchos ("CBC") in Taurus had been completed and shelved. To date, the shares held by CBC represent 52.51% of common shares and 0.93% of preferred shares, totaling 27.90% of total capital.