Contents

Company information / Breakdown of Capital

Quantity of shares (Units)	Current quarter 09/30/2018
Paid-in capital	
Common	46,445,314
Preferred	18,242,898
Total	64,688,212
Treasury	
Common	0
Preferred	0
Total	0

Individual financial statements / Balance sheet - Assets

(In thousands of reais)

Code of account	Account description	Current quarter 09/30/2018	Prior year 12/31/2017
1	Total Assets	885,017	702,900
1.01	Current assets	337,233	219,153
1.01.01	Cash and cash equivalents	2,308	2,543
1.01.01.01	Cash and banks	403	2,199
1.01.01.02	Interbank funds applied	1,905	344
1.01.02	Interest earning bank deposits	1,995	1,777
1.01.03	Accounts receivable	182,381	69,008
1.01.03.01	Trade accounts receivable	182,381	69,008
1.01.04	Inventories	104,893	95,155
1.01.06	Recoverable taxes	18,610	25,693
1.01.06.01	Current taxes recoverable	18,610	25,693
1.01.07	Prepaid expenses	469	2,224
1.01.08	Other Current assets	26,577	22,753
1.01.08.03	Other	26,577	22,753
1.01.08.03.01	Related parties - Financial loan	21,450	19,367
1.01.08.03.02	Other accounts receivable	5,127	3,386
1.02	Non-current assets	547,784	483,747
1.02.01	Long term assets	67,123	24,411
1.02.01.03	Interest earning bank deposits measured at amortized cost	681	753
1.02.01.07	Deferred taxes	44,859	0
1.02.01.07.01	Deferred income and social contribution taxes	44,859	0
1.02.01.09	Related party credits	16,760	14,044
1.02.01.09.04	Other related party credits	16,760	14,044
1.02.01.10	Other non-current assets	4,823	9,614
1.02.01.10.03	Recoverable tax	139	195
1.02.01.10.04	Other	4,684	9,419
1.02.02	Investments	442,034	417,623
1.02.02.01	Equity interest	442,034	417,623
1.02.02.01.02	Interest in subsidiaries	441,844	417,433
1.02.02.01.04	Other investments	190	190
1.02.03	Property, plant and equipment	33,488	36,172
1.02.03.01	Fixed assets in operation	29,790	33,103
1.02.03.03	Constructions in progress	3,698	3,069
1.02.04	Intangible assets	5,139	5,541
1.02.04.01	Intangible assets	5,139	5,541

Individual financial statements - Balance sheet - Liabilities

(In thousands of reais)

Code of account	Account description	Current quarter 09/30/2018	Prior year 12/31/2017
2	Total liabilities	885,017	702,900
2.01	Current liabilities	622,414	968,986
2.01.01	Social and labor obligations	16,705	17,418
2.01.01.01	Social charges	5,088	8,443
2.01.01.02	Labor obligations	11,617	8,975
2.01.02	Suppliers	152,750	134,832
2.01.02.01	Domestic suppliers	139,081	123,097
2.01.02.02	Foreign suppliers	13,669	11,735
2.01.03	Tax liabilities	21,877	17,944
2.01.03.01	Federal tax liabilities	16,328	8,669
2.01.03.01.01	Income tax and social contribution payable	4,620	0
2.01.03.01.02	Other Taxes	11,708	8,669
2.01.03.02	State tax liabilities	5,548	9,255
2.01.03.03	Municipal tax liabilities	1	20
2.01.04	Loans and financing	111,633	529,187
2.01.04.01	Loans and financing	101,819	453,416
2.01.04.01.01	In domestic currency	10,392	3,264
2.01.04.01.02	In foreign currency	91,427	450,152
2.01.04.02	Debentures	9,814	75,771
2.01.05	Other liabilities	279,741	223,652
2.01.05.02	Other	279,741	223,652
2.01.05.02.01	Dividends and interest on own capital	3	3
2.01.05.02.04	Financial loan	43,632	38,097
2.01.05.02.05	Foreign exchange withdrawals	22,664	24,193
2.01.05.02.07	Advance from receivables	30,690	1,535
2.01.05.02.08	Advances from clients	108,444	79,467
2.01.05.02.09	Other liabilities	74,308	80,357
2.01.06	Provisions	39,708	45,953
2.01.06.01	Tax, social security, labor and civil provisions	32,349	39,189
2.01.06.01.01	Tax provisions	27,689	27,689
2.01.06.01.02	Social security and labor provisions	4,660	11,500
2.01.06.02	Other Provisions	7,359	6,764
2.01.06.02.01	Provision for guarantees	7,359	6,764
2.02	Non-current liabilities	718,659	179,147
2.02.01	Loans and financing	613,191	47,103
2.02.01.01	Loans and financing	539,587	47,103
2.02.01.01.01	In domestic currency	15,861	4,147
2.02.01.01.02	In foreign currency	523,726	42,956
2.02.01.02	Debentures	73,604	0
2.02.02	Other liabilities	64,257	92,992
2.02.02.01	Liabilities from Related parties	46,749	52,418
2.02.02.01.02	Debits with subsidiaries	6,449	5,329
2.02.02.01.04	Debts with other related parties	40,300	47,089
2.02.02.02	Other	17,508	40,574
2.02.02.02.03	Taxes payable	777	2,986
2.02.02.02.04	Provision for unsecured liability	15,639	34,722

Individual financial statements - Balance sheet - Liabilities

(In thousands of reais)

Code of account	Account description	Current quarter 09/30/2018	Prior year 12/31/2017
2.02.02.02.05	Other liabilities	0	2,866
2.02.02.02.06	Suppliers	1,092	0
2.02.03	Deferred taxes	0	6,079
2.02.03.01	Deferred income tax and social contribution	0	6,079
2.02.04	Provisions	41,211	32,973
2.02.04.01	Tax, social security, labor and civil provisions	41,211	32,973
2.02.04.01.02	Social security and labor provisions	29,938	31,810
2.02.04.01.04	Civil provisions	11,273	1,163
2.03	Shareholders' equity	-456,056	-445,233
2.03.01	Realized capital	404,489	404,489
2.03.02	Capital reserves	-40,996	-40,996
2.03.02.09	Capital transactions	-40,996	-40,996
2.03.05	Retained Earnings/Losses	-997,965	-952,635
2.03.06	Equity valuation adjustments	47,322	48,240
2.03.07	Accumulated translation adjustments	131,094	95,669

Individual financial statements / Statement of income

(In thousands of reais)

Code of account	Account description	Current quarter 07/01/2018–09/30/2018	Accumulated of the current year 01/01/2018–09/30/2018	Same quarter of the prior year 04/07/2017–06/30/2017	Accumulated of the prior year 01/01/2017–09/30/2017
3.01	Revenue from sales of goods and/or services	167,760	470,017	144,309	434,522
3.02	Cost of goods and/or services sold	-110,312	-318,800	-117,755	-344,608
3.03	Gross income	57,448	151,217	26,554	89,914
3.04	Operating expenses/revenue	-15,502	-61,170	-50,309	-111,124
3.04.01	Sales expenses	-6,821	-27,457	-10,691	-30,395
3.04.02	General and administrative expenses	-17,415	-43,266	-23,649	-61,602
3.04.04	Other operating income	2,435	7,605	1,245	3,327
3.04.05	Other operating expenses	-2,858	-6,121	-1,001	-3,986
3.04.06	Equity in net income of subsidiaries	9,157	8,069	-16,213	-18,468
3.05	Income (loss) before financial income and taxes	41,946	90,047	-23,755	-21,210
3.06	Financial income (loss)	-37,224	-177,256	4,424	-62,063
3.06.01	Financial income	18,596	36,107	28,896	47,776
3.06.02	Financial expenses	-55,820	-213,363	-24,472	-109,839
3.07	Income (loss) before income tax	4,722	-87,209	-19,331	-83,273
3.08	Income tax and social contribution	43,249	42,596	845	32,882
3.08.01	Current	-3,967	-4,620	0	0
3.08.02	Deferred assets	47,216	47,216	845	32,882
3.09	Net income (loss) from continued operations	47,971	-44,613	-18,486	-50,391
3.11	Income/loss for the period	47,971	-44,613	-18,486	-50,391
3.99	Earnings per share - (Reais / Share)				
3.99.01	Basic earnings per share				
3.99.01.01	Common shares	0,74157	0,68966	-0,28577	-0,77898
3.99.01.02	Preferred shares	0,74157	0,68966	-0,28577	-0,77898
3.99.02	Diluted earnings per share				
3.99.02.01	Common shares	0,74157	0,68966	-0,28577	-0,77898
3.99.02.02	Preferred shares	0,74157	0,68966	-0,28577	-0,77898

Individual financial statements / Statement of comprehensive income

(In thousands of reais)

Code of account	Account description	Current quarter 07/01/2018–09/30/2018	Accumulated of the current year 01/01/2018–09/30/2018	Same quarter of the prior year 07/01/2017–06/30/2017	Accumulated of the prior year 01/01/2017–09/30/2017
4.01	Net income for the period	47,971	-44,613	-18,486	-50,391
4.02	Other comprehensive income	5,799	34,507	-9,990	-6,748
4.02.01	Translation adjustments in the period	6,100	35,425	-9,990	-6,748
4.02.02	Realization of equity valuation adjustment – net of taxes	-301	-918	0	0
4.03	Comprehensive income for the period	53,770	-10,106	-28,476	-57,139

Individual financial statements / Statement of cash flows - Indirect method

(In thousands of reais)

Code of account	Account description	Accumulated of the current year 01/01/2018–09/30/2018	Accumulated of the prior year 01/01/2017–09/30/2017
6.01	Net cash from operational activities	7,746	41,209
6.01.01	Cash generated in operations	62,254	-4,895
6.01.01.01	Net income (loss) for the year before income tax and social contribution	-87,209	-83,273
6.01.01.02	Depreciation and amortization	5,550	5,641
6.01.01.03	Cost of permanent asset written-off	80	736
6.01.01.04	Allowance for doubtful accounts	-3,738	297
6.01.01.05	Equity in net income of subsidiaries	-8,069	18,468
6.01.01.08	Provision for interest on loans and financing	43,725	52,674
6.01.01.10	Provision for inventory loss	-6,085	9,629
6.01.01.11	Provision for contingencies	1,832	19,190
6.01.01.12	Provision for guarantees	595	1,642
6.01.01.13	Exchange rate change on loans and others	115,573	-17,573
6.01.01.15	Provision for freight and commissions	0	-12,326
6.01.02	Changes in assets and liabilities	-54,508	46,104
6.01.02.01	Increase (Decrease) in trade accounts receivable	-115,112	-10,077
6.01.02.02	(Decrease) Increase in inventories	-3,653	-19,808
6.01.02.03	(Decrease) Increase in other accounts receivable	8,881	-26,026
6.01.02.04	(Decrease) increase in suppliers	19,117	66,808
6.01.02.05	(Decrease) Increase in accounts payable and provisions	36,259	35,207
6.02	Net cash used in investment activities	-5,406	-973
6.02.01	Receivables with related companies	-2,716	2,504
6.02.04	In property, plant and equipment	-2,509	-3,922
6.02.05	In intangible assets	-35	-105
6.02.06	Interest earnings bank deposits	-146	550
6.03	Net cash from financing activities	-2,575	-38,927
6.03.02	Borrowings	49,249	8,314
6.03.03	Payments of loans	-23,691	-45,000
6.03.05	Capital increase	0	10,512
6.03.06	Payment of Interest on loans	-21,344	-28,359
6.03.09	Debts with related companies	-6,789	15,770
6.03.10	Advance for future capital increase	0	-164
6.05	Increase (decrease) in cash and cash equivalents	-235	1,309
6.05.01	Opening balance of cash and cash equivalents	2,543	1,313
6.05.02	Closing balance of cash and cash equivalents	2,308	2,622

Individual financial statements / Statement of changes in shareholders’ equity / DMPL - 01/01/2018–09/30/2018

(In thousands of reais)

Code of account	Account description	Paid-up capital	Capital reserves, options granted and treasury shares	Profit reserves	Retained earnings (losses)	Other comprehensive income	Shareholders' equity
5.01	Opening balances	404,489	-40,996	0	-952,635	143,909	-445,233
5.02	Prior-year adjustments	0	0	0	-1,635	0	-1,635
5.02.01	Initial adoption of IFRS 9	0	0	0	-1,635	0	-1,635
5.03	Adjusted opening balances	404,489	-40,996	0	-954,270	143,909	-446,868
5.05	Total comprehensive income	0	0	0	-43,695	34,507	-9,188
5.05.01	Net income for the period	0	0	0	-44,613	0	-44,613
5.05.02	Other comprehensive income	0	0	0	918	34,507	35,425
5.05.02.04	Translation adjustments in the period	0	0	0	0	35,425	35,425
5.05.02.06	Realization of equity valuation adjustments	0	0	0	918	-918	0
5.07	Closing balances	404,489	-40,996	0	-997,965	178,416	-456,056

Individual financial statements / Statement of changes in shareholders’ equity / DMPL - 01/01/2017–09/30/2017

(In thousands of reais)

Code of account	Account description	Paid-up capital	Capital reserves, options granted and treasury shares	Profit reserves	Retained earnings (losses)	Other comprehensive income	Shareholders' equity
5.01	Opening balances	394,141	-40,996	0	-668,102	143,056	-171,901
5.03	Adjusted opening balances	394,141	-40,996	0	-668,102	143,056	-171,901
5.04	Capital transactions with partners	10,348	0	0	0	0	10,348
5.04.01	Capital increases	10,348	0	0	0	0	10,348
5.05	Total comprehensive income	0	0	0	-49,246	-7,893	-57,139
5.05.01	Net income for the period	0	0	0	-50,391	0	-50,391
5.05.02	Other comprehensive income	0	0	0	1,145	-7,893	-6,748
5.05.02.04	Translation adjustments in the period	0	0	0	0	-6,748	-6,748
5.05.02.06	Realization of equity valuation adjustments	0	0	0	1,145	-1,145	0
5.07	Closing balances	404,489	-40,996	0	-717,348	135,163	-218,692

Individual financial statements/ Statement of added value

(In thousands of reais)

Code of account	Account description	Accumulated of the current year 01/01/2018–09/30/2018	Accumulated of the prior year 01/01/2017–09/30/2017
7.01	Income	478,460	439,319
7.01.01	Sale of merchandise, products and services	467,115	437,141
7.01.02	Other income	7,605	2,475
7.01.04	Formation/reversal of allowance for doubtful accounts	3,740	-297
7.02	Inputs acquired from third parties	-330,823	-380,773
7.02.01	Cost of products, merchandise and services sold	-326,093	-375,685
7.02.02	Materials, Energy, Third-party services and other	-4,730	-5,088
7.03	Gross added value	147,637	58,546
7.04	Retentions	-5,549	-5,640
7.04.01	Depreciation, amortization and depletion	-5,549	-5,640
7.05	Net added value produced	142,088	52,906
7.06	Added value received as transfer	44,176	5,804
7.06.01	Equity in net income of subsidiaries	8,069	-18,468
7.06.02	Financial income	36,107	24,272
7.07	Total added value payable	186,264	58,710
7.08	Distribution of added value	186,264	58,710
7.08.01	Personnel	49,465	52,701
7.08.01.01	Direct remuneration	41,822	41,762
7.08.01.02	Benefits	6,869	8,034
7.08.01.03	Severance Pay Fund (FGTS)	774	2,905
7.08.02	Taxes, duties and contributions	-32,236	-20,233
7.08.02.01	Federal	-32,268	-20,293
7.08.02.02	State	0	2
7.08.02.03	Municipal	32	58
7.08.03	Third-party capital remuneration	213,648	76,633
7.08.03.01	Interest	213,512	76,400
7.08.03.02	Rentals	136	233
7.08.04	Remuneration of own capital	-44,613	-50,391
7.08.04.03	Retained earnings / Loss for the period	-44,613	-50,391

Consolidated financial statements or Balance sheet – Assets

(In thousands of reais)

Code of account	Account description	Current quarter 09/30/2018	Prior year 12/31/2017
1	Assets Total	980,379	768,958
1.01	Current assets	635,697	451,459
1.01.01	Cash and cash equivalents	11,385	6,679
1.01.01.01	Cash and banks	9,374	6,294
1.01.01.02	Interbank funds applied	2,011	385
1.01.02	Interest earning bank deposits	1,995	1,777
1.01.03	Accounts receivable	175,426	122,611
1.01.03.01	Trade accounts receivable	175,426	122,611
1.01.04	Inventories	267,915	211,885
1.01.06	Recoverable taxes	37,289	44,458
1.01.06.01	Current taxes recoverable	37,289	44,458
1.01.07	Prepaid expenses	6,743	6,674
1.01.08	Other Current assets	134,944	57,375
1.01.08.01	Non-current assets held for sale	126,032	51,390
1.01.08.03	Other	8,912	5,985
1.01.08.03.01	Other accounts receivable	8,912	5,985
1.02	Non-current assets	344,682	317,499
1.02.01	Long term assets	76,317	21,455
1.02.01.03	Interest earning bank deposits measured at amortized cost	975	1,008
1.02.01.07	Deferred taxes	66,077	3,465
1.02.01.07.01	Deferred income tax and social contribution	66,077	3,465
1.02.01.10	Other non-current assets	9,265	16,982
1.02.01.10.03	Recoverable taxes	281	493
1.02.01.10.04	Other	8,984	16,489
1.02.02	Investments	192	349
1.02.02.01	Ownership interest	192	349
1.02.02.01.05	Other investments	192	349
1.02.03	Property, plant and equipment	193,579	222,686
1.02.03.01	Fixed assets in operation	187,470	218,440
1.02.03.03	Constructions in progress	6,109	4,246
1.02.04	Intangible assets	74,594	73,009
1.02.04.01	Intangible assets	74,594	73,009

Consolidated financial statements / Balance sheet - Liabilities

(In thousands of reais)

Code of account	Account description	Current quarter 09/30/2018	Prior year 12/31/2017
2	Total liabilities	980,379	768,958
2.01	Current liabilities	609,603	965,691
2.01.01	Social and labor obligations	36,828	41,926
2.01.01.01	Social charges	11,693	20,458
2.01.01.02	Labor obligations	25,135	21,468
2.01.02	Suppliers	91,588	99,954
2.01.02.01	Domestic suppliers	62,319	60,366
2.01.02.02	Foreign suppliers	29,269	39,588
2.01.03	Tax liabilities	43,884	40,031
2.01.03.01	Federal tax liabilities	37,617	26,211
2.01.03.01.01	Income tax and social contribution payable	9,815	3,836
2.01.03.01.02	Other Taxes	27,802	22,375
2.01.03.02	State tax liabilities	6,262	13,798
2.01.03.03	Municipal tax liabilities	5	22
2.01.04	Loans and financing	113,065	534,713
2.01.04.01	Loans and financing	103,251	458,942
2.01.04.01.01	In domestic currency	10,392	7,644
2.01.04.01.02	In foreign currency	92,859	451,298
2.01.04.02	Debentures	9,814	75,771
2.01.05	Other liabilities	267,639	181,795
2.01.05.02	Other	267,639	181,795
2.01.05.02.01	Dividends and interest on own capital	3	3
2.01.05.02.04	Derivative financial instruments	18	242
2.01.05.02.05	Foreign exchange withdrawals	22,664	24,193
2.01.05.02.08	Advance from receivables	30,690	15,422
2.01.05.02.09	Advances from clients	90,645	49,983
2.01.05.02.10	Liabilities from non-current assets held for sale	34,662	0
2.01.05.02.11	Other liabilities	88,957	91,952
2.01.06	Provisions	56,599	67,272
2.01.06.01	Tax, social security, labor and civil provisions	43,243	55,298
2.01.06.01.01	Tax provisions	27,689	28,008
2.01.06.01.02	Social security and labor provisions	8,987	21,486
2.01.06.01.04	Civil provisions	6,567	5,804
2.01.06.02	Other Provisions	13,356	11,974
2.01.06.02.01	Provision for guarantees	13,356	11,974
2.02	Non-current liabilities	826,832	248,500
2.02.01	Loans and financing	735,373	157,970
2.02.01.01	Loans and financing	661,769	157,970
2.02.01.01.01	In domestic currency	15,861	8,420
2.02.01.01.02	In foreign currency	645,908	149,550
2.02.01.02	Debentures	73,604	0
2.02.02	Other liabilities	2,584	7,614
2.02.02.02	Other	2,584	7,614
2.02.02.02.04	Taxes payable	828	4,748
2.02.02.02.05	Other liabilities	0	2,866
2.02.02.02.06	Suppliers	1,756	0
2.02.03	Deferred taxes	26,592	30,937

Consolidated financial statements / Balance sheet - Liabilities

(In thousands of reais)

Code of account	Account description	Current quarter 09/30/2018	Prior year 12/31/2017
2.02.03.01	Deferred income tax and social contribution	26,592	30,937
2.02.04	Provisions	62,283	51,979
2.02.04.01	Tax, social security, labor and civil provisions	56,539	47,233
2.02.04.01.02	Social security and labor provisions	45,066	43,175
2.02.04.01.04	Civil provisions	11,473	4,058
2.02.04.02	Other Provisions	5,744	4,746
2.02.04.02.01	Provision for guarantees	5,744	4,746
2.03	Consolidated shareholders' equity	-456,056	-445,233
2.03.01	Realized capital	404,489	404,489
2.03.02	Capital reserves	-40,996	-40,996
2.03.02.09	Capital transactions	-40,996	-40,996
2.03.05	Retained Earnings/Losses	-997,965	-952,635
2.03.06	Equity valuation adjustments	47,322	48,240
2.03.07	Accumulated translation adjustments	131,094	95,669

Consolidated financial statements / Statement of income

(In thousands of reais)

Code of Account	Account description	Current quarter 07/01/2018–09/30/2018	Accumulated of the current year 01/01/2018–09/30/2018	Same quarter of the prior year 07/01/2017–09/30/2017	Accumulated of the prior year 01/01/2017–09/30/2017
3.01	Revenue from sales of goods and/or services	192,292	623,535	186,701	537,585
3.02	Cost of goods and/or services sold	-114,625	-387,423	-161,447	-419,587
3.03	Gross income	77,667	236,112	25,254	117,998
3.04	Operating expenses/revenue	-60,710	-162,884	-60,282	-169,280
3.04.01	Sales expenses	-22,059	-70,598	-22,730	-69,621
3.04.02	General and administrative expenses	-37,614	-98,391	-37,503	-101,239
3.04.04	Other operating income	2,530	18,554	2,999	11,368
3.04.05	Other operating expenses	-3,567	-12,449	-3,048	-9,788
3.05	Income (loss) before financial income and taxes	16,957	73,228	-35,028	-51,282
3.06	Financial income (loss)	-39,161	-183,922	4,616	-62,576
3.06.01	Financial income	19,971	38,597	27,633	47,810
3.06.02	Financial expenses	-59,132	-222,519	-23,017	-110,386
3.07	Income (loss) before income tax	-22,204	-110,694	-30,412	-113,858
3.08	Income tax and social contribution	64,008	62,472	10,991	64,139
3.08.01	Current	-4,580	-6,921	8,042	13,484
3.08.02	Deferred assets	68,588	69,393	2,949	50,655
3.09	Net income (loss) from continued operations	41,804	-48,222	-19,421	-49,719
3.10	Net income (loss) from discontinued operations	6,167	3,609	935	-672
3.10.01	Net income (loss) of discontinued operations	6,167	3,609	935	-672
3.11	Income/loss for the period	47,971	-44,613	-18,486	-50,391
3.11.01	Attributed to the Parent company's partners	47,971	-44,613	-18,486	-50,391
3.99	Earnings per share - (Reais / Share)				
3.99.01	Basic earnings per share				
3.99.01.01	Common shares	0,74157	-0,68966	-0,28577	-0,77899
3.99.01.02	Preferred shares	0,74157	-0,68966	-0,28577	-0,77899
3.99.02	Diluted earnings per share				
3.99.02.01	Common shares	0,74157	-0,68966	-0,28577	-0,77899
3.99.02.02	Preferred shares	0,74157	-0,68966	-0,28577	-0,77899

Consolidated financial statements / Statement of comprehensive income

(In thousands of reais)

Code of account	Account description	Current quarter 07/01/2018–09/30/2018	Accumulated of the current year 01/01/2018–09/30/2018	Same quarter of the prior year 07/01/2017–09/30/2017	Accumulated of the prior year 01/01/2017–09/30/2017
4.01	Consolidated net income for the period	47,971	-44,613	-18,486	-50,391
4.02	Other comprehensive income	5,799	34,507	-9,990	-6,748
4.02.01	Translation adjustments in the period	6,100	35,425	-9,990	-6,748
4.02.02	Realization of equity valuation adjustment – net of taxes	-301	-918	0	0
4.03	Consolidated comprehensive income for the period	53,770	-10,106	-28,476	-57,139
4.03.01	Attributed to the Parent company's partners	53,770	-10,106	-28,476	-57,139

Consolidated financial statements / Statement of cash flows - Indirect method

(In thousands of reais)

Code of account	Account description	Accumulated of the current year 01/01/2018–09/30/2018	Accumulated of the prior year 01/01/2017–09/30/2017
6.01	Net cash from operational activities	24,368	11,988
6.01.01	Cash generated in operations	102,136	-28,199
6.01.01.01	Net income (loss) before income tax and social contribution	-110,694	-113,858
6.01.01.02	Depreciation and amortization	25,092	23,906
6.01.01.03	Cost of permanent assets written-off	7,199	2,898
6.01.01.06	Provision for Derivative financial instruments	-224	0
6.01.01.07	Allowance for doubtful accounts	-3,811	-1,838
6.01.01.10	Provision for interest on loans and financing	49,434	53,160
6.01.01.14	Provision for freight and commissions	0	-12,326
6.01.01.16	Provision for inventory loss	-6,260	9,629
6.01.01.17	Provision for guarantees	-76	11,502
6.01.01.18	Net cash from discontinued operations	2,389	17,467
6.01.01.19	Provision for contingencies	2,380	1,364
6.01.01.20	Exchange rate change on loans and others	136,707	-20,103
6.01.02	Changes in assets and liabilities	-76,609	40,187
6.01.02.01	(Increase) decrease in trade accounts receivable	-70,598	-12,056
6.01.02.02	(Increase) decrease in inventories	-67,141	-24,303
6.01.02.03	(Increase) decrease in other accounts receivable	17,273	-36,294
6.01.02.04	Increase (decrease) in suppliers	1,604	52,031
6.01.02.05	Increase (Decrease) in accounts payable and provisions	42,253	60,809
6.01.03	Other	-1,159	0
6.01.03.02	Payment of IRPJ (Corporate Income Tax) and CSLL (Social contribution tax)	-1,159	0
6.02	Net cash used in investment activities	-12,604	-17,614
6.02.04	In property, plant and equipment	-9,078	-16,617
6.02.05	In intangible assets	-875	-644
6.02.06	Interest earning bank deposits	-185	512
6.02.07	Net cash from discontinued investment activities	-2,466	-865
6.03	Net cash from financing activities	-7,058	-14,496
6.03.02	Borrowings	67,072	55,512
6.03.03	Payment of loans	-43,363	-62,214
6.03.05	Capital increase	0	10,512
6.03.06	Advances for future capital increase	0	-164
6.03.10	Payment of Interest on loans	-21,355	-28,433
6.03.13	Net cash from discontinued financing activities	-9,412	10,291
6.05	Increase (decrease) in cash and cash equivalents	4,706	-20,122
6.05.01	Opening balance of cash and cash equivalents	6,679	26,708
6.05.02	Closing balance of cash and cash equivalents	11,385	6,586

Consolidated financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2018–09/30/2018

(In thousands of reais)

Code of account	Account description	Paid-up capital	Capital reserves, options granted and treasury shares	Profit reserves	Retained earnings (losses)	Other comprehensive income	Shareholders' equity	Non-controlling interest	Consolidated shareholders' equity
5.01	Opening balances	404,489	-40,996	0	-952,635	143,909	-445,233	0	-445,233
5.02	Prior-year adjustments	0	0	0	-1,635	0	-1,635	0	-1,635
5.02.01	IFRS 9 initial adoption	0	0	0	-1,635	0	-1,635	0	-1,635
5.03	Adjusted opening balances	404,489	-40,996	0	-954,270	143,909	-446,868	0	-446,868
5.05	Total comprehensive income	0	0	0	-43,695	34,507	-9,188	0	-9,188
5.05.01	Net income for the period	0	0	0	-44,613	0	-44,613	0	-44,613
5.05.02	Other comprehensive income	0	0	0	918	34,507	35,425	0	35,425
5.05.02.04	Translation adjustments in the period	0	0	0	0	35,425	35,425	0	35,425
5.05.02.06	Realization of equity valuation adjustments	0	0	0	918	-918	0	0	0
5.07	Closing balances	404,489	-40,996	0	-997,965	178,416	-456,056	0	-456,056

Consolidated financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2017–09/30/2017

(In thousands of reais)

Code of account	Account description	Paid-up capital	Capital reserves, options granted and treasury shares	Profit reserves	Retained earnings (losses)	Other comprehensive income	Shareholders' equity	Non-controlling interest	Consolidated shareholders' equity
5.01	Opening balances	394,141	-40,996	0	-668,102	143,056	-171,901	0	-171,901
5.03	Adjusted opening balances	394,141	-40,996	0	-668,102	143,056	-171,901	0	-171,901
5.04	Capital transactions with partners	10,348	0	0	0	0	10,348	0	10,348
5.04.01	Capital increases	10,348	0	0	0	0	10,348	0	10,348
5.05	Total comprehensive income	0	0	0	-49,246	-7,893	-57,139	0	-57,139
5.05.01	Net income for the period	0	0	0	-50,391	0	-50,391	0	-50,391
5.05.02	Other comprehensive income	0	0	0	1,145	-7,893	-6,748	0	-6,748
5.05.02.04	Translation adjustments in the period	0	0	0	0	-6,748	-6,748	0	-6,748
5.05.02.06	Realization of equity valuation adjustments	0	0	0	1,145	-1,145	0	0	0
5.07	Closing balances	404,489	-40,996	0	-717,348	135,163	-218,692	0	-218,692

Performance comment

Consolidated financial statements/ Statement of added value

(In thousands of reais)

Code of account	Account description	Accumulated of the current year 01/01/2018–09/30/2018	Accumulated of the prior year 01/01/2017–09/30/2017
7.01	Income	641,958	541,996
7.01.01	Sale of merchandise, products and services	620,601	540,614
7.01.02	Other income	18,554	1,981
7.01.04	Formation/reversal of allowance for doubtful accounts	2,803	-599
7.02	Inputs acquired from third parties	-431,198	-418,493
7.02.01	Cost of products, merchandise and services sold	-435,118	-479,381
7.02.02	Materials, Energy, Third-party services and other	3,920	60,888
7.03	Gross added value	210,760	123,503
7.04	Retentions	-24,365	-24,452
7.04.01	Depreciation, amortization and depletion	-24,365	-24,452
7.05	Net added value produced	186,395	99,051
7.06	Added value received as transfer	42,206	25,021
7.06.02	Financial income	38,597	21,649
7.06.03	Other	3,609	3,372
7.06.03.20	Valued added from discontinued operations	3,609	3,372
7.07	Total added value payable	228,601	124,072
7.08	Distribution of added value	228,601	124,072
7.08.01	Personnel	97,744	116,805
7.08.01.01	Direct remuneration	81,327	92,570
7.08.01.02	Benefits	14,547	17,503
7.08.01.03	Severance Pay Fund (FGTS)	1,870	6,732
7.08.02	Taxes, duties and contributions	-42,084	-33,746
7.08.02.01	Federal	-42,358	-33,988
7.08.02.02	State	1	4
7.08.02.03	Municipal	273	238
7.08.03	Third-party capital remuneration	217,554	91,404
7.08.03.01	Interest	217,042	90,805
7.08.03.02	Rentals	512	599
7.08.05	Other	-44,613	-50,391
7.08.05.01	Retained losses, net of realization of equity valuation adjustments - Continued Operation	-48,222	-49,719
7.08.05.02	Retained losses, net of realization of equity valuation adjustments - Discontinued Operation	3,609	-672

Performance comment

TAURUS™

COMPROMISSO COM A EXCELÊNCIA

3Q18

PRESS RELEASE

Performance comment

São Leopoldo, November 14, 2018 – Forjas Taurus S.A., listed in Level 2 for B3 Corporate Governance (Symbols: **FJTA3, FJTA4),** one of the world's largest manufacturers of light firearms and domestic leader in motorcycle helmets, as well as acting in area involving M.I.M. *(Metal Injection Molding),* announces the income (loss) for the **third quarter of 2018 (3Q18).**

1. Highlights of 3rd quarter of 2018 (3Q18)

Performance of Taurus - 9M18 compared to 9M17

R$ 623.5 / R$ 537.6 — Net revenue ↑ +16.0%	R$ 236.1 / R$ 118.0 — Gross income ↑ +100.1%	R$ 97.1 / - 27.4 — EBITDA ↑
Domestic market ↑ +51.0%	Gross margin ↑ +37.9%	EBITDA margin ↑ +15.6%

Amounts in R$ million

The CEO, Mr. Salesio Nuhs, commented the results for 3Q18: "The results for 3Q18 confirm the success of the restructuring initiated at the end of the former year. Taurus recovered its profitability on sustainable basis, confirmed by the improvement in all its financial and operating indicators. Currently, we are a more agile and innovative company continuously focused on quality and costs. The launching of new products is again part of our daily routine, we invest in innovation and new technologies, we have a portfolio of state-of-the art products, 17 new products have been launched with great acceptance in the domestic and foreign markets.

We are investing in our major market, the USA, and with the transfer of our industrial park from Miami to Georgia we expect to double our production capacity in that market. The restructuring of the bank debt enabled us to focus on the operation, cash generation and demobilization required to comply with the payment schedule. The issuance of subscription bonus may anticipate the schedule of total amortization of our debt. The Company's operating improvement continues to be the principal attractiveness to our shareholders". He concluded: "With a production estimated at one million and three hundred thousand guns for this year and with the results presented on recurring basis in these past three quarters, we understand that Taurus is on the right path and back to the 'game' as the largest manufacturer of guns and the fourth largest manufacturer of pistols worldwide."

Performance comment

Quotes - Closing date 09/28/2018

FJTA3	R$ 3.25
FJTA4	R$ 3.72

Number of shares

FJTA3	46,445,314
FJTA4	18,242,898

Market value

R$ 218.8 million

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✓ **Consolidated net revenue in the first 9 months of 2018 was R$ 623.5 million, an increase of 16.0% in relation to the same period of 2017;** when we compare **3Q18** to **3Q17**, we notice an increase of 3.0%, with highlight to the improved result in the domestic market, whereas consolidated net revenue was favored by the appreciation of the U.S. dollar against the Brazilian real.

✓ **Consolidated gross margin presents increase of 15.9 p.p. in 9M18 compared to 9M17, reaching 37.9%,** affected by the reduction of cost of goods sold - COGS, showing structuring upward trend of the Company's profitability. Comparing 3Q18 to 3Q17, this increase of profitability is higher by 26.9 p.p. in the comparison of the period.

✓ **Consolidated EBITDA was R$ 97.1 million in the first 9 months of 2018 and R$ 24.3 million in 3Q18**, which compared to the negative EBTIDA recorded in the same periods last year, respectively, R$ -27.4 million and R$ -27.6 million, confirm the significant operating improvement.

✓ **Market value:** The Company reached R$ 218.8 million in 3Q18, an appreciation of 79.2% in relation to 2Q18.

✓ **Helmet Operation:** Since 1Q18, the helmet operation, due to the Company's commitment to the disposal thereof, became part of the Discontinued Operations line, thus no longer integrating the Company's consolidated financial information.

Performance comment

2. Economic and financial performance - consolidated

The following table shows the Company's consolidated financial performance in 3Q18 compared with the performance of 3Q18 and 3Q17 periods, with the helmet operation in the line of Net Income from Discontinued Operations, in light of Management's commitment to dispose of this operation. Accordingly, the comparison with periods of 2017 will be made on a Pro-Forma basis, in order to maintain comparability with the current period.

Consolidated Financial and Economic Summary

Indicators	3Q18	3Q17 Pro-Forma	2Q18	9M18	9M17 Pro-Forma	Change		
						3Q18/3Q17PF	3Q18/2Q18	9M18/9M17 PF
Net revenue	**192.3**	**186.7**	**200.2**	**623.5**	**537.6**	**3.0%**	**-3.9%**	**16.0%**
Domestic market	38.5	27.4	13.2	106.9	70.8	40.5%	191.7%	51.0%
Foreign market	153.8	159.3	187.0	516.6	466.8	-3.5%	-17.8%	10.7%
COGS	114.6	161.4	121.5	387.4	419.6	-29.0%	-5.7%	-7.7%
Gross income	77.7	25.3	78.7	236.1	118.0	207.1%	-1.3%	100.1%
Gross margin - %	**40.4%**	**13.6%**	**39.3%**	**37.9%**	**21.9%**	**26.9 p.p.**	**1.1 p.p.**	**15.9 p.p.**
Operating expenses - SG&A	-60.8	-60.2	-51.6	-162.9	-169.3	1.0%	17.8%	-3.8%
Operating income (EBIT)	16.9	-34.9	27.1	73.2	-51.3	-	-37.6%	-242.7%
EBIT Margin %	**8.8%**	**-18.7%**	**13.5%**	**11.7%**	**-9.5%**	**27.5 p.p.**	**-4.7 p.p.**	**21.3 p.p.**
Net financial income (loss)	-183.9	6.4	-118.6	-328.7	-60.8	-	55.1%	440.6%
Depreciation and amortization	7.4	7.3	8.7	23.9	23.9	1.4%	-14.9%	0.0%
Net income (loss) from continued operations	41.8	-17.6	-91.1	-48.2	-48.0	174.0%	-47.1%	187.9%
Net Margin Cont. Oper. - %	**-25.1%**	**-9.4%**	**-45.5%**	**-22.2%**	**-8.9%**	**1.7 p.p.**	**20.4 p.p.**	**-13.2 p.p.**
Net income (loss) from discontinued operations	6.2	-0.8	-2.8	3.6	-2.4	-543.4%	-230.2%	-145.8%
Consolidated income / loss	48.0	-18.5	-93.8	-44.6	-50.4	141.3%	-52.4%	172.2%
Consolidated Net Margin - %	**25.0%**	**-9.9%**	**-46.8%**	**-7.2%**	**-9.4%**	**-13.3 p.p.**	**23.6 p.p.**	**-12.6 p.p.**
EBITDA1	24.3	-27.6	35.9	97.1	-27.4	-	-32.3%	-
EBITDA Margin – %	**12.6%**	**-14.8%**	**17.9%**	**15.6%**	**-5.1%**	**27.4 p.p.**	**-5.3 p.p.**	**20.7 p.p.**
Total assets	985.3	923.1	934.7	985.3	923.1	6.7%	5.4%	6.7%
Unsecured liability	-456.1	-218.7	-510.1	-456.1	-218.7	108.6%	-10.6%	108.6%

1 - Non-accounting measurement calculated in accordance with CVM Instruction 527.
Note: EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) is not a measure used in the accounting practices and it does not represent cash flow as well for the periods presented and shall not be considered as an alternative to cash flow as a liquidity indicator. The Company shows EBITDA to provide additional information on cash generation in the period. Amounts in R$ million

Reconciliation of consolidated EBTIDA	3Q18	3Q17 Pro-Forma	2Q18	9M18	9M17 Pro-Forma
EBTIDA- CVM Instruction[1]	24.3	-27.6	35.9	97.1	-27.4
Depreciation and amortization	7.4	7.3	8.7	23.9	23.9
Operating income before financial income and taxes [2]	16.9	-34.9	27.2	73.2	-51.2

1 - Non-accounting measurement calculated in accordance with CVM Instruction 527.
2 - Accounting Measurement disclosed in Consolidated Statement of Income
Amounts in R$ million

Performance comment

Net revenue

The Company's consolidated net revenue totaled R$ 623.5 million in the first nine-month period, an increase of 16.0% in relation to the same period in 2017, mainly due to the sale to foreign market where the launching of 17 new products represented a significant portion of such increase. However, part of this result was due to the excellent performance in the domestic market, with increase of 51.0% in the same period. When we compare the consolidated net revenue for 3Q18 and 2Q18, sales presented a reduction of 3.9%, due to the seasonality of the U.S. market, where the sales of guns traditionally decrease during the summer. It is important to point out that the Company has been forming stocks in the U.S. unit in order to meet 100% of the demands of the U.S. Black Friday. The increase in the domestic market shows the recovery of credibility of the brand before the institutions and, mainly, the policemen, which proves the confidence on the new products launched by Taurus.

We highlight that the Company invests in research and development of new products to the several markets where it operates, which have already shown significant share in the Company's income in these 9 months, particularly, Rifle T4 and the new Pistol G2c.

In the USA, the firearm market remained highly competitive, with indexes of purchase intentions showing reduction in the compared periods. However, the Company, in 9M18 in relation to 9M17, recorded better results in that market. As a result, US sales increased by 4.9% in the first nine months of 2018 compared to the same period in 2017, showing an strength of the new products launched in this market.

Gross income

The net income recorded in the first 9 months of 2018 was R$ 236.1 million against R$ 118.0 million in the same period of 2017, an increase of 100.1%, the gross margin was 37.9% in 9M18 and 21.9% in 9M17, an increase of 15.9 p.p. in the comparison of the period. This upward trend in the Company's margins was consolidated in 3Q18, when the Company reached important 40.3% of gross margin against 13.6% in 3Q17, an increase of 26.9 p.p. in the same period.

EBITDA

The Company's cash generation measured by the EBITDA was R$ 97.1 million in the first 9 months against a loss of R$ 27.6 million in the first 9 months of 2017. The result for the first 9 months of 2018 shows the Company's effort to increase net revenue and reduce the cost of product sold, which produced positive EBITDA and EBITDA Margin during the year.

Operating expenses

Performance comment

In the first 9 months, operating expenses recorded R$ 162.9 million, 3.8% lower than in the same period of 2017 Pro-Forma, in the same period net revenue presented an increase of 16% of net revenue and the relation between operating expenses and net revenue reduced by 5.4 p.p.

OPERATING EXPENSES (SG&A)
In millions of R$

	3Q18	3Q17 PRO-FORMA	2Q18	9M18	9M17 PRO-FORMA	3Q18 x 3Q17 PF	3Q18 x 2Q18	9M18 x 9M17 PF
Operating expenses	60.8	60.2	51.6	162.9	169.3	1.0%	17.8%	-3.8%
Net revenue	192.3	186.7	200.2	623.5	537.6	3.0%	-3.9%	16.0%
% Operating expenses	31.6%	32.2%	25.8%	26.1%	31.5%	-0.6 p.p.	22.5%	-5.4 p.p.

Consolidated income (loss)

During the first nine months of 2018, the Company recorded a loss of R$ 44.6 million, also against a loss of R$ 50.4 million in the same period of 2017. This result was strongly affected by financial expenses, mainly due to the sharp appreciation of 26.4% of the U.S. dollar in relation to the Brazilian real. This appreciation affects, mainly, loans contracted in U.S. dollar, which at the end of each quarter are priced based on the quotation of the last day of the quarter. When we compare the U.S. dollar closing rate in 2Q18 (R$ 3.8558) and 3Q18 (R$ 4.0039), we obtained an appreciation of 3.8%, which has directly affected the Company’s net result, but without effect on cash, since the debt is renegotiated in the long term.

3. Financial position

The Company, on July 18, 2018, published Relevant Fact informing the process of formalization and signing of funding agreements in order to make the payment and/or rescheduling of debts with certain Financial Institutions, as well as of its 3rd public issuance of debentures (“Creditors” and “Operation”).

The terms of the Operation included the extension of the maturity term of debts with Creditors in the approximate amount of US$ 161.8 million. The total term of the Operation is now 5 (five) years, with grace period for

payments of principal and interest in 2018. The amortization of principal and interest will be made on monthly basis beginning on January 21, 2019.

With this rescheduling, we obtained a 50% reduction of the interest rate of loans in relation to the former negotiation; in addition, there has been a significant change in the amortization schedule, in which the first payment of principal would be in 2018 and after quarterly amortizations, with the rescheduling, there will be a grace period for the payment of principal in 2018 and as of 2019, monthly payments. We point out that, in conjunction, the negotiations brought as main benefits the extension of debt and the reduction of more than R$ 120 million of charges on this indebtedness during the five-year period.

Performance comment

The operation was formed by the following real guarantees: (i) lien of all Taurus Blindagens Ltda. and Taurus Blindagens Nordeste Ltda. quotas ("Lien"); (ii) 2nd degree mortgage of 02 properties located in Mandirituba/PR, and 02 properties located in Porto Alegre, RS and 1st degree mortgage of 01 property located in São Leopoldo, RS ("Mortgage"); and (iii) lien of credit receivables derived from total funds object of possible sale of quotas object of the Lien and Mortgage, as well as rights inherent in the title of the Company's restricted account to be opened with the purpose of receiving the funds.

The conclusion of this Operation represented an important step in the process of restructuring of Company's indebtedness, reduction of financial costs, creating new conditions for the Company to concentrate efforts in its operating and financial development and strengthening.

On September 30, 2018, the gross debt was R$ 901.9 million, of which 18.5% of maturities in the short-term and 81.5% in the long term. The debt in foreign currency represented 81.9% of the Company's total debt and 18.1% in domestic currency.

The Company contracts foreign-currency debt, because it has natural hedge, since the breakdown of net revenue is mainly generated in foreign currency. This structural exposure allows the Company to contract financing operations in U.S. dollars and reconcile the payments of financing operations with the flow of receiving of sales from foreign markets.

Indebtedness
Amounts in R$ million

	INDEBTEDNESS	Sep/18	Jun/18	Dec/17	Sep/18 x Jun/18	Sep/18 x Dec/17
Cost Term	Loans and financing	103.3	578.2	458.9	-82.1%	-77.5%
	Debentures	9.8	81.1	75.8	-87.9%	-87.1%
	Advance from receivables	30.7	0.5	15.4	6485.8%	99.3%
	Foreign exchange withdrawals	22.7	15.6	24.2	45.4%	-6.3%
	Financial instruments	0.1	0.1	0.2	118.5%	-41.0%
	TOTAL SHORT-TERM	**166.5**	**675.4**	**574.5**	**-75.3%**	**-71.0%**
Long term	Loans and financing	661.8	139.6	158.0	374.0%	318.8%
	Debentures	73.6	0.0	0.0	-	-
	TOTAL LONG-TERM	**735.4**	**139.6**	**158.0**	**426.7%**	**365.4%**
TOTAL DEBT		**901.9**	**815.0**	**732.5**	**10.7%**	**23.1%**
Cash and cash equivalents and interest earning bank deposits		14.3	8.6	9.5	66.5%	50.7%
Net indebtedness		**887.5**	**806.4**	**723.0**	**10.1%**	**22.8%**

Performance comment

Taurus's short-term maturities totaled R$ 166.5 million in Sept/18, and R$ 735.4 million in the period. The result was strongly affected by the U.S. dollar rate change of 26.4%, comparing the quotation in 3Q17 (R$ 3.1680) and 3Q18 (R$ 4.0039).

We highlight that the reduction occurred in Sep/18 compared to Jun/18 in the short-term debt under the captions of Loans and Financing, as well as in Debentures, refers to the rescheduling, in which the Company renegotiated the payment conditions, term and interest rate. The creditors understood and supported the Company aimed to relieve the cash flow and adjust the Company's future disbursements. In addition, as the Note, the Company obtained extension of term and reduction of rates in PPE operations (Export Prepayment) and ACC (Advance on Exchange Agreement), which together amount to approximately R$ 43.7 million which are recorded in the short term, but with chance of being settled up to 10/17/2022; this amount represents 26.3% of total short-term debt.

Information per business segment

The following table shows consolidated net revenue and gross margin per segment.

Quarterly comparison - Current x Previous quarter

	Net revenue					Gross margin		
	3Q18	**Int.%**	**2Q18**	**Int.%**	**Change**	**3Q18**	**2Q18**	**Change**
Firearms	188.6	98%	197.8	99%	-4.6%	40.5%	38.6%	1.9 p.p.
Other	3.7	2%	2.4	1%	58.3%	72.2%	38.1%	34.1 p.p.
Total	**192.3**	**100%**	**200.2**	**100%**	-4.0%	**41.1%**	**38.6%**	**2.6 p.p.**

Quarterly comparison - Year x Year

	Net revenue					Gross margin		
	3Q18	**Int.%**	**3Q17**	**Int.%**	**Change**	**3Q18**	**3Q17**	**Change**
Firearms	188.6	98%	182.5	98%	3.4%	40.5%	12.3%	28.2 p.p.
Other	3.7	2%	4.1	2%	-8.8%	72.2%	68.3%	3.9 p.p.
Total	**192.3**	**100%**	**186.7**	**100%**	3.0%	**41.1%**	**13.6%**	**27.5 p.p.**

Nine-month period comparison

	Net revenue					Gross margin		
	9M18	**Int.%**	**9M17**	**Int.%**	**Change**	**9M18**	**9M17**	**Change**
Firearms	613.6	98%	522.7	97%	17.4%	37.4%	21.4%	16.0 p.p.
Other	9.9	3%	14.9	3%	-33.6%	79.8%	40.3%	39.5 p.p.
Total	**623.5**	**100%**	**537.6**	**100%**	16.0%	**38.1%**	**21.9%**	**16.1 p.p.**

Performance comment

I. Firearms

This segment includes handguns (revolvers and guns used for public security, private, restricted military and civil use), long guns (rifles, carbines and shotguns), and submachine guns. Forjas Taurus S.A. in São Leopoldo/RS and Taurus Holdings, Inc. in the US carry out operations in this segment.

NET REVENUE In millions of R$	3Q18	3Q17	2Q18	9M18	9M17	3Q18/3Q17	3Q18/2Q18	9M18/9M17
Firearms	**188.6**	**182.5**	**197.8**	**613.6**	**522.7**	**3.3%**	**-4.7%**	**17.4%**
Brazil	**36.5**	**24.0**	**32.5**	**101.2**	**58.5**	**52.1%**	**12.3%**	**73.0%**
Exports	**152.1**	**158.5**	**165.3**	**512.4**	**464.2**	**-4.0%**	**-8.0%**	**10.4%**
United States	136.2	142.7	154.2	458.2	436.9	-4.6%	-11.7%	4.9%
Other countries	15.9	15.8	11.1	54.2	27.3	0.6%	43.2%	98.5%

Net sales of firearms amounted to R$ 613.6 million in the first nine months, 17.4% higher than in the same period of 2017. This is mainly due to sales efforts in the domestic and foreign markets, with increase of 73.0% and 10.4%, respectively. This increase results from the diversification of the portfolio of Company's diversification of the portfolio, as well as the appropriate return of institutional purchases and increase in the individual sales segment, which includes police officers in general, magistrates, and HSCs (hunters, shooters and collectors), who purchase a firearm for private use. Following a trend presented in 2Q18. Figures that show the recovery of the Company's credibility and perception of the quality of the products manufactured by the Company.

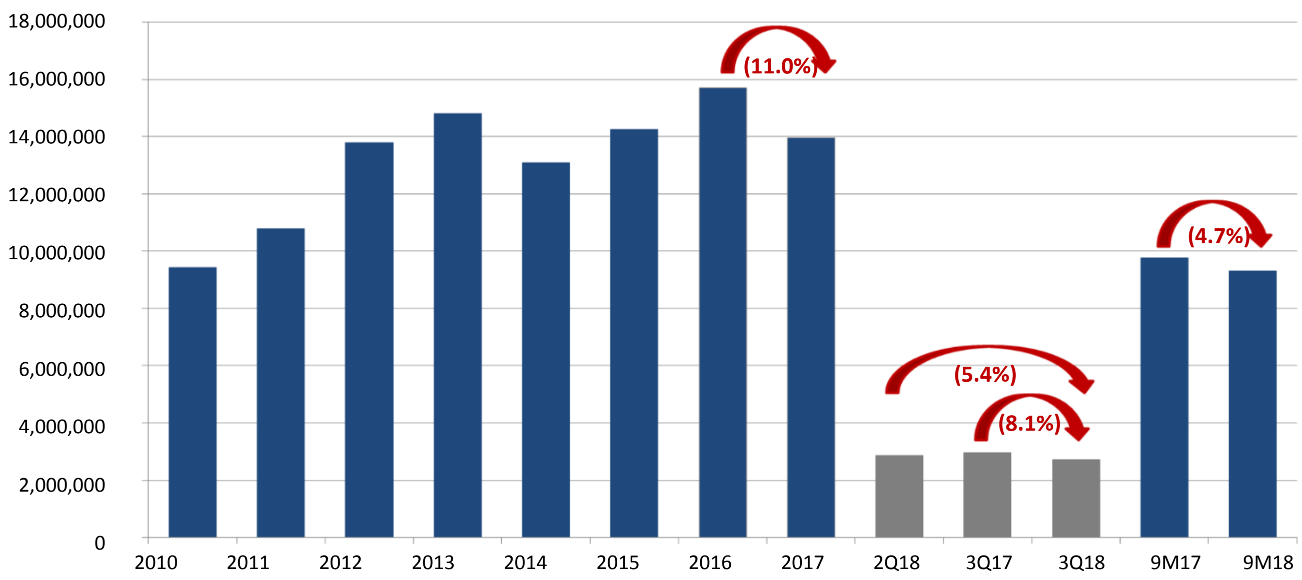
In the USA, the Company has managed to improve the operation and, when we compare 9M18 in relation to 9M17, we notice an improvement in net revenue of 10.4% in the period, driven by the new products traded in the U.S. market.

Also noteworthy is the US market performance as measured by the Adjusted NICS (National Instant Criminal Background Check System) indicator, below, which allows one to determine intentions for firearm purchases in the US. This indicator declined in all the compared periods. In the 9M18 versus 9M17 comparison, we notice a lower decline between these periods; however, the Company's sales in the USA grew 4.9%, when we compare the same period. This result takes on special importance, in that the US market went through a period of normalization of demand in 2017 with the election of Donald Trump.

Performance comment

Adjusted NICS - *National Instant Background Check System*

Number of inquiries



Sales to other countries recorded a growth of 98.5%, in the same comparison period, totaling R$54.2 million, representing an strengthening of the Company in other markets and strategy to diversify the Company's portfolio, with highlight to Middle East and Asia, by means of the Ministry of Foreign Affairs and a robust compliance process.

In 3Q18, the gross margin of guns was 40.5%, and 28.2 p.p. higher than in 3Q17, as result of processes of cost reduction commenced in 1Q18, which have been consolidating and generating consistent results during year 2018.

II. Other

Starting in January/18, this segment is composed exclusively of parts made via Metal Injection Molding (MIM).

NET REVENUE In millions of R$	3Q18	3Q17	2Q18	9M18	9M17	3Q18/3Q17	3Q18/2Q18	9M18/9M17
Other	3.7	4.1	2.4	9.9	14.9	-9.8%	54.2%	-33.6%
Brazil	2.0	3.3	1.2	5.7	12.3	-39.4%	66.7%	-53.7%
Exports	1.7	0.8	1.2	4.2	2.6	-	-	61.5%

This segment presented R$ 3.7 million in net sales in 3Q18, a 54.2% increase in relation to 2Q18. This segment has little representation in the Company's income. It is worth mentioning that the plastics operation was discontinued in January/18, causing this segment to operate exclusively with operations of parts made via Metal Injection Molding (MIM) since that time.

4. Capital market and corporate governance

Performance comment

Forjas Taurus S.A. is a Brazilian publicly-held company, listed in B3 S.A. - Brasil, Bolsa, Balcão (Codes: FJTA3, FJTA4) for more than 30 years, and since July/2011 has been ranked Level 2 in Corporate Governance. Below shows the evolution of share value and the market value of Taurus. In the end of 3Q18 the Company's preferred shares had a appreciation of 76.3% as compared to 2Q18. As for common shares, 80.6% had an appreciation over the same period. As a result, the Company's market value, recorded a growth of 79.2% in 3Q18, compared to 3Q18, reaching R$ 218.8 million. IBOVESPA index in the same period appreciated 9%.

PERFORMANCE OF SHARES AND MARKET VALUE

Share quotation Closure	3Q18	3Q17	2Q18	Change 3Q18x3Q17	3Q18x2Q18
Common shares - FJTA3	R$ 3.25	R$ 2.12	R$ 1.80	53.3%	80.6%%
Preferred shares - FJTA4	R$ 3.72	R$ 2.54	R$ 2.11	46.5%	76.3%
IBOVESPA	79,342	74,294	72,763	6.8%	9.0%%

Market value In millions of R$	3Q18	3Q17	2Q18	3Q18x3Q17	3Q18x2Q18
Common shares - FJTA3	R$ 150.9	R$ 98.5	R$ 83.6	53.3%	80.6%%
Preferred shares - FJTA4	R$ 67.9	R$ 46.3	R$ 38.5	46.5%	76.3%%
TOTAL	R$ 218.8	R$ 144.8	R$ 122.1	51.1%	79.2%%

5. Discontinued operation

Helmets

Due to the decision to discontinue the investment, it was classified as "held for sale" and accounted for in accordance with technical pronouncement IFRS 5 and CPC 31 – Non-current Assets Held for Sale and Discontinued Operations; this reclassification has a merely accounting character. The helmet segment continues to operate normally. It is worth remembering that this operation is in guarantee to the renegotiation of debt with the banking syndicate, so the proceeds from this disposal will be used exclusively for the amortization of debts with financial institutions.

The segment of helmets is the second largest in the company, with the production units of Taurus Blindagens Ltda., in Mandirituba/PR, and Taurus Blindagens Nordeste Ltda., in Simoes Filho/BA. Below is the comment on performance for this segment in 3Q18.

NET REVENUE In millions of R$	3Q18	3Q17	2Q18	9M18	9M17	3Q18/3Q17	3Q18/2Q18	9M18/9M17
Helmets	21.7	24.5	20.7	63.2	67.6	-11.4%	4.8%	-6.5%
Brazil	21.5	24.0	20.7	63.0	67.1	-10.4%	3.9%	-6.1%
Exports	0.2	0.5		0.2	0.5			-60%

Performance comment

Sales of helmets in 3Q18 reached R$ 21.7 million, an increase of 4.8% in relation to 2Q18; when compared to 3Q17, there was a decline of 11.4%. This result reflects the reduction projected for the GDP – Gross Domestic Product in year 2018.

Sales of helmets in 9M18 reached R$ 63.2 million, 6.5% lower than the sales recorded in 9M17. Since this segment has strong correlation with the economic performance, this decline reflects the aggravation in relation to the expectation of recovery of growth of the Brazilian economy.

Quarterly comparison - Current x Previous quarter

	Net revenue					Gross margin		
	3Q18	Int.%	2Q18	Int.%	Change	3Q18	2Q18	Change
Helmets	21.7	11%	20.7	10%	5.1%	35.9%	32.9%	3.0 p.p.

Nine-month period comparison

	Net revenue					Gross margin		
	9M18	Int.%	9M17	Int.%	Change	9M18	9M17	Change
Helmets	63.2	10%	67.6	13%	-6.5°%	34.8%	30.3%	4.5 p.p.

6. Subsequent event –

On October 05, 2018, the Board of Directors' meeting approved the Executive Board's proposal for issuance of 74 million subscription bonuses by the Company, divided into 4 series: (i) up to 25,000,000 series A bonus; (i) up to 20,000,000 series B bonus; (iii) up to 20,000,000 series C bonus; and (iv) up to 9,000,000 series D bonus.

Bonus issuance price: (i) R$ 0.20 for series A bonus; and (ii) R$ 0.10 for bonuses of the other series.

Strike price of the Subscription Right: (i) R$ 4.00 for shares derived from Series A bonus; (ii) R$ 5.00 for shares derived from Series B bonus; (iii) R$ 6.00 for shares derived from Series C bonus; and (iv) R$ 7.00 for shares derived from series D bonus.

Reasons for issuance of bonus: The subscription bonus will be issued in order to reduce the Company's indebtedness.

Up to R$ 300,000,000.00 (three hundred million reais) of funds from the exercise of subscription and payment of the Company's shares by the holders of subscription bonus will be used for reduction of the Company's indebtedness. Any funds exceeding this limit will be allocated to increase the Company's cash, at the percentage corresponding to 50% of the excess value.

Another reason for the issuance of the subscription bonus is to increase the free float of the Company's issued shares, in case the bonuses are converted into shares.

Performance comment

Potential of the capital increase operation through issuance of subscription bonus, in case all the subscription bonuses are exercised.

Preference rights - Maximum deadline on 11/13/2018

Series	Quantity	Issuance price[1]		Bonus amount
A	25,000,000	R$	0.20	R$ 5,000,000.00
B	20,000,000	R$	0.10	R$ 2,000,000.00
C	20,000,000	R$	0.10	R$ 2,000,000.00
D	9,000,000	R$	0.10	R$ 900,000.00
Total	74,000,000			R$ 9,900,000.00

[1]price per unit

Subscription bonus - Maximum deadline on 10/07/2020

Series	Quantity	Issuance price[1]		Bonus	Maturity	Share value
A	25,000,000	R$	4.00	R$ 0.20	04/05/2019	R$ 100,000,000.00
B	20,000,000	R$	5.00	R$ 0.10	07/05/2019	R$ 100,000,000.00
C	20,000,000	R$	6.00	R$ 0.10	10/07/2019	R$ 120,000,000.00
D	9,000,000	R$	8.00	R$ 0.10	10/05/2020	R$ 72,000,000.00
Total	74,000,000					R$ 392,000,000.00

[1]price per unit

For further information, please refer to the Company's website www.taurusri.com.br and carefully read the documents submitted to CVM – Brazilian Securities Commission and to the market.

On October 25, 2018, the Company sent Communication to the Market, informing that Tauruspar Participações S.A. had declared that:

(i) On 10/23/2018, Tauruspar concluded the subscription of 16,732,385 (sixteen million, seven hundred and thirty-two thousand, three hundred and eighty-five) Subscription Bonus of Series A, 13,385,908 (thirteen million, three hundred and eighty-five, nine hundred and eight) Subscription Bonus of Series B, 13,385,908 (thirteen million, three hundred and eighty-five, nine hundred and eight) Subscription Bonus of Series C and 6,023,658 (six million, twenty-three thousand and six hundred and fifty-eight) Subscription Bonus of Series D issued by the Company, as approved by the Board of Directors' meeting held on October 05, 2018;

(ii) The subscribed Subscription Bonuses correspond to the total Subscription Bonuses to which the controlling shareholder was entitled due to the exercise of its preemptive right;

(iii) On 10/25/2018, Tauruspar converted 10,000,000 (ten million) Subscription Bonuses of Series C into preferred shares, upon payment of the respective exercise price corresponding to R$ 6.00 (six reais) per Subscription Bonus.

Performance comment

For further information and entire communication, please refer to the Company's website www.taurusri.com.br

On October 30, 2018, the Rio Grande do Sul Board of Trade accepted the approval of the General Shareholders' Meeting occurred on June 29, 2018, which deliberated on the change of the corporate name to TAURUS ARMAS S.A.

The change of the corporate name corroborates the new cycle that the Company is undergoing. The Company's CEO, Mr. Salesio Nuhs, commented: "The change in the corporate name to TAURUS ARMAS S.A. is part of the strategy to focus its efforts on the Company's core business:

Production – To produce following the strictest local and international security protocols;

Sale – Cover the foreign and domestic markets providing firearms, mainly, to the armed forces, policemen, magistrates and CACs (hunters, shooters and collectors); and

Development – In the past months, 17 new products have been developed and launched, so as to meet the needs of the domestic and foreign markets, mainly, the United States, and also the opening of new markets, such as Asia and Middle East, after authorizations of the Ministry of Foreign Affairs and a sound compliance process".

On November 1, 2018, the Company launched the pistol Striker TS9 9mm, developed especially for police and military use, but which may also be acquired in the factory by Hunters, Shooters and Collectors (CACs).

The launching has striker-firing system, mechanism with the exclusive security system of double trigger lock (trigger lock and manual lock), striker lock and dropping lock, which combined with the firing mechanism and innovative design, ensure practical prompt use and easy maintenance.

The TS Series firearms have an efficient sealing system against dust, sand and iodine and are ideal for use by special forces under extreme conditions.

The words that define the new pistol TS9 are innovation, reliability, security and precision. The exclusive project of the striker pistol was developed following the strictest quality and security standards required by the most qualified policemen worldwide.

The new pistol will make the Company's portfolio even more complete and prepared to meet the needs of the Brazilian police and military institutions.

Performance comment

THE MANAGEMENT

The document may contain statements that form future perspectives of the Company’s business. The projections, results and their impacts depend on estimates, information or methods that may be incorrect or inaccurate and may not be realized. These estimates are also subject to risks, uncertainties and assumptions, including, but not limited to: general economic, political and commercial conditions in Brazil and in the markets where we operate and current and future government regulations. Possible investors are herein warned that none of these forecasts is guarantee of future performance, since they involve risks and uncertainties. The Company does not assume, and specifically denies any obligation to update any forecasts, which makes sense only on the date in which they had been made.

Notes to the financial statements

1. Operations

Forjas Taurus S.A. ("Company") headquartered in São Leopoldo/RS, a Brazilian publicly-held company for more than 30 years, and since 2011, ranked Level 2 in Corporate Governance of B3 (former BM&FBOVESPA) (trading symbols are FJTA3, FJTA4).

The Company operates in the segments of Firearms and Accessories and Metal Injection Molding (MIM), with two industrial plants, one in Brazil, located in the state of Rio Grande do Sul, and another in Miami, Florida, USA.

In Brazil, sales are directed to state, federal, civil and military police, in addition to the civilian market. Taurus is an accredited Strategic Defense Company and is permitted to supply products to the Brazilian armed forces.

Abroad, besides distributing products of the TAURUS and ROSSI trademarks produced in Brazil, the Miami unit manufactures models of TAURUS pistols and HERITAGE revolvers. Sales to the United States cover, mainly, the U.S. civil market and government bodies in the other regions.

In March 2018, Company Management assumed the commitment to dispose of the helmets' operation. To carry out this process, a specialized consulting firm was engaged. Due to the decision to sell the investment, it was classified as "held for sale" and accounted for according to technical pronouncement CPC 31 and IFRS 5 - Non-Current Assets Held for Sale and Discontinued Operations. The helmet operation has two production units, one in Mandirituba, Paraná, and another in Simões Filho, Bahia.

The consolidated statements of income for the quarter ended September 30, 2018 show the results of the helmets operation in a single line, as a net income (loss) from discontinued operations. The consolidated statement of income for the quarter ended September 30, 2017 was reclassified for comparability.

Economic /Financial Balance
The Company's cash generation, in 3Q18, measured by the EBITDA was positive by R$ 24.3 million, and in the accumulated for the first nine months of year 2018 it amounted to R$ 97.1.

On July 18, 2018, management concluded the process of rescheduling and formalization of debt agreements with the Bank Syndicate (Banco do Brasil, Banco Santander, Banco Itaú and Banco Bradesco), as well as the process of rescheduling of its 3rd public issuance of debentures with Haitong Bank. The terms of the Operation include the extension of the maturity term of debts with Creditors in the approximate amount of US$ 162.000 million. The total term for payment of the operations is now 5 (five) years, with grace period for payment of principal and interest in year 2018. The amortization of principal and interest will be made in monthly payments, starting on January 21, 2019. The costs of the operation were Libor Month + 3% p.a. for operations in U.S. dollar and CDI + 2.00% for the 3rd Issuance of debentures.

The operation is backed by the following real guarantees: (i) Lien of all quotas of the companies Taurus Blindagens Ltda. and Taurus Blindagens Nordeste Ltda. ("Chattel Mortage"); (ii) 2nd degree mortgage of 02 properties located in Mandirituba/PR, and 02 properties located in Porto Alegre, RS and 1st degree mortgage of 01 property located in São Leopoldo, RS ("Mortgage"); and (iii) lien of credit receivables derived from total funds object of possible sale of quotas object of the Lien and Mortgage, as well as rights inherent in the title of the Company's restricted account to be opened with the purpose of receiving the funds.

As additional option to assist in the economic and financial rebalance, the Company maintains its strategy: (a) divestitures of non-core assets, namely: the helmets operation (historically advantageous and profitable), whose decision of sale and authorization for selling efforts were made by the Board of

Notes to the financial statements

Directors in March 2018, in addition to a large land in an affluent residential region of Porto Alegre, where the former facilities of the Company were located and; (b) strong restructuring plan, already in course and conducted by specialized consulting firm already contracted.

The aforementioned restructuring plan, which is already in progress, presented positive results in the quarter ended September 30, 2018, and is expected to continue to bring efficiency gains throughout 2018. The plan is divided into 4 areas: i) Renegotiation of Debt; ii) Operating Efficiency, iii) Commercial Efficiency, and (iv) Evaluation of Results. Below is a summary of the actions:

I Debt Renegotiation (completed):

The debt rescheduling was conducted through direct and extrajudicial renegotiation with creditors, including the following activities:

- Preparation, analysis and validation of operating and financial projections;
- Preparation of negotiation strategies in different scenarios;
- Negotiation with committee of creditors through meetings and presentations;
- Proper formalizations of the process.
- Together with the Bank Syndicate, in the rescheduling the Company obtained a reduction of around 50% of the interest rate of loans.
- There has been a significant change in the amortization schedule, in which the first payment of principal would be in 2018 and after quarterly amortizations, with the rescheduling, there will be a grace period for the payment of principal in 2018 and as of 2019, monthly payments. The table below shows the percentages of amortizations.

AMORTIZATION SYSTEM BEFORE RENEGOTIATION	AMORTIZATION SYSTEM AFTER RENEGOTIATION
PPEs AND DEBENTURES BANKS	**PPEs AND DEBENTURES BANKS**
BRADESCO, BRASIL, SANTANDER, ITAU, HAITONG.	**BRADESCO, BRASIL, SANTANDER, ITAU, HAITONG.**
23.07% OF THE DEBT IN 2018	10.71% OF THE DEBT IN 2019
30.76% OF THE DEBT IN 2019	15.90% OF THE DEBT IN 2020
30.76% OF THE DEBT IN 2020	2.80% OF THE DEBT IN 2021
15.41% OF THE DEBT IN 2021	70.59% OF THE DEBT IN 2022

- In the rescheduling with Banco Pine, the Company also obtained extension of term and reduction of rates. The characteristics of the rescheduling were different, since the Bank did not have funding (line abroad) to support the entire operation, thus at each maturity of PPE an ACC operation will be released in the amount of the portion with initial term of 180 days and automatically renewed at each maturity for other 180 days. In the third and fourth maturities, the renewal will correspond to 99.30% of the value of the ACC operation, in the fifth maturity, it will correspond to 99.10% of the value of the ACC operation, in the following maturities it will correspond to 97.20% of the ACC operation and up to 10/17/2022, all the ACC operations will be settled. Prior to the rescheduling, the rate of the operation was 112.00% of CDI, for the new operations renegotiated under ACC, the rate will be 5.50% p.a. + FX.
- We point out that in the renegotiations, in addition to the extension of debt, there will be reduction of more than R$ 120 million charges on such indebtedness during the period of 5 years.

II Operating Efficiency

On macro basis, revaluation of the Organizational Structure of the Company through analysis of activities and processes, Span of Control and average remuneration:

Stages concluded:

- Realignment of the structure with the strategic purposes;
- Streamlining of the hierarchical levels for gain of promptness in decision making;
- Normalization of the areas so as to prevent conflicts and redundancies;
- Review of responsibilities and functions of each position;
- Revaluation of service levels.

Notes to the financial statements

Stages in progress:
- Clear definition of the metrics;
- Redesign of the relationship with other units of the company;
- Revaluation of outsourcing of non-core activities;
- Revaluation of the centralization of activities;
- Elimination of activities that do not aggregate value;
- Analyses of gains of efficiency in the processes;
- Intelligent and long-lasting reduction of costs;
- Development of a participatory environment proper to changes.

On a specific manner, the operating planning and management will be segmented as follows with their respective action plans already in course:

Stages concluded:

Operating Master Planning:
- Review the S&OP model.

Research and Development:
- Identification of Capex needs;
- Integration with all the industrial units.

Stages in progress:

CGS - Cost of goods sold
- Analyze the evolution of Variable Costs and general manufacturing costs (GGF) to identify the main deviations and opportunities.

Operating Master Planning:
- Improve methodology of demand forecast;
- Review the logical process and model of production and inventory planning.

Efficiency of the Operating Management:
- Review metrics, goals and routines of analysis of results of key indicators of the processes;
- Map critical points of improvement of each process and develop/ implement applicable corrective actions.

Losses of Materials (yield and scrap):
- Identify critical points of improvement and implement applicable corrective actions.

Research and Development:
- Schedule of actions.

Tools used:
- Explosion of Ideas;
- Data analysis;
- Simulations of scenarios;
- Analyses of Cause/Effect;
- Compensation Matrix.

III Commercial Efficiency

In order to capture higher gains of efficiency in the commercial area, three areas are being focused as follows:

Stages concluded:

Notes to the financial statements

Market analysis
- Reviewing the pricing model

Portfolio of products
- Analysis for streamlining of SKUs.

Commercial Performance
- Assess the management model of sales routine;
- Restructuring of the monitoring model for attainment of goals.

Stages in progress:

Market analysis
- Mapping of sales channels and analysis of strategies per channel;
- Analysis of opportunities for reduction of the number of *Layers* and approximation of the point of sale.

Portfolio of products
- Performance analysis of the categories of products;
- Definition of strategies for low-margin items;
- Definition of the positioning of each category.

Commercial Performance
- Revaluation and design of a variable remuneration program to the sales team.

IV Evaluation of Results (in progress)

These initiatives aim to adjust the key processes of Taurus so as to increase the Company's profitability and competition.

Accordingly, with the definition of roles and responsibilities, performance metrics and a culture of discipline in the performance of action plans, the Company continues to take actions aimed at higher operating and financial efficiency, in order to cover the demand for its products, improve its margins, recover profitability and the balance of its cash flows.

2. Presentation of quarterly information

2.1. Preparation basis

a) Compliance statement
The Company's individual and consolidated quarterly information was prepared in accordance with CPC 21 (R1) issued by Accounting Pronouncement Committee ("CPC") and IAS 34 - Interim Financial Reporting, issued by International Accounting Standards Board -IASB, as well as with respect to standards disclosed by Securities Commission, applicable to the preparation of Quarterly Information - ITR.

b) Statement of the Board of Directors
The Company management states it has utilized all of the relevant information for its quarterly information and correspond to those of its management.

The issue of individual and consolidated quarterly information was authorized by the Board of Directors on October xx, 2018.

Notes to the financial statements

2.2. Basis of consolidation

		Ownership interest	
	Country	09/30/2018	12/31/2017
Taurus Blindagens Ltda.	Brazil	**100.00%**	**100.00%**
Taurus Blindagens Nordeste Ltda.	Brazil	**100.00%**	**100.00%**
Taurus Holdings, Inc.	United States	**100.00%**	**100.00%**
Taurus Máquinas-Ferramenta Ltda.	Brazil	**100.00%**	**100.00%**
Taurus Investimentos Imobiliários Ltda.	Brazil	**100.00%**	**100.00%**
Polimetal Metalurgia e Plásticos Ltda. *	Brazil	**100.00%**	**100.00%**
T. Investments Co. Inc.*	Panama	**100.00%**	**100.00%**
Taurus Plásticos Ltda.	Brazil	**100.00%**	**100.00%**

(*) Presented interest represents the percentage directly and indirectly held by the Company in the capital of subsidiaries.

The process of consolidating the balance sheets and the result follows, by their nature, complemented by the elimination of the following:

- Shares of the parent company in capital, reserves and retained earnings of the consolidated companies;
- Balances of asset and liability accounts maintained between the consolidated companies;
- Balances of income and expenses from consolidated intercompany transactions; and
- Unrealized gains originating from transactions with investees recorded under the equity method in the proportion of the Company's interest in the investee. Unrealized losses in the same way as unrealized gains, but only up to the point where there is no evidence of loss due to impairment.

2.3. Functional and presentation currency

The individual and consolidated quarterly information is being presented in Brazilian Real, functional and presentation currency of the Company and its subsidiaries headquartered in Brazil. The functional currency of the subsidiary Taurus Holdings, Inc., headquartered in the US, and controlled T. Investments Co. Inc., headquartered in Panama is the US dollar and its assets and liabilities are converted into Reais, marked at the exchange rate on date of the balance sheet, their results are converted to the monthly average exchange rate. Exchange differences arising from the translation process of foreign subsidiaries are reported in other comprehensive income, and presented as shareholders' equity.

Transactions in foreign currency are translated into the functional currency of the Company at the current exchange rates on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the exchange rate at that date. All differences are reported in the income statement.

3. Significant accounting judgments and sources of uncertainties about estimates

When applying the accounting practices, Management must make judgments and prepare estimates on book values of assets, liabilities, expenses and revenues that are not easily obtained from other sources. Estimates and respective assumptions are based on historic experience and on other factors that are considered relevant. The actual results of these book values may differ from these estimates.

Information regarding critical judgments referring to the accounting policies adopted which impact the amounts recognized in the individual and consolidated quarterly information and information on uncertainties, assumptions and estimates are included in the following notes: 9 - Clients (allowance for doubtful accounts), 10 - Inventories (Provision for inventory loss), 13 - Income tax and social contribution, 14 - Assets held for sale (impairment), 16 - Property, plant and equipment (Impairment), 17 - Intangible assets (Impairment), 23 - Provision for civil, labor and tax risks and 24 - Financial instruments.

(i) Measurement of fair value

A series of Company's accounting policies and disclosures requires the measurement of fair value, for financial and non-financial assets and liabilities.

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The Company established controls related to the measurement at fair value which includes the regular evaluation of significant non-observable data and evaluation adjustments.

When measuring fair value of an asset or liability, the Company uses observable data as much as possible. Fair values are classified at different levels according to hierarchy based on information (inputs) used in valuation techniques, as follows:

Level 1: Prices quoted (not adjusted) in active markets for identical assets and liabilities to which the entity may have access on the measurement date.

Level 2: Inputs, except for quoted prices, included in Level 1 which are observable for assets or liabilities, directly (prices) or indirectly (derived from prices).

Level 3: Inputs, for assets or liabilities, which are not based on observable market data (non-observable inputs).

4. Significant accounting policies

The significant accounting practices adopted by the Company are described in the specific notes related to the presented items; those applicable, in general, for different aspects of the quarterly information, are presented in this section.

Accounting practices for transactions considered immaterial were not included in the quarterly information. The accounting policies have also been consistently applied by Company's investees.

a) <u>Financial instruments</u>

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

(ii) Non-derivative financial liabilities
The Company has the following non-derivative financial liabilities: loans, financing, non-convertible debentures, suppliers and other accounts payable. Such liabilities are initially recognized at fair value plus any transaction costs directly assignable. After initial recognition, they are measured at amortized cost using the effective interest method.

(iii) Derivative financial instruments
The Company keeps derivative instruments to hedge its exposures to foreign currency and interest rate changes.

Derivatives are initially recognized at their fair value, and the attributable transaction costs are recognized in profit or loss when incurred. After the initial recognition, derivatives are measured at fair value on each balance sheet date, and changes are recorded in fair value are recorded in income (loss).

Financial assets and liabilities are offset and the net value reported in the balance sheet only when there is a legally enforceable right to set off and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(iv) Impairment
The Company and its subsidiaries assess at the balance sheet dates, whether there is any evidence that determines that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is considered impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (known as a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets and can be reliably estimated.

Notes to the financial statements

b) Statements of added value
The statement of added value is not required by IFRS and is presented in supplementary form in compliance with Brazilian corporate law. Its purpose is to disclose the wealth generated by the Company during the year, and well demonstrating how it was distributed among the various agents.

c) New standards, interpretations and non-standard revisions
New standards or amendments and interpretations will be effective for the years started after January 1, 2019.

***(i)* CPC 06 (R2) / IFRS 16 Leases**

CPC 06 (R2) / IFRS 16 introduces a single model of accounting of leases in the balance sheet to lessees. A lessee recognizes an asset of right of use that represents its right to use the leased asset and a lease liability that represents its obligation to make the lease payments. Optional exemptions are available for short-term leases and low-value items. The lessor’s accounting remains similar to the current standard, that is, lessors continue to classify leases as financial or operating leases.

The standard is effective in years starting on or after January 1, 2019.
The Company intends to initially adopt CPC 06 (R2) / IFRS 16, adopting a modified retrospective approach. Therefore, cumulative effect of adopting CPC 06 (R2) / IFRS 16 will be recognized as an adjustment to retained earnings’ opening balance on January 1, 2019, without updating comparative information.

The Company is not obliged to make adjustments for one-lessor leases, except when it refers to an intermediary lessor in a sublease.

5. Financial risk management

The Company's risk management policies are established to identify and analyzed the risks that it faces, to define appropriate limits and controls of risks, and to monitor risks and adherence to the limits. The risk management policies and systems are reviewed frequently to reflect changes in the market conditions and in the Company's activities.

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

5.1 Credit risk

Credit risk is the possibility of a financial loss if a client or a counterpart of a financial instrument fails to fulfill its contractual obligations arising mainly from trade accounts receivable and investments of the Company. As regards financial institutions, the Company and its subsidiaries only conduct operations with low risk financial institutions, considered by the Management, as low risk institutions.

Trade accounts receivable and other credits
The Company and its subsidiaries adopt as a practice the analysis of the financial situation of their counterparties, as well as the definition of credit limits and permanent monitoring of open positions. For the Company's income, sales are not concentrated to a single client, therefore there is no credit risk of concentration.

Credit approvals are analyzed individually before the terms and the standard terms of payment and delivery of the Company are offered. This analysis includes external evaluations and, in some cases, bank references. Purchase limits are established for each client and represent the maximum outstanding amount for which credit approval is not required; these limits are regularly reviewed. Clients who fail to meet the credit limit established by the Company may only operate when there is a settlement of securities. For public bodies, the Company's management individually assesses the ability to pay and the bidding requirements for completion of the sale. The consolidated statement excludes transactions between related parties and, since these transactions are excluded, the Company has no customers that

Notes to the financial statements

individually represent more than 5% of sales.

When monitoring credit risk of clients, they are grouped according to their characteristics for credit facility, including if they are an individual or entity, retail, government agencies, geographic location, type of industry and previous financial difficulties.

Credit risk exposure

The maximum credit risk exposure as of the date of quarterly information was as follows:

	Consolidated		Parent company	
		Book value		Book value
	09/30/2018	12/31/2017	09/30/2018	12/31/2017
Fair value through profit or loss				
Cash and cash equivalents	**11,385**	6,679	**2,308**	2,543
Amortized cost				
Trade accounts receivable	**175,426**	122,611	**182,381**	69,008
Interest earnings bank deposits	**2,970**	2,785	**2,676**	2,530
Total	**189,781**	132,075	**187,365**	74,081

The maximum credit risk exposure for trade accounts receivable on the report date per geographic region was:

	Consolidated		Parent company	
		Book value		Book value
	09/30/2018	12/31/2017	09/30/2018	12/31/2017
Domestic – trade accounts receivable	**100,228**	59,734	**85,300**	32,654
United States clients – trade accounts receivable	**61,050**	59,239	**-**	-
Other	**39,839**	34,825	**109,035**	50,784
Total	**201,117**	153,798	**194,335**	83,438

The maximum exposure to credit risk at the reporting date by type of counterparty was:

	Consolidated		Parent company	
		Book value		Book value
	09/30/2018	12/31/2017	09/30/2018	12/31/2017
Clients - public agencies	**14,012**	16,377	**13,582**	15,009
Clients - distributors	**148,180**	119,776	**141,828**	50,784
End clients	**38,925**	17,645	**38,925**	17,645
Total	**201,117**	153,798	**194,335**	83,438

* Customer balances are presented without considering the provision for losses (see Note 9).

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Provision for estimated losses

Pursuant to CPC 48 / IFRS 9, the provision for expected losses considers the internal risk assessment indicator, which captures the client's behavior and the uncertainties of the macroeconomic context.

						Consolidated
			09/30/2018			12/31/2017
	Portfolio	Provision	% Coverage	Portfolio	Provision	% Coverage
Not overdue	**61,231**	**(1,524)**	**2.5%**	**98,314**	**(2,349)**	**2.4%**
Overdue (in days)						
0–30	**48,221**	**(415)**	**0.9%**	**8,628**	**(1,132)**	**13.1%**
31–60(1)	**27,546**	**(419)**	**1.5%**	**4,180**	**(275)**	**6.6%**
61–90(1)	**7,188**	**(362)**	**5.0%**	**2,052**	**(295)**	**14.4%**
91–180(1)	**8,732**	**(1,027)**	**11.8%**	**5,218**	**(2,633)**	**50.5%**
181–360(1)	**16,521**	**(2,184)**	**13.2%**	**4,636**	**(1,897)**	**40.9%**
>360	**31,678**	**(19,761)**	**62.4%**	**30,770**	**(22,607)**	**73.5%**
Total	**201,117**	(25,691)		**153,798**	(31,187)	

						Parent company
			09/30/2018			12/31/2017
	Portfolio	Provision	% Coverage	Portfolio	Provision	% Coverage
Not overdue	**59,766**	**(1,438)**	**2.4%**	**16,452**	**(1,505)**	**9.1%**
Overdue (in days)						
0–30	**47,360**	**(323)**	**0.7%**	**24,421**	**(1,038)**	**4.3%**
31–60(1)	**27,464**	**(412)**	**1.5%**	**3,689**	**(269)**	**7.3%**
61–90(1)	**6,949**	**(336)**	**4.8%**	**7,272**	**(302)**	**4.2%**
91–180(1)	**8,257**	**(935)**	**11.3%**	**10,767**	**(2,622)**	**24.4%**
181–360(1)	**15,561**	**(1,795)**	**11.5%**	**3,241**	**(1,884)**	**58.1%**
>360	**28,978**	**(6,715)**	**23.2%**	**17,594**	**(6,810)**	**38.7%**
Total	**194,335**	(11,954)		**83,436**	(14,430)	

5.2 Liquidity risk

Liquidity risk is the risk of the Company encountering difficulties in performing the obligations associated with its financial liabilities that will be settled with cash payments or with another financial asset.

The Company and its subsidiaries monitor the requirements for operating cash flow and this excludes the potential impact of extreme situations that cannot be reasonably foreseen, such as natural disasters.

We present below the contractual maturities of financial liabilities including payment of estimated interest and excluding, the impact of the negotiation agreements of currencies by the net position.

						Consolidated
						09/30/2018
	Book value	Contractual cash flow	Up to 1 year	1–2 years	2–5 years	>5 years
Non-derivative financial liabilities						
Suppliers	93,344	93,344	91,588	1,756	-	-
Loans and financing	765,019	851,276	103,251	239,841	495,760	12,425
Debentures	83,418	83,418	9,814	13,224	60,380	-
Foreign exchange advances	22,664	22,664	22,664	-	-	-
Advance from receivables	30,690	30,690	30,690	-	-	-
Derivative financial instruments						
Derivative instruments (liabilities)	18	18	18	-	-	-
	995,153	**1,081,410**	**258,025**	**254,821**	**556,140**	**12,425**

Notes to the financial statements

						Consolidated 12/31/2017
	Book value	**Contractual cash flow**	**Up to 1 year**	**1–2 years**	**2–5 years**	**>5 years**
Non-derivative financial liabilities						
Suppliers	99,954	99,954	99,954	-	-	-
Loans and financing	616,912	626,382	458,942	150,346	5,022	12,072
Debentures	75,771	75,771	75,771	-	-	-
Foreign exchange advances	24,193	24,193	24,193	-	-	-
Advance from receivables	15,422	15,422	15,422	-	-	-
Derivative financial instruments						
Derivative instruments (liabilities)	242	242	242	-	-	-
	832,494	859,907	621,765	204,039	22,031	12,072

						Parent company 09/30/2018
	Book value	**Contractual cash flow**	**Up to 1 year**	**1–2 years**	**2–5 years**	**>5 years**
Non-derivative financial liabilities						
Suppliers	153,842	153,842	152,750	1,092	-	-
Loans and financing	641,406	738,286	101,819	132,107	489,698	-
Debentures	83,418	83,418	9,814	13,224	60,380	-
Foreign exchange advances	22,664	22,664	22,664	-	-	-
Advance from receivables	30,690	30,690	30,690	-	-	-
	932,020	**1,028,900**	**317,737**	**146,423**	**550,078**	**-**

						Parent company 12/31/2017
	Book value	**Contractual cash flow**	**Up to 1 year**	**1–2 years**	**2–5 years**	**>5 years**
Non-derivative financial liabilities						
Suppliers	134,832	134,832	134,832	-	-	-
Loans and financing	500,519	561,254	134,670	342,887	83,697	-
Debentures	75,771	75,771	75,771	-	-	-
Foreign exchange advances	24,193	24,193	24,193	-	-	-
Advance from receivables	1,535	1,535	1,535	-	-	-
	736,850	815,527	318,242	396,580	100,705	-

5.3 Market risk

Market risk is the risk that alterations in market prices, such as exchange rates and interest rates, have in the Company's earnings, or in the value of its holdings of financial instruments. The objective of market risk management is to manage and control exposures to risks, within acceptable parameters, and at the same time to optimize the return.

The Company and its subsidiaries use derivative financial instruments and meets financial obligations to manage market risks. All of these transactions take place under guidance specified by Management.

(i) Currency risk (foreign exchange)

The Company and its subsidiaries are subject to currency risk in the sales, purchases and loans denominated in a currency other than the respective functional currencies of Company’s entities.

Generally, the Company seeks to protect its expected foreign exchange exposure with respect to forecast sales.

Sensitivity analysis

The probable base scenario for 2018 was defined through assumptions available in the market (source: Brazilian Central Bank Focus), and sensitivity calculation considered the change between rates of the scenario foreseen for 2018 and those prevailing in 2017.

The sensitivity analysis also considered changes from 25% to 50% on exchange-rate changes

Notes to the financial statements

considered in the probable scenario.

Currencies and ratios		**Rate 2018**	**Probable scenario**	**Possible scenario Δ 25%**	**Remote scenario Δ 50%**
US dollar	Write-off	**4.0039**	3.8900	2.9175	1.9450
US dollar	Increase	**4.0039**	3.8900	4.8625	5.8350

Awareness of the changes in the foreign currency:

					Consolidated
		Balance at 2018	**Probable scenario**	**Possible (25%)**	**Remote scenario (50%)**
Assets - Depreciation of Dollar					
Accounts receivable	Dollar-USD	**23,740**	(675)	(6,442)	(12,208)
Liabilities - Increase in Dollar					
Loans and financing	Dollar-USD	**(184,512)**	5,249	(39,567)	(84,383)
Suppliers	Dollar-USD	**(8,864)**	252	(1,901)	(4,054)
Foreign exchange advances	Dollar-USD	**(5,660)**	161	(1,214)	(2,588)
Advances from clients	Dollar-USD	**(29,462)**	838	(6,318)	(13,474)
Other	Dollar-USD	**(1,109)**	32	(238)	(507)

					Parent company
		Balance at 2018	**Probable scenario**	**Possible (25%)**	**Remote scenario (50%)**
Assets - Depreciation of Dollar					
Accounts receivable	Dollar – USD	**26,647**	(758)	(7,230)	(13,703)
Liabilities - Increase in Dollar					
Loans and financing	Dollar – USD	**(153,638)**	4,371	(32,946)	(70,263)
Suppliers	Dollar – USD	**(3,414)**	97	(732)	(1,561)
Foreign exchange advances	Dollar – USD	**(5,660)**	161	(1,214)	(2,588)
Advances from clients	Dollar – USD	**(29,296)**	833	(6,282)	(13,398)
Other	Dollar – USD	**(1,238)**	35	(265)	(566)

For the asset balances, an analysis was conducted considering a downturn in the foreign exchange rate and losses arising from a negative change in the currency, while for the liabilities balances, an analysis was conducted considering an upturn in the foreign exchange rate and the losses arising from a positive change in the currency.

(ii) Interest rate risk
The balances of instruments exposed to changes in interest rates are summarized below.

Income from short-term investments and financial expenses arising from the Company's loans and financing are impacted by changes in interest rates.

On September 30, 2018, the Management considered CDI rate at 6.39% and TJLP of 6.56% as the probable scenario in 2018. The probable rate was then adjusted at 25% and 50%, as parameter for possible and remote scenarios, respectively. The scenarios below were estimated for the period of 1 year:

Notes to the financial statements

Currency	2018	Probable scenario	Possible scenario ∆25%	Remote scenario ∆50%
CDI - write-off	**6.39%**	**6.40%**	**4.80%**	**3.20%**
Rise in the CDI rate	**6.39%**	**6.40%**	**8.00%**	**9.60%**
TJLP	**6.56%**	**7.00%**	**8.75%**	**10.50%**
SELIC	**6.40%**	**6.50%**	**8.13%**	**9.75%**
LIBOR Overnight	**2.17%**	**2.17%**	**2.71%**	**3.26%**
LIBOR 30 days	**2.26%**	**2.26%**	**2.83%**	**3.39%**
LIBOR 3 months	**2.39%**	**2.39%**	**2.98%**	**3.58%**

					Consolidated Gain (loss)
	Index	Balance 09/30/2018	Probable scenario	Possible scenario	Remote scenario
Liabilities					
Interest earnings bank deposits	CDI - write-off	**4,981**	**-**	**(79)**	**(159)**
Loan	CDI - write-off	**-**	**-**	**-**	**-**
Loans	CDI incr.	**(164,227)**	**(16)**	**(2,644)**	**(5,272)**
Loans	TJLP	**(4,721)**	**(21)**	**(103)**	**(186)**
LIBOR Overnight	LIBOR Overnight	**(102,119)**	**-**	**(554)**	**(1,109)**
LIBOR - 30 days	LIBOR - 30 days	**(555,876)**	**-**	**(3,168)**	**(6,283)**
LIBOR 3 months	LIBOR 3 months	**-**	**-**	**-**	**-**
Taxes in installments	SELIC	**(6,940)**	**(7)**	**(120)**	**(232)**

					Parent company Gain (loss)
	Index	Balance 09/30/2018	Probable scenario	Possible scenario	Remote scenario
Liabilities					
Interest earnings bank deposits	CDI - write-off	**4,581**	**-**	**(73)**	**(146)**
Loan	CDI - write-off	**(25,708)**	**(3)**	**409**	**820**
Loans	CDI incr.	**(164,227)**	**(16)**	**(2,644)**	**(5,272)**
Loans	TJLP	**(4,721)**	**(21)**	**(103)**	**(186)**
LIBOR Overnight	LIBOR Overnight	**-**	**-**	**-**	**-**
LIBOR - 30 days	LIBOR - 30 days	**(555,876)**	**-**	**(3,168)**	**(6,283)**
LIBOR 3 months	LIBOR 3 months	**-**	**-**	**-**	**-**
Taxes in installments	SELIC	**(4,507)**	**(5)**	**(78)**	**(151)**

5.4 Capital management

The management's policy is to maintain a solid base of capital for the future development of the business, adding value for shareholders, creditors and the market in general, by monitoring the returns on capital. However, the results of recent years have meant some deterioration in this policy, as shown below.

		Consolidated
	09/30/2018	12/31/2017
Total liabilities	**1,434,488**	1,214,191
Less: Cash and cash equivalents and interest earning bank deposits	**(14,355)**	(9,464)
Net debt	**1,420,133**	1,204,727
Total shareholders' equity	**(521,612)**	(445,233)
Net debt to shareholders' equity ratio as of September 30, 2018 and December 31, 2017 (A/B)	**(2.72)**	(2.71)

6. Operating segments

The Company has four reportable segments represented by strategic business units, managed separately since they differ by products and services, technologies and marketing strategies. The Company's reportable segment operations can be detailed as follows:

Firearms – the firearm production process, since is treated, primarily, as metalworking, and uses the following basic phases: machining (from machined and forged molds by means of machining centers, milling, drill pressing and broaching, lathing, broaching since all the forging process and some machining operations are outsourced), Metal Injection Molding (MIM) (metal injection molded parts), finishing (polishing), heat treatment, surface treatment, final assembly, functional test, engraving and packaging; these operations are carried out by Forjas Taurus S.A., and Taurus Holdings, Inc. and its subsidiaries.

Helmets – the helmet production process uses the following steps injection (from the Acrylonitrile Butadiene Styrene (ABS)), painting and finishing (from parts already injected through the manual and automated painting process), sewing (from fabrics, foam plates and polycarbonates, using cutting machines and sewing) and final assembly; these operations are performed by Taurus Blindagens Ltda. and Taurus Blindagens Nordeste Ltda.

Other - result of the MIM (Metal Injection Molding) segment - metal injection molded parts, (Polimetal Metalurgia e Plásticos Ltda.); hard trunks (Taurus Blindagens Ltda). It also includes expenditures with technical assistance and financial expenses with discontinued machinery operation in June 2012 and other operations as the manufacturing and sale of glasses and rendering of services. As these segments have been aggregated, they do not meet the quantitative thresholds for separate disclosure as a reportable segment.

Performance of each segment is quarterly evaluated based on the segment’s earnings (losses) before income tax and social contribution, as included in internal reports, as Management believes that this information is more relevant for the evaluation of results from some segments related to other entities that operate in these industries.

Notes to the financial statements

The reconciliation of revenues, profits and losses, assets, liabilities and other material items in reportable segments are disclosed below:

	Firearms		Other		Total		Helmets (a)		Total	
	09/30/2018	09/30/2017	09/30/2018	09/30/2017	09/30/2018	09/30/2017	09/30/2018	09/30/2017	09/30/2018	09/30/2017
External income	613,610	522,710	9,925	14,875	623,535	537,585	63,209	67,470	686,744	605,055
Inter-segment income	441,020	493,668	2,417	3,436	443,437	497,104	5,347	9,302	448,784	506,406
Cost of sales	(386,329)	(410,350)	(1,094)	(8,686)	(387,423)	(419,036)	(41,258)	(46,944)	(428,681)	(465,980)
Gross income (loss)	668,301	606,028	11,248	9,625	679,549	615,653	27,298	29,828	706,847	645,481
Sales expenses	(69,841)	(68,580)	(757)	(1,041)	(70,598)	(69,621)	(11,468)	(12,834)	(82,066)	(82,455)
General and administrative expense	(86,112)	(97,511)	(3,948)	(3,467)	(90,060)	(100,978)	(6,294)	(6,508)	(96,354)	(107,486)
Depreciation and amortization	(7,226)	(797)	(1,105)	(15)	(8,331)	(812)	(463)	(420)	(8,794)	(1,232)
Other operating income (expenses), net	2,997	1,255	3,108	1,576	6,105	2,831	(202)	(600)	5,903	2,231
Equity in net income of subsidiaries	-	-	-	(744)	-	(744)	-	744	-	-
	(160,182)	(165,633)	(2,702)	(3,691)	(162,884)	(169,324)	(18,427)	(19,618)	(181,311)	(188,942)
Operating income (loss)	508,119	440,395	8,546	5,934	516,665	446,329	8,871	10,210	525,536	456,539
Financial income	38,498	44,882	99	(1,624)	38,597	43,258	481	6,195	39,078	49,453
Financial expenses	(216,593)	(111,181)	(5,926)	795	(222,519)	(110,386)	(4,144)	(4,049)	(226,663)	(114,435)
Net financial income (loss)	(178,095)	(66,299)	(5,827)	(829)	(183,922)	(67,128)	(3,663)	2,146	(187,585)	(64,982)
Income (loss) per segment subject to be disclosed before income tax and social contribution	330,024	374,096	2,719	5,105	332,743	379,201	5,208	12,356	337,951	391,557
Elimination of inter-segment income	(441,020)	(493,668)	(2,417)	(3,436)	(443,437)	(497,104)	(5,347)	(9,302)	(448,784)	(506,406)
Income (loss) before income tax and social contribution	(110,996)	(119,572)	302	1,669	(110,694)	(117,903)	(139)	3,054	(110,833)	(114,849)
Income tax and social contribution	61,844	56,736	628	7,403	62,472	64,139	3,748	319	66,220	64,458
Net income for the year	(49,152)	(62,836)	930	9,072	(48,222)	(53,764)	3,609	3,373	(44,613)	(50,391)
Assets of reportable segments	815,002	747,665	90,735	102,247	905,737	849,912	74,642	90,037	980,379	939,949
Liabilities of reportable segments	1,380,377	1,088,746	21,397	21,448	1,401,774	1,110,194	34,661	48,447	1,436,435	1,158,641

(a) Helmets Operation reclassified to Discontinued Operation according to note 26

Notes to the financial statements

Geographical information

The net revenue information below is based on the geographical location of the client.

	Firearms		Helmets	
	09/30/2018	09/30/2017	09/30/2018	09/30/2017
Domestic market				
Southeastern region	**57,985**	40,338	**18,626**	20,270
South region	**18,320**	7,790	**5,015**	3,854
Northeastern region	**10,110**	5,352	**17,717**	23,146
Mid-west region	**6,708**	3,576	**10,577**	10,069
North region	**8,043**	1,446	**11,093**	9,620
	101,166	58,502	**63,028**	66,959
Foreign market				
United States	**458,272**	436,940	**181**	511
Bangladesh	**9,245**	6,489	-	-
Argentina	**988**	3,248	-	-
France	**1,744**	2,728	-	-
Chile	**864**	2,320	-	-
Burkina	**-**	1,736	-	-
Honduras	**2,051**	1,638	-	-
Germany	**2,470**	1,569	-	-
South Africa	**2,308**	1,454	-	-
Peru	**655**	1,302	-	-
Zambia	**266**	929	-	-
Italy	**462**	779	-	-
Philippines	**2,157**	714	-	-
Senegal	**229**	310	-	-
Haiti	**134**	309	-	-
Guatemala	**328**	263	-	-
Thailand	**385**	196	-	-
Israel	**408**	151	-	-
New Zealand	**-**	149	-	-
El Salvador	**146**	146	-	-
Kenya	**72**	125	-	-
Bosnia	**329**	124	-	-
Costa Rica	**56**	94	-	-
Oman	**26,691**	-	-	-
United Kingdom	**76**	118	-	-
Singapore	**336**	-	-	-
Malaysia	**201**	20	-	-
Morocco	**1,309**	-	-	-
Namibia	**194**	-	-	-
Other countries	**68**	357	-	-
	512,444	464,208	**181**	511
	613,610	522,710	**63,209**	67,470

The other segments of the Group have concentrated their sales in the domestic market and have widely distributed products throughout all regions of Brazil. The Company's sales and its subsidiaries do not have any restrictions and do not suffer concentration risk, characterized by a dependence on government agencies or any other client.

7. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and interbank funds applied, that is, redeemable within up to three months of contracting dates, without penalties for the Company and with low risk of change in their market value.

	Consolidated		Parent company	
	09/30/2018	12/31/2017	09/30/2018	12/31/2017
Cash balance	**34**	37	**19**	19
Demand deposits	**9,340**	6,257	**384**	2,180
Interest earnings bank deposits	**2,011**	385	**1,905**	344
Cash and cash equivalents	**11,385**	6,679	**2,308**	2,543

Notes to the financial statements

The investments classified as cash and cash equivalents are remunerated at variable average rates from 86% to 100% of the CDI at June 30, 2018 (86% to 100.00% of CDI at December 31, 2017) with counterparty financial institutions considered by management as the first line.

8. Financial investments and linked accounts

	Consolidated		Parent company	
	09/30/2018	**12/31/2017**	**09/30/2018**	**12/31/2017**
Money market investments in CDB	**2,970**	2,785	**2,676**	2,530
Total	**2,970**	2,785	**2,676**	2,530
Current	**1,995**	1,777	**1,995**	1,777
Non-current	**975**	1,008	**681**	753

Financial investments are paid by the average variable rate of 97.73% of CDI at September 30, 2018 (from 86% to 100% of CDI as of December 31, 2017), being held as guarantees for short-term financing, and their redemption scheduled takes place in conjunction with amortization, presented in current and non-current assets based on their redemption provisions.

9. Clients

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

The allowance for doubtful accounts was calculated at an amount considered adequate by the management to cover any losses arising on collection of accounts receivable.

	Consolidated		Parent company	
	09/30/2018	**12/31/2017**	**09/30/2018**	**12/31/2017**
Domestic clients	**100,228**	65,021	**85,300**	32,654
Foreign clients	**100,889**	88,777	**109,035**	50,784
	201,117	153,798	**194,335**	83,438
Allowance for doubtful accounts - domestic	**(19,858)**	(22,596)	**(9,610)**	(8,981)
Allowance for doubtful accounts - abroad	**(5,833)**	(8,591)	**(2,344)**	(5,449)
	(25,691)	(31,187)	**(11,954)**	(14,430)
	175,426	122,611	**182,381**	69,008

Notes to the financial statements

The Company's exposure to credit and currency and impairment losses risk related to trade accounts receivables and other accounts, including the breakdown of accounts receivable by maturity are disclosed in note 5. Changes in the allowance for doubtful accounts are as follow:

	Consolidated	Parent company
Balance at December 31, 2017	**(31,187)**	**(14,430)**
Initial adoption - CPC 48 / IFRS 9	**(1,635)**	**(1,635)**
Additions	**(6,559)**	**(5,129)**
Reversal of allowance for doubtful accounts	**10,370**	**8,867**
Realization of allowance for doubtful accounts	**-**	**-**
Exchange-rate change	**(317)**	**373**
Income (loss) from discontinued operation	**3,637**	**-**
Balance at September 30, 2018	**(25,691)**	**(11,954)**

10. Inventories

Inventories are shown at the lower of cost and net realizable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs (based on normal operating capacity), as well as other costs incurred in bringing them to their existing location and condition.

The provision for inventory losses is recorded for products with low turnover and items that are sold below the formation cost.

	Consolidated		Parent company	
	09/30/2018	12/31/2017	09/30/2018	12/31/2017
Finished goods	**180,301**	127,427	**33,035**	32,399
Raw material	**131,242**	134,346	**113,542**	110,525
Provision for loss	**(43,628)**	(49,888)	**(41,684)**	(47,769)
	267,915	211,885	**104,893**	95,155

	Consolidated	Parent company
Balance at December 31, 2017	**(49,888)**	**(47,769)**
Reversal of provision for loss	**6,260**	**6,085**
Balance at June 30, 2018	**(43,628)**	**(41,684)**

Notes to the financial statements

11. Recoverable taxes

	Consolidated		Parent company	
	09/30/2018	**12/31/2017**	**09/30/2018**	**12/31/2017**
ICMS	**12,701**	14,837	**3,893**	5,591
IPI	**4,526**	4,099	**4,307**	3,153
PIS	**1,259**	3,482	**1,194**	3,387
COFINS	**6,549**	12,511	**6,406**	12,010
Income tax and social contribution	**12,512**	10,002	**2,928**	1,747
INSS	**-**	20	**-**	-
Other	**23**	-	**21**	-
Total	**37,570**	44,951	**18,749**	25,888
Current	**37,289**	1,777	**18,610**	1,777
Non-current	**281**	1,008	**139**	753

12. Other accounts receivable

	Consolidated		Parent company	
	09/30/2018	**12/31/2017**	**09/30/2018**	**12/31/2017**
Advances to suppliers	**4,105**	3,384	**2,839**	1,946
Advances to employees	**2,556**	1,788	**1,214**	796
Judicial deposits (Note 23)	**8,971**	16,489	**4,684**	9,419
Receivables from insurance	**-**	82	**-**	**-**
Related party loans	**-**	-	**21,450**	19,367
Other receivables	**2,264**	731	**1,074**	644
Total	**17,896**	22,474	**31,261**	32,172
Current	**8,912**	5,985	**26,577**	22,753
Non-current	**8,984**	16,489	**4,684**	9,419

13. Income tax and social contribution

The income tax and social contribution of the year, both current and deferred, are calculated based on the nominal rate of 15% plus a surcharge of 10% on taxable income in excess of R$ 240 for income tax and 9% on taxable income for social contribution on net income, and consider the offsetting of tax loss carryforward and negative basis of social contribution, limited to 30% of the taxable income. For companies that calculate income tax and social contribution based on estimated profits, the same rates as above are used but on percentage of revenue of 32%. The rate of income tax is 21% for the US subsidiary.

Notes to the financial statements

a) Breakdown of effects in deferred assets and liabilities	Consolidated		Parent company	
	09/30/2018	12/31/2017	09/30/2018	12/31/2017
On tax loss and negative basis of social contribution on net income				
Tax loss	47,295	-	5,818	-
Negative basis of CSLL	21,910	-	2,128	-
Other items	-	-3,897	-	-
On temporary credit assets				
Foreign exchange costs – Period	-	-	39,348	-
Total assets	**69,205**	3,897	**47,295**	-
On temporary liability differences				
Foreign-exchange income - Period	(76)	-	-	-
Fair value of investment property	(10,263)	-	-	-
Equity valuation adjustment	(901)	(13,080)	(539)	(2,356)
Difference for depreciation base	(9,372)	(5,405)	-	-
Unshipped notes	(1,954)	-	(1,897)	-
Allocation of goodwill - Goodwill and intangible assets	(6,925)	(9,019)	-	-
Other	(229)	(3,865)	-	(3,723)
Total liabilities	**(29,720)**	**(31,369)**	**(2,435)**	**(6,079)**
Total assets and liabilities, net	**39,485**	(27,472)	**44,859**	(6,079)
Classified in non-current assets	66,077	3,465	44,859	-
Classified in the non-current liabilities	(26,592)	(30,937)	-	(6,079)

Current and deferred taxes are recognized in income (loss) unless they are related to the business combination, or items directly recognized in Shareholders' equity or in Other comprehensive income.

Deferred taxes are recognized in relation to the temporary differences between the book values of assets and liabilities for accounting purposes and the related amounts used for taxation purposes. A deferred income tax and social contribution asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which the unused tax losses and credits can be utilized.

Deferred tax assets and liabilities are offset when there is a legal enforceable right to set off current tax assets and liabilities, and the latter relate to income taxes levied by the same tax authority on the same taxable entity.

Deferred income tax and social contribution assets are reviewed at each reporting date and reduced when their realization is no longer probable.

Changes in deferred taxes	Consolidated	Parent company
Opening balance of deferred taxes, net	(27,472)	(6,079)
Allocated in income (loss)	71,860	47,215
Allocated to shareholders’ equity	(901)	3,723
Offsetting of the Tax Regularization Program	(537)	-
Transfer to held for sale	(3,465)	-
Closing balance of deferred taxes, net	**39,485**	44,859

The amount of tax losses and negative basis of social contribution on which deferred taxes are not recorded totaled R$ 349,285 (R$ 584,965 as of December 31, 2017) in the consolidated, and

Notes to the financial statements

deferred tax on tax loss and negative basis of social contribution (R$ 200,950 as of December 31, 2017) in the parent company.

The main balances of tax losses and negative bases are recorded in the subsidiary Polimetal Metalurgia e Plásticos.

Reconciliation of effective rate for income tax and social contribution (continued operations)

	Consolidated		Parent company	
	09/30/2018	09/30/2017	09/30/2018	09/30/2017
Accounting loss before income tax and social contribution	**(110,694)**	(114,849)	**(87,209)**	(83,273)
Combined statutory rate:	34.00%	34.00%	34.00%	34.00%
Income tax and social contribution at the combined statutory rates	**37,636**	39,049	**29,651**	28,313
Permanent additions				
Non-deductible expenses	(348)	(678)	(348)	(326)
Equity in net income of subsidiaries	-	-	2,743	(6,279)
Permanent exclusions				
Reintegra	1,808	2,353	1,808	2,353
Tax incentives of subsidiaries	-	1,332	-	-
Effects of differentiated rate of deemed income subsidiary	(2,455)	204	-	-
Offset of tax loss and negative basis in PRT (Tax Regularization Program)		49,116	-	32,882
Deferred formed on prior-year tax loss	69,205		7,947	-
Deferred taxes not formed on tax loss and negative basis of CSLL	-	(8,672)	-	(12,887)
Deferred charges not recorded on unrealized exchange-rate change	(40,248)	-	900	-
Deferred taxes not recorded on provision of labor lawsuits	(659)	(18,246)	(659)	(11,174)
Deferred not formed on provision for losses	(1,908)		528	-
Deferred taxes not recorded on other items	(558)	-	26	-
Income tax and social contribution in income (loss) for the year	**62,472**	64,458	**42,595**	32,882
Current	(6,921)	12,784	(4,621)	-
Deferred assets	69,393	51,674	47,216	32,882
	62,472	64,458	**42,595**	32,882
Effective rate	**-56.44%**	-56.12%	**-48.84%**	-39.49%

Notes to the financial statements

The Company recorded its deferred tax assets only in the amount considered realizable by means of future taxable income. If the expectation of future taxable income was greater, the amount to be recorded related to deferred taxes would also be higher.

Breakdown of the total calculation bases and the respective deferred tax assets that could be recorded:

								Consolidated
				09/30/2018				12/31/2017
	Base	25%	9%	Total	Base	25%	9%	Total
Exchange-rate change	118,152	29,538	10,634	40,172	18,702	4,676	1,683	6,359
Equity valuation adjustment	(2,651)	(663)	(239)	(901)	-	-	-	-
Differences in Depreciation Rate - Liabilities	(27,563)	(6,891)	(2,481)	(9,372)	-	-	-	-
Fair value of investment property	(30,186)	(7,547)	(2,717)	(10,263)	(34,255)	(8,564)	(3,083)	(11,647)
Unshipped notes	(5,746)	(1,436)	(517)	(1,954)	-	-	-	-
Goodwill and intangible assets	(20,368)	(5,092)	(1,833)	(6,925)	(16,514)	(4,129)	(1,486)	(5,615)
Other	(20)	(5)	(2)	(7)	(182)	(46)	(16)	(62)
Undelivered Billing - MI	6,594	1,649	593	2,242	3,091	773	278	1,051
Allowance for doubtful accounts	23,854	5,964	2,147	8,111	31,187	7,797	2,807	10,604
Allowance for inventory losses	47,518	11,880	4,277	16,156	49,888	12,472	4,490	16,962
Provision for loss - Interest earning bank deposit	2,989	747	269	1,016	-	-	-	-
Provision for tax expenses	7,384	1,846	665	2,511	6,351	1,588	572	2,159
Profit sharing	4,106	1,026	370	1,396	2,155	539	194	733
Commission of agents	4,692	1,173	422	1,595	4,045	1,011	364	1,375
Provision for Fees from Tax Expenses	231	58	21	79	-	-	-	-
Provision for audit and consulting expenses	-	-	-	-	-	-	-	-
Provision for Life Pensions	152	38	14	52	-	-	-	-
Provision for contingencies	92,677	23,169	8,341	31,510	102,531	25,633	9,228	34,861
Provision for guarantee	11,456	2,864	1,031	3,895	16,720	4,180	1,505	5,685
Provision for Offset of INSS Credit	389	97	35	132	-	-	-	-
Differences in Depreciation Rate	1,728	432	156	588	6,163	1,541	555	2,095
Other	396	99	36	135	-	-	-	-
On tax loss and negative basis of social contribution on net income								
Tax loss and negative basis of social contribution on net income	781,910	100,808	34,081	134,889	584,965	146,241	52,647	198,888
	1,017,696	**159,754**	**55,302**	**215,056**	**774,847**	**193,712**	**69,736**	**263,448**

Notes to the financial statements

								Parent company
				09/30/2018				12/31/2017
	Base	**25%**	**9%**	**Total**	**Base**	**25%**	**9%**	**Total**
Equity valuation adjustment	(1,584)	(396)	(143)	(539)	(1,244)	(311)	(112)	(423)
Unshipped notes	892	223	80	303	2,538	635	228	863
Allowance for doubtful accounts	11,611	2,903	1,045	3,948	14,430	3,608	1,299	4,906
Allowance for inventory losses	43,064	10,766	3,876	14,642	47,769	11,942	4,299	16,241
Provision for loss - Interest earning bank deposit	2,989	747	269	1,016	-	-	-	-
Provision for tax expenses	5,664	1,416	510	1,926	4,176	1,044	376	1,420
Profit sharing	2,591	648	233	881	690	173	62	235
Commissions of agents	4,646	1,162	418	1,580	2,842	711	256	966
Provision for Fees from Tax Expenses	231	58	21	79	-	-	-	-
Provision for contingencies	71,404	17,851	6,426	24,277	72,162	18,041	6,495	24,535
Provision for guarantee	7,359	1,840	662	2,502	6,764	1,691	609	2,300
Provision for Offset of INSS Credit	389	97	35	132	-	-	-	-
Provision for Life Pensions	1,768	442	159	601	-	-	-	-
Differences in Depreciation Rate	2,011	503	181	684	1,635	409	147	556
Foreign exchange costs - Period	118,377	29,594	10,654	40,248	18,463	4,616	1,662	6,277
On tax loss and negative basis of social contribution on net income								
Tax loss and negative basis of social contribution on net income	46,921	5,818	2,128	7,947	200,950	50,238	18,086	68,323
	318,333	**73,672**	**26,554**	**100,227**	**371,175**	**92,794**	**33,406**	**126,200**

The portion of the amounts not constituted is represented by the assets, since there is no grounded expectation of generation of taxable profits.

Notes to the financial statements

14. Assets held for sale

Non-current assets or groups (containing assets and liabilities) held for sale are classified as “held for sale” if it is highly probable that they will be primarily recovered through sales instead of the continuous use.

Assets or group of assets held for sale are generally stated at the lowest value between their book and the fair value less selling expenses.

Any impairment loss on assets over a group of assets held for sale is initially allocated to goodwill, and then to remaining assets and liabilities on a prorated basis. No loss should be allocated to inventories, financial assets, deferred tax assets, employee benefit assets and investment property and biological assets, which continue to be measured under the other accounting policies of the Group. Impairment losses determined in the initial classification as held for sale or distribution, and gains and losses from subsequent remeasurements, are recognized in profit or loss.

Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortized or depreciated, and any investment measured under the equity method is no longer subject to the application of the method.

Reconciliation of book value

	Consolidated	**Consolidated**
In thousands of reais	**09/30/2018**	12/31/2017
Buildings, land and improvements	**51,390**	51,390
Helmets’ operation - Assets held for sale	**74,642**	-
Total assets held for sale	**126,032**	51,390
Helmets’ operation - Liabilities held for sale	**34,662**	-
Total liabilities held for sale	**34,662**	**-**

Buildings, land and improvements.

In 2016, Forjas Taurus S.A. transferred the operation from the Industrial Plant located in the city of Porto Alegre/RS to the Industrial Plant located in the city of São Leopoldo/RS. In view of the foregoing and considering the terms of CPC 28 - Investment Property, the Company, at the level of the quarterly information, reclassified the items formerly classified as Property, plant and equipment to Investment Property.

In 2017, through approval of the Board of Directors, the sale and the availability for intermediation by market specialists were approved. Accordingly, these properties were reclassified to “Assets held for sale”.

The fair value for the purpose of evaluating impairment loss was determined by independent external real estate appraisers, with appropriate and recognized professional qualification, and recent experience in the property location and category that is being appraised.

Location: Avenida do Forte, nº 511 - Porto Alegre (RS)
Industrial complex, not occupied, with 18,600.00 m^2 of built area in urban land of 29,900 m^2 of area.

Notes to the financial statements

Assets held for sale - Helmets' operation

On March 27, 2018, the Board of Directors unanimously authorized the offer of the Helmets business – represented by Taurus Blindagens Ltda and Taurus Blindagens Nordeste Ltda. – to the market.

The preparation of a schedule and sales efforts was the responsibility of a specialized firm, according to the proposal already accepted by the Company.

On September 30, 2018, the group of assets and liabilities held for sale was presented as the chart below and comprised the following assets and liabilities:

Property, plant and equipment / intangible	22,598
Inventories	20,460
Trade accounts receivable and other receivables	31,584
Assets held for sale	**74,642**
Suppliers and other accounts payable	34,662
Liabilities held for sale	**34,662**

The company did not identify any loss amounts to be recognized.

Notes to the financial statements

15. Investments (parent company)

	Taurus Blindagens Ltda.	Taurus Blindagens Nordeste Ltda.	Taurus Plásticos Ltda.	Taurus Holdings, Inc.	T. Investments Co. Inc.	Taurus Investimentos Imobiliários Ltda.	Polimetal Metalurgia e Plásticos Ltda.	Taurus Máquinas-Ferramenta Ltda. (1)	Parent company 09/30/2018	Parent company 12/31/2017
Current assets	41,189	12,365	1,468	306,452	5	62,845	265,499	711		
Non-current assets	100,897	58,212	3,599	126,729	-	45,035	126,175	815		
Current liabilities	24,101	17,870	1,177	130,014	-	1,647	111,124	5,000		
Non-current liabilities	5,486	568	27	144,228	-	16,298	49,100	21,347		
Capital	73,855	9,400	6,355	1,220	44,043	53,292	304,780	293,639		
Shareholders' equity	112,499	52,139	3,863	158,939	5	89,935	231,450	(24,821)		
Net revenue	45,382	23,174	842	458,273	-	2,215	135,856	-		
Net income (loss) for the year	6,769	1,627	170	(16,263)	(39,597)	7,724	49,573	30,289		
Number of shares/quotas	14	9,400	636	302,505	11,000,000	43,623,159	304,779,837	185,007,117		
Direct ownership interest (%)	0.00%	0.10%	0.01%	100.00%	100.00%	81.86%	100.00%	63.00%		
Opening balances	1	50	-	131,345	33,976	70,910	181,150	-	**417,433**	**521,562**
Spin-off	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Paid-up capital (3)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Equity income (loss) (2)	**-**	**2**	**-**	**(25,239)**	**(39,597)**	**6,323**	**47,498**	**19,083**	**8,070**	**(104,490)**
Exchange rate change over investments	**-**	**-**	**-**	**29,799**	**5,627**	**-**	**-**	**-**	**35,426**	**2,349**
Equity valuation adjustment	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Reclassified for provision for unsecured liability (1)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(19,083)**	**(19,083)**	**(1,988)**
Closing balances (2)	**1**	**52**	**-**	**135,905**	**6**	**77,233**	**228,648**	**-**	**441,846**	**417,433**

(1) The amount regarding the interest in unsecured liability of the subsidiary Taurus Máquinas-Ferramenta Ltda., is presented in “Provision for unsecured liability” caption in non-current liabilities.

(2) In order to determine the investment amounts, the value of shareholders' equity and of income (loss) of each investee is adjusted for unrealized profits in intercompany transactions.

Notes to the financial statements

Foreign operation

Taurus Holdings, Inc., a subsidiary located in the United States, is the parent company of Taurus International Manufacturing Inc., of Braztech International L.L.C., and of other subsidiaries also located in the US territory, mainly carrying out the resale of firearms imported from Forjas Taurus S.A., aimed at wholesalers in that market. The main accounting balances of the subsidiary are shown below:

	Taurus Holdings, Inc.	
	Consolidated	
	09/30/2018	**12/31/2017**
Assets	**433,181**	339,379
Liabilities	**274,242**	170,357
Net revenue	**458,273**	541,270
Loss for the year	**(16,263)**	(46,262)

16. Property, plant and equipment

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

The Company chose to revalue the fixed asset items for their deemed cost on the year opening date of the year 2009. The effects of the deemed cost, net of tax effects, increased property, plant and equipment with a contra entry in shareholders' equity.

The cost includes expenditures that are directly attributable to the acquisition of assets. The cost of assets built by the Company includes materials and labor, as well as any other costs attributable to bringing the assets to the location and condition requires for them to operate in the manner intended by management, costs for dismantling and restoration of the site where they are located, and loan costs on qualifiable assets for which their start capitalization date is January 1, 2009 or later.

Gains and losses on disposal of a property, plant and equipment item are determined by comparing the proceeds from disposal with the book value of Property, plant and equipment and are recognized net within "Other income" in the income (loss).

Depreciation is recognized in the income statement using the straight-line method over the estimated useful life of each part of an item of property, plant and equipment. The useful estimated lives for the current and comparative periods are as approximately as follow:

Group	Useful life (years)
Buildings	27
Machinery and equipment	15–20
Dies and tools	5
Furniture	15
Other components	5–6

The depreciation methods, useful lives and residual values are reviewed at each year end and potential adjustments are recognized as a change in accounting estimate.

Notes to the financial statements

Consolidated

Cost or deemed cost	**Land**	**Buildings**	**Machinery and facilities**	**Furniture and computers**	**Vehicles**	**Other**	**Property, plant and equipment in progress**	**Advances to suppliers**	**Total**
Balance at December 31, 2016	18,217	127,557	241,954	23,243	1,020	40	18,222	296	430,549
Additions	-	1,662	13,053	924	-	-	4,730	113	20,482
Disposals	(2,386)	(1)	(4,955)	(555)	(113)	(40)	(153)	-	(8,203)
Transfers	(370)	11,409	6,931	916	18	-	(18,904)	-	-
Effect of exchange rate changes	137	658	724	125	3	-	-	-	1,647
Balance at December 31, 2017	**15,598**	**141,285**	**257,707**	**24,653**	**928**	**-**	**3,895**	**409**	**444,475**
Additions	1,339	-	2,683	356	-	-	4,647	53	9,078
Disposals	(1,336)	(3,734)	(8,165)	(56)	(92)	-	-	(259)	(13,642)
Transfers	-	55	1,551	270	-	-	(1,876)	-	-
Effect of exchange rate changes	1,444	9,377	11,481	1,716	41	-	-	-	24,059
Effect of Discontinued Operations:	-								
Net changes in the year	-	46	(1,055)	26	(26)	-	547	20	(442)
Transfer to held for sale	(76)	(12,357)	(29,715)	(2,294)	(560)	-	(1,104)	(170)	(46,276)
Balance at September 30, 2018	**16,969**	**134,672**	**234,487**	**24,671**	**291**	**-**	**6,109**	**53**	**417,252**
Depreciation									
Balance at December 31, 2016	(194)	(26,912)	(149,549)	(14,399)	(845)	-	-	-	(191,899)
						-	-	-	
Depreciation for the year	-	(7,469)	(24,992)	(2,158)	(57)	-	-	-	(34,676)
Disposals	194	-	4,663	555	106	-	-	-	5,518
Transfers	-	-	-	-	-	-	-	-	-
Effect of exchange rate changes	-	(179)	(446)	(104)	(3)	-	-	-	(732)
Balance at December 31, 2017	**-**	**(34,560)**	**(170,324)**	**(16,106)**	**(799)**	**-**	**-**	**-**	**(221,789)**
Depreciation for the year	-	(5,110)	(16,560)	(1,304)	(2)	-	-	-	(22,976)
Disposals	-	824	6,800	51	55	-	-	-	7,730
Transfers	-	-	-	-	-	-	-	-	-
Effect of exchange rate changes	-	(2,774)	(6,764)	(1,519)	(41)	-	-	-	(11,098)
Effect of Discontinued Operations:									
Net changes in the year	-	(410)	(1,247)	(73)	35	-	-	-	(1,695)
Transfer to held for sale	-	3,584	20,388	1,722	461	-	-	-	26,155
Balance at September 30, 2018	**-**	**(38,446)**	**(167,707)**	**(17,229)**	**(291)**	**-**	**-**	**-**	**(223,673)**
Book value on December 31, 2017	15,598	106,725	87,383	8,547	129	-	3,895	409	222,686
Book value on September 30, 2018	**16,969**	**96,226**	**66,780**	**7,442**	**-**	**-**	**6,109**	**53**	**193,579**

Notes to the financial statements

Parent company

Cost or deemed cost	**Land**	**Buildings**	**Machinery and facilities**	**Furniture and computers**	**Vehicles**	**Other**	**Property, plant and equipment in progress**	**Advances to suppliers**	**Total**
Balance at December 31, 2016	-	10,110	60,514	5,978	134	-	8,728	-	85,464
Additions	-	606	1,520	551	-	-	2,753	2	5,432
Disposals	-	-	(643)	-	(9)	-	(83)	-	(735)
Transfers	-	6,363	1,419	549	-	-	(8,331)	-	-
Balance at December 31, 2017	**-**	**17,079**	**62,810**	**7,078**	**125**	**-**	**3,067**	**2**	**90,161**
Additions	-	-	184	-	-	-	2,325	-	2,509
Disposals	-	-	(192)	(25)	(92)	-	-	(2)	(311)
Transfers	-	62	1,369	263	-	-	(1,694)	-	-
Balance at September 30, 2018	**-**	**17,141**	**64,171**	**7,316**	**33**	**-**	**3,698**	**-**	**92,359**
Depreciation									
Balance at December 31, 2016	-	(1,796)	(41,421)	(3,779)	(70)	-	-	-	(47,066)
Depreciation for the year	-	(1,517)	(5,266)	(642)	(18)	-	-	-	(7,443)
Disposals	-	-	518	-	2	-	-	-	520
Balance at December 31, 2017	**-**	**(3,313)**	**(46,169)**	**(4,421)**	**(86)**	**-**	**-**	**-**	**(53,989)**
Depreciation for the year	-	(1,120)	(3,494)	(497)	(2)	-	-	-	(5,113)
Disposals	-	-	155	21	55	-	-	-	231
Balance at September 30, 2018	**-**	**(4,433)**	**(49,508)**	**(4,897)**	**(33)**	**-**	**-**	**-**	**(58,871)**
Book value on December 31, 2017	-	13,766	16,641	2,657	39	-	3,067	2	36,172
Book value on September 30, 2018	**-**	**12,708**	**14,663**	**2,419**	**-**	**-**	**3,698**	**-**	**33,488**

Notes to the financial statements

Property, plant and equipment in progress
The balance of constructions is related to machinery and equipment still in the implementation phase and constructions in progress. These assets should come into operation during 2018.

Guarantee
The Company uses its assets as guarantees for the funds obtained from financial institutions. Although most fixed assets are collateralized by loans and financing, and historically, the guarantees with assets have never been used. In 2018, the Company used the amount of R$ 71,405 in guarantees (R$ 70,763 as of December 31, 2017).

17. Intangible assets

Goodwill

The goodwill resulting from the acquisition of investments, after appropriate allocations, is included in intangible assets. They are presented in the parent company statement under the investment group.

Goodwill generated in business combinations are recorded in intangible assets and were determined in accordance with accounting practices in force at the time of each business combination, adjusted for the reclassification of certain intangibles. Goodwill is measured at cost, less impairment losses.

Other intangible assets

Separately acquired intangible assets are measured at cost upon initial recognition, while the cost of intangible assets acquired in a business combination is the fair value at the acquisition date. The balances are presented net of accumulated amortization and impairment losses.

Development expenditures involving a plan or project aiming at the production of new products or substantially enhanced are capitalized are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and use or sell the asset.

The amortization of intangible assets, other than goodwill, is based on their estimated useful lives and is recognized in profit or loss under the straight-line method. The estimated useful lives for the current and comparative periods are approximately 5 years for system development and deployment costs.

Notes to the financial statements

We also clarify that the recovery of the book value of goodwill and intangible assets with indefinite useful life is assessed annually using the concept of "value in use" through discounted cash flow models of cash generating units.

						Consolidated
	Software	Trademarks and patents	Client Relationship	Goodwill	Product development	Total
Cost						
Balance at December 31, 2016	6,097	21,043	13,796	43,905	5,119	89,960
Acquisitions	118	-	-	-	577	695
Transfers	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-
Effects of exchange-rate change	132	703	750	(1,074)	60	571
Balance at December 31, 2017	**6,347**	**21,746**	**14,546**	**42,831**	**5,756**	**91,226**
Acquisitions	-	-	-	1	873	874
Transfers	-	-	-	-	-	-
Write-offs	-	-	-	-	(1,287)	(1,287)
Effects of exchange-rate change	-	2,197	2,946	2,147	1,252	8,542
Effect of Discontinued Operations:						
Net changes in the year	-	18	-	-	-	18
Transfer to held for sale	(1,305)	(1,284)	-	-	-	(2,589)
Balance at September 30, 2018	**5,042**	**22,677**	**17,492**	**44,979**	**6,594**	**96,784**
Amortization						
Balance at December 31, 2016	(1,633)	(6,840)	(6,438)	(835)	-	(15,746)
Amortization for the year	(820)	(91)	(1,463)	-	(2)	(2,376)
Transfers	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-
Effects of exchange-rate change	(137)	(457)	(336)	835	-	(95)
Balance at December 31, 2017	**(2,590)**	**(7,388)**	**(8,237)**	**-**	**(2)**	**(18,217)**
Amortization for the year	(593)	-	(1,316)	-	(207)	(2,116)
Transfers	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-
Effects of exchange-rate change	-	-	(1,670)	-	(299)	(1,969)
Effect of Discontinued Operations:						
Net changes in the year	-	-	-	-	-	-
Transfer to held for sale	112	-	-	-	-	112
Balance at September 30, 2018	**(3,071)**	**(7,388)**	**(11,223)**	**-**	**(508)**	**(22,190)**
Book value						
December 2017	3,757	14,358	6,309	42,831	5,754	73,009
September 2018	**1,971**	**15,289**	**6,269**	**44,979**	**6,086**	**74,594**

Impairment test for cash generating units containing goodwill

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

Cash-generating unit	2017
Firearms	42,831

The recoverability test for CGUs mentioned above is performed annually based on the fair value net of sales expenses, which is estimated based on discounted cash flows. On December 31, 2017, the tests performed did not indicate the need of forming a provision for impairment losses on goodwill and intangible assets with indefinite useful lives.

Main assumptions used for forecasting the discounted cash flows

The main assumptions used in the calculation of the recoverable value are the cash flow discount rate and growth rates. Assumptions adopted are as follows:

Notes to the financial statements

	Discount rate	
	WACC	Average growth rate
Cash-generating unit	**2017**	**2017**
Firearms	16.1%	4.0%

Discount rate

The discount rate for CGU is represented by a post-tax rate based on US Treasury Bonds for 20 years, adjusted for a risk premium that reflects the risks of investments in equity securities and the systematic risk of the unit in question. The company estimated, based on management's experience with assets of this CGU, the weighted average of the capital cost of the industry in which such CGU operates, which was calculated based on a possible debt/shareholders' equity ratio of 15.6% for Firearms CGU at the market interest rate of 14%.

Growth rate and perpetuity

The forecasts are in line with the Business Plan prepared by the Company’s management. It is expected that the projected sales growth is in line with the curve observed in previous years, and in line with the economic growth of the country. After the projection period, we considered the growth and constant percentage of economic growth (growth in perpetuity).

In order to calculate the perpetuity, a nominal growth rate of 4.5% was used, in line with the long-term inflation expectation projected by the Brazilian Central Bank (BACEN) and macroeconomic indicators published in Focus report of BACEN, and in the Country Forecast report of Economist Intelligence Unit (EIU).

Notes to the financial statements

18. Loans and financing

The terms and conditions of outstanding loans were as follows:

							Consolidated
					09/30/2018		12/31/2017
	Currency	Nominal interest rate	Year of maturity	Contracted value	Book value	Contracted value	Book value
Loans and financing							
Working capital	R$	CDI + 2.00%	2018	**21,317**	**21,532**	2,500	993
FINAME	R$	2.50–8.70% a.	2021	**5,879**	**532**	7,681	1,014
FINEP	R$	4–5.25% p.a.	2020	**-**	**-**	14,095	5,564
BNDES	R$	3.50% p.a.	2020	**9,995**	**4,189**	9,995	5,672
FNE	R$	9.50% p.a.	2019	**-**	**-**	9,806	2,821
Advance from receivables	R$	23.9% p.a.	2017	**30,690**	**30,690**	6,136	15,422
Foreign exchange advance	USD	9.80% p.a.	2017	**22,664**	**22,664**	28,065	24,193
Working capital	USD	Libor + 1.55–5.6% p.a.	2021	**499,162**	**657,996**	499,162	528,709
Working capital	USD	80–112% CDI p.a.	2019	**65,072**	**59,276**	65,072	53,526
Investments	USD	5.33% p.a.	2021	**6,035**	**17,373**	6,035	15,028
Investments	USD	Libor + 2.25% p.a.	2021	**1,731**	**4,122**	1,731	3,585
				Total	**818,374**		**656,527**
				Current liabilities	**156,605**		**498,557**
				Non-current liabilities	**661,769**		**157,970**

							Parent company
					09/30/2018		12/31/2017
	Currency	Nominal interest rate	Year of maturity	Contracted value	Book value	Contracted value	Book value
Secured bank loans							
Working capital	R$	CDI + 2.00%	2018	**21,317**	**21,532**	2,500	993
FINAME	R$	2.50–5.50%	2021	**2,304**	**532**	2,304	746
BNDES	R$	3.50%	2020	**9,995**	**4,189**	9,995	5,672
Advance from receivables	R$	24.60%	2018	**30,690**	**30,690**	6,136	1,535
Foreign exchange advances	USD	9.80%	2019	**22,664**	**22,664**	28,065	24,193
Working capital	USD	Libor + 3.00%	2022	**424,162**	**555,877**	424,162	439,582
Working capital	USD	112.00% CDI	2019	**65,072**	**59,276**	65,072	53,526
				Total	**694,760**		**526,247**
				Current liabilities	**155,173**		**479,144**
				Non-current liabilities	**539,587**		**47,103**

Notes to the financial statements

Schedule of maturities of non-current liabilities:

	Consolidated		Parent company	
Year of maturity	**09/30/2018**	**12/31/2017**	**09/30/2018**	**12/31/2017**
2018	**-**	50,673	**-**	45,227
2019	**35,308**	92,259	**33,815**	1,861
2020	**195,269**	1,320	**91,588**	15
2021	**17,452**	13,718	**15,819**	-
>2022	**413,740**	-	**398,365**	-
	661,769	157,970	**539,587**	47,103

Loans and financing are guaranteed by promissory notes, interest earning bank deposits, fiduciary assignment of machinery and equipment, and real estate mortgages, quotas and collateral of subsidiaries. The sureties granted by the parent company and its subsidiaries are shown in Note 25 - Related parties.

Certain loans and financing agreements entered into by the Company and its subsidiaries contain restrictive covenants that limit certain corporate amendments, including: changes in the Company's direct or indirect control, reduction of the share capital of the Company and/or its parent company, distribution of dividends, payment of interest on own capital, or any other payments to shareholders by the Company and/or its parent company in the event of default of any of the obligations and reduction of the Company's equity capital. If the restrictions are not met, creditors may anticipate maturity.

In December 2016, it was realized the rescheduling of part of the debt with Banco do Brasil S.A., Banco Bradesco S.A., Banco Itaú S.A., Banco Santander S.A. and Banco Haitong S.A. through PPe and Debentures, which are collateralized by: guarantee, lien, mortgages, fiduciary assignment and external pledge that will be shared with the creditors of the operation of international guarantee and creditor of debentures.

The interest payment schedule began on January 4, 2017, payable on semi-annual basis to June 21, 2018, and as of this date the principal and quarterly charges will be paid to June 14, 2021.

Covenants

Up to September 30, 2018, the instrument, which was included in re-profile of debt process signed in December/2016, provides for the early maturity in cases of non-compliance of covenants that define, among other obligations: the maintenance of certain financial ratios, such as: net debt/EBITDA equal to or less than 3.5 in 2017 and 3x as from 2018 and EBITDA/net financial expenses equal to or greater than 1.10x in 2017 and 1.20x as from 2018 where: net debt is equal to the total debt (including sureties and guarantees) less cash and cash equivalents, EBITDA is equal to income before taxes, interest, taxes, depreciation and amortization in the last 12 months and net financial expenses correspond to total financial income less financial expenses in the last 12 months, adjusted for non-recurring items and guaranteed as: surety, lien, mortgage, lien and external pledge that will be shared with international guarantee and debenture operation creditors.

These indices are monitored by Management, and the PPE and Debentures contracts determine that the indices must be measured on an annual basis. These indexes were not met in the fiscal year ended December 31, 2017, reason why the loans and financing under these agreements were reclassified to short term.

As described in note 1, as of July 18, 2018, the new process of renegotiation of debts with the Bank syndicate was completed.

Notes to the financial statements

19. Debentures

The debentures issued by the Company in a single series, not convertible into shares, distributed in the secondary market through the National Debenture System, with restricted placement efforts aimed at 3rd issue aimed at banking institutions.

Debentures	Principal (R$)	Issuing date	Securities in the market	Financial charges	09/30/2018	12/31/2017
3rd issuance (a)	100,000	06/13/2014	5,000	DI rate + 2.00% (2016)	**83,418**	75,771
				Grand total	**83,418**	75,771
				Current liabilities	**9,814**	75,771
				Non-current liabilities	**73,604**	-
				Total	**83,418**	75,771
				Incurred cost transactions	**3,584**	3,584
				Appropriate cost transactions	**3,584**	3,544
				Unearned transaction costs	**-**	40

Covenants

Up to September 30, 2018, the instrument, which was included in re-profile of debt process signed in December/2016, provides for the early maturity in cases of non-compliance of covenants that define, among other obligations: the maintenance of certain financial ratios, such as: (net debt/EBITDA) equal to or less than 3.5 in 2017 and 3x as from 2018 and EBITDA/net financial expenses equal to or greater than 1.10x in 2017 and 1.20x as from 2018 where: net debt is equal to the total debt (including sureties and guarantees) minus cash and cash equivalents, EBITDA is equal to earnings before taxes, interest, taxes, depreciation and amortization in the last 12 months and net financial expenses correspond to total financial income less financial expenses in the last 12 months, adjusted for non-recurring items and guaranteed as: surety, lien, mortgage, fiduciary assignment and external pledge that will be shared with international guarantee and debenture operation creditors.

Such indices are monitored by Management, as the contracts determine that the indices be measured annually. These indexes were not met in the fiscal year ended December 31, 2017, reason why the debentures under these agreements were reclassified to short term.

As described in note 1, as of July 18, 2018, the new process of renegotiation of such debt with Banco Haitong syndicate was completed.

Notes to the financial statements

20. Other accounts payable

	Consolidated		Parent company	
	09/30/2018	12/31/2017	09/30/2018	12/31/2017
Performance bonus	**9,015**	4,463	**-**	-
Sales commissions	**6,673**	3,540	**6,645**	2,491
Accrued interest	**355**	1,036	**-**	-
Royalties	**-**	3,730	**-**	3,730
Insurance and freight	**-**	-	**-**	-
FEE Banking Syndicate	**644**	5,602	**644**	5,602
Accounts payable - CBC	**67,652**	67,740	**67,652**	67,740
Provision for unsecured liability	**-**	-	**15,639**	34,722
Other	**4,618**	5,167	**(633)**	1,169
	88,957	91,278	**89,947**	115,454
Current	**88,957**	88,412	**74,308**	77,866
Non-current	**-**	2,866	**15,639**	37,588

21. Salaries and social security charges

	Consolidated		Parent company	
	09/30/2018	12/31/2017	09/30/2018	12/31/2017
Salaries	**5,077**	1,413	**2,992**	883
Social security charges	**11,693**	20,458	**5,088**	8,443
Provisions for vacations and 13th salary	**20,058**	20,055	**8,625**	8,092
	36,828	**41,926**	**16,705**	**17,418**

22. Taxes, duties and contributions

	Consolidated		Parent company	
	09/30/2018	12/31/2017	09/30/2018	12/31/2017
ICMS	**1,041**	5,376	**1,041**	2,402
IPI	**5,742**	3,909	**5,710**	3,849
PIS	**130**	69	**-**	10
COFINS	**600**	325	**-**	47
SPECIAL TAX - FAET (USA)	**13,417**	14,567	**-**	-
IRRF	**467**	1,113	**281**	262
INCOME TAX AND SOCIAL CONTRIBUTION	**9,815**	3,740	**4,621**	276
INSTALLMENT PAYMENT OF PRT	**4,279**	7,192	**3,596**	6,645
OTHER PAYMENTS IN INSTALLMENTS	**1,688**	1,446	**1,606**	1,485
OTHER	**7,533**	7,042	**5,799**	5,954
	44,712	44,779	**22,655**	20,930
Current	**43,884**	40,031	**21,878**	17,944
Non-current	**828**	4,748	**777**	2,986

The Company formalized its adhesion to the Tax Regularization Program (PRT), published by Provisional Measure 766/2017 and regulated by IN 1687/2017, on May 26, 2017. This program allowed the consolidation of federal tax debts and offsetting of 76% of the amount using credits of tax losses and negative basis of social contribution. The balance of 24% was paid in 24 months.

Notes to the financial statements

The consolidation of these debts is shown in the tables below:

	IPI	IRPJ/CSLL	PIS/COFINS	IOF	IRRF/PCC	AFRMM/II	INSS	Consolidated Total
Value Principal	31,302	456	9,548	342	1,090	497	408	43,643
Fine	6,920	165	2,226	68	368	99	230	10,076
Interest	3,914	94	2,137	42	(32)	80	126	6,361
	42,136	**715**	**13,911**	**452**	**1,426**	**676**	**764**	**60,080**
Offset of tax loss and negative basis of social contribution on net income	32,140	543	10,455	344	1,084	515	523	45,604
Balance - Payment in 7 installments	9,996	172	3,456	108	342	162	241	14,476
Payments	(7,151)	(121)	(2,361)	(77)	(242)	(115)	(130)	(10,197)
Balance payable	**2,845**	**51**	**1,095**	**31**	**100**	**47**	**111**	**4,279**

	IPI	IRPJ/CSLL	PIS/COFINS	IOF	IRRF/PCC	AFRMM/II	INSS	Parent company Total
Value Principal	30,103	-	5,594	342	711	497	408	37,655
Fine	6,021	-	1,088	68	142	99	230	7,648
Interest	3,909	-	778	42	83	80	126	5,018
	40,033	**-**	**7,460**	**452**	**936**	**676**	**764**	**50,321**
Offset of tax loss and negative basis of social contribution on net income	30,542	-	5,553	344	711	515	523	38,188
Balance - Payment in 7 installments	9,491	-	1,907	108	225	162	241	12,133
Payments	(6,791)	-	(1,266)	(77)	(159)	(115)	(130)	(8,537)
Balance payable	**2,700**	**-**	**641**	**31**	**66**	**47**	**111**	**3,596**

Notes to the financial statements

23. Provisions for civil, labor and tax risks

Provisions are formed for all contingencies referring to lawsuits in which an outflow of funds will probably be required to settle the contingency or obligation and a reasonable estimate can be made.

Based on information from its legal advisors and analysis of pending legal proceedings, the Company recorded provision in an amount considered sufficient to cover estimated losses as follow:

				Consolidated
			09/30/2018	**12/31/2017**
	Provision	**Judicial deposit (1)**	**Net**	**Net**
Labor	54,053	(8,232)	45,821	49,230
Civil	18,040	-	18,040	9,863
Tax	27,689	(739)	26,950	26,949
	99,782	**(8,971)**	**90,811**	86,042
Classified in current liabilities	43,243			
Classified in the non-current liabilities	56,539			

				Parent company
			09/30/2018	**12/31/2017**
	Provision	**Judicial deposit (1)**	**Net**	**Net**
Labor	34,598	(3,945)	30,653	34,631
Civil	11,273	-	11,273	1,163
Tax	27,689	(739)	26,950	26,950
	73,560	**(4,684)**	**68,876**	62,744
Classified in current liabilities	32,349			
Classified in the non-current liabilities	41,211			

(1) Recorded in other non-current assets.

Changes in provisions are as follows:

			Consolidated
	Civil and labor	**Tax**	**Total**
Balance at December 31, 2017	74,524	28,007	102,531
Provisions formed during the year	23,819	-	23,819
Provisions used during the year	(1,240)	-	(1,240)
Write-off of provision	(22,658)	-	(22,658)
Effect of changes	1,228	-	1,228
Effect of discontinued operations and assets and liabilities held for sale			
Transfer of Assets held for sale	(3,580)	(318)	(3,898)
Balance at September 30, 2018	**72,093**	**27,689**	**99,782**

			Parent company
	Civil and labor	**Tax**	**Total**
Balance at December 31, 2017	44,473	27,689	72,162
Provisions formed during the year	12,231	- •	12,231
Provisions used during the year	(434)	-	(434)
Write-off of provision	(10,399)	-	(10,399)
Balance at September 30, 2018	**45,871**	**27,689**	**73,560**

The Company and its subsidiaries have other processes that have been assessed by the Company's legal advisors as being a possible or remote risk of loss which cannot be determined with certainty, for which no provision has been recorded in view of the fact that the accounting practices adopted in Brazil do not require their calculation as shown below:

	Consolidated		**Parent company**
09/30/2018	**12/31/2017**	**09/30/2018**	**12/31/2017**

Notes to the financial statements

	Possible	Remote	Possible	Remote	Possible	Remote	Possible	Remote
Tax	**20,811**	**-**	12,141	418	**10,563**	**-**	736	-
Civil	**54,063**	**487**	62,524	351	**51,498**	**27**	55,665	200
Labor	**51,528**	**25,007**	59,153	6,711	**23,594**	**18,342**	39,904	4,547
Other	**8,006**	**-**	8,438	712	**8,006**	**-**	8,160	330
	134,408	**25,494**	142,256	8,192	**93,661**	**18,369**	104,465	5,077

Sanctioning Administrative Processes - PMESP

The Company was summoned to present defense in two (02) administrative processes filed by the Military Police of the State of São Paulo (Sanctioning Process CSMAM-002/30/16 and Sanctioning Process 003/30/2016 in addendum to Process CSMAM 01/30/14) which challenges the possibility or not of partial or total non-compliance with the agreements for acquisition and supply of 98,465 (ninety-eight thousand, four hundred and sixty-five) firearms, type pistol, models 24/7 and 640, between years 2007 and 2011, in the first process and also agreements for acquisition and supply of 5,931 (five thousand, nine hundred and thirty-one) firearms, type submachine gun, model SMT 40 in year 2011 in the second process and its addendum, in the total amount of R$ 22,681.

In relation to Sanctioning Process CSMAM-002/30/16, the Company considers possible some monetary loss, but since it is an administrative process and is at initial phase, we are presently unable to estimate the values, and the sanctions to which the Company is subject are provided for in article 87, Federal Law 8666/93, combined with article 81, State Law (SP) 6544/89.

Sanctioning Process No. CSMAM 01/30/14 was closed with the decision that suspended the Company's right to contract with the public management of the State of São Paulo for a period of 02 (twos) years from October 2016, not subject to any monetary fine.

Also, on December 19, 2017, the Company received service of judicial process where the State of São Paulo requires the rescission of agreements of supply of submachine guns entered into in 2011 with the Military Police of the State of São Paulo and the return of the value paid at the time, of R$ 21.7 million, plus inflation adjustment and other legal consequences.

In a preliminary analysis performed by the Company's legal advisers, this lawsuit was classified as possible loss.

Djibouti

There is a prosecution in secrecy of Justice at the 11st Federal Court of Porto Alegre, against two former employees of the Company and one citizen from Yemen, due to alleged irregular sale of firearms in year 2013 to the Government of Djibouti, whose final destination would be Yemen. Although the Company and its officers are not parties to the process, as soon as the Company became aware of the prosecution, potentially harmful to its reputation, required and had deferred its qualification in the process, as interest party, with the purpose of clarifying to the Judge the facts known by it and providing the necessary support to the investigations. There are no estimated effects or provisions concerning the subject that are or should be duly reflected in the quarterly information of the Company on this date.

Public Civil Action - Attorney General of Sergipe for the Federal Public Ministry

The Company became aware of the filing by the Attorney General of Sergipe for the Federal Public Ministry of a Public Civil Action against Taurus and also against the Federal Government (Brazilian Army), before the Judge of the 2nd Federal Court of the Judiciary Section of Sergipe. The requests are related to alleged defects in a few models of firearms produced by Taurus.

In the Public Civil Action, the Federal Public Ministry pleads that i) Taurus be prevented from trading a few models of firearms in Brazil; ii) Taurus make a national recall for replacement and/or indemnity according to the market value of these models of firearms and iii) the Federal Government be prohibited from applying the restriction of import of models that have local similar products, under penalty of daily fine of R$ 10 (ten thousand reais).

Notes to the financial statements

Finally, the Federal Public Ministry pleads i) the conviction of the Federal Government to the obligation to modify R-105 or to issue a new substitutive regulation that does not create regime of monopoly of sales of firearms in Brazil, which adversely affects the free competition; ii) the conviction of Taurus to the obligation to make a national recall within 20 days, for the repair, replacement and/or indemnity according to the market value of these models of firearm; (iii) the conviction of the Federal Government and Taurus to the payment of collective pain and suffering in amount to be defined by the judge, not below R$ 40.000 million.

In preliminary injunction, the Judge of the 2nd Federal Court of the Judiciary Section of Sergipe determined the obligation by Taurus to submit a detailed plan of recall of the supposedly defective models of firearms within 90 days. The preliminary injunctions for suspension of the trading of the models allegedly defective and prohibition of restriction of import of firearms by the Federal Government were rejected by the Judge.

In the judgment of the bill of review filed by Taurus, The Federal Court of the 5th Region suspended the effectiveness of the decision granted by the Judge of the 2nd Federal Court of the Judiciary Section of Sergipe, with respect to the part that establishes the submission, by Taurus, of a plan of recall within 90 (ninety) days.

In the opinion of Taurus' legal advisors, the present lawsuit is classified as risk of possible loss.

Punitive action - State of Goiás

The State of Goiás filed a lawsuit against Taurus due to alleged breach of contract derived from the sale by Taurus of 2,500 firearms manufactured by it, model pistol PT 24/7 PRO D, in the total amount of R$ 4.873 (four million, eight hundred seventy and three thousand reais), firearms allegedly defective and that these defects would have not been solved by Taurus.

After the objection submitted by Taurus, the Judge of the lower court partially accepted the request for preliminary injunction by the State of Goiás and determined the full replacement of the firearms supplied and allegedly defective. Against this decision, Taurus filed bill of review, seeking the concession of suspension effect, which was rejected in monocratic decision of the Reporting Judge. The decision is not final, and the appeal filed by Taurus is pending judgment.

In view of the foregoing, the parties signed an agreement that had been attached to the process which provides for the delivery by the MP of the State of Goiás to Taurus the total of 2,457 Taurus pistols model PT 24/7 PRO D, upon replacement by 2,000 (two thousand) Pistols model PT 92 AF. The agreement is under execution phase and Taurus is producing guns that will be delivered to the MP of the State of Goias. After the execution of the agreement, the process will be extinguished.

Public Civil Action – Public Prosecutor's Office of the Federal District and Territories

The Public Ministry of the Federal District and Territories ("MPDFT") filed a Public Civil Action with motion for injunction against the Company due to alleged supply to the Civil Police of the Federal District of pistols that had not met the contractual specifications. Through this action, it requires that Taurus should be convicted to indemnify for material damages caused, temporary suspension of the Company to bid and contract with the Public Management for a period of 2 years, as well as to pay for collective pain and suffering in the amount of R$ 10,000 (ten million reais). Based on injunction, it required the freezing of the claimed values in the Company's bank accounts.

The Judge of the 8th Civil Court of Brasília rejected the motion for injunction of freezing of the Company's bank accounts in the absence of evidence as to the alleged need of immediate freezing of the values claimed in the lawsuit. The MPDFT filed bill of review, received by the Notable Federal Regional Court of the 1st Region without suspensive effect and, on this date, awaits judgment.

After the submission of contestation by Taurus, the Judge accepted the request of qualification of the Federal District as co-plaintiff of the MPDFT and determined the forwarding of the lawsuit to one of the Public Treasury Courts of the Federal District, since it considers itself unqualified to judge the action.

Notes to the financial statements

Taurus will perform all the measures necessary to prove that the allegations are unjustified and that the products traded do not have manufacturing defects. The Company believes that the risk of loss on this lawsuit is classified as possible.

Burrow case
The lawsuit filed by William Burrow and Oma Louise Burrow against Taurus and its subsidiary Braztech International L.C in the United States is at Discovery phase (equivalent to the pre-trial phase in the Brazilian process). The lawsuit is being discussed in the State of Florida (USA) before the U.S. Court for the Southern District of Florida and claims alleged flaws in certain models of guns produced by Taurus under Rossi brand.

Based on the facts and circumstances known to date, the current stage of the process, the low history of flaws reported by the Company's clients and the requirements of ABA (American Bar Association), it is not possible to conclude on the probability of an unfavorable outcome to the Company. Notwithstanding, Taurus has performed all the measures necessary to prove that the allegations are unjustified and that the products traded do not have manufacturing defects.

24. Financial instruments

Company Management determines the classification of its non-derivative financial assets and liabilities at the time of their initial recognition, pursuant to the criteria set forth in CPC 48 / IFRS 9 when the characteristics of the Company's cash flows and business model in the management of financial assets. Financial liabilities are measured according to their nature and purpose.

a) Derivatives

The Company and its subsidiaries carry out operations with derivative financial instruments. The management of these instruments is done through operating strategies and internal controls, aimed at assuring liquidity, profitability and security. The contracting of financial instruments with the objective of offering protection is performed by means of a periodic analysis of the risk exposure that Management intends to cover (exchange rate, interest rate, etc.). The control policy consists of permanent follow-up of the conditions engaged versus those in force in the market.

We summarize below our positions with derivative financial instruments:

	Consolidated		**Parent company**	
	09/30/2018	**12/31/2017**	**09/30/2018**	**12/31/2017**
Derivative financial instruments - liabilities	**(18)**	(242)	**-**	-
	(18)	(242)	**-**	-

Notes to the financial statements

All the transactions involving derivative financial instruments are recognized in the Company's quarterly information, as shown in the table below:

Instrument	Contracting currency referring to the notional amount	Consolidated 09/30/2018 Notional in thousands	Consolidated 09/30/2018 Fair value	Consolidated 12/31/2017 Notional in thousands	Consolidated 12/31/2017 Fair value
Swap Fixed x Libor (i)	US Dollars - USD	**5,711**	**(18)**	5,711	(242)
		5,711	**(18)**	5,711	(242)

(i) Conventional currency swaps of Libor 6m x CDI in order to determine a debt payment flow linked to a post-fixed rate to a post-fixed rate in the domestic market.

The fair value does not represent the obligation of an immediate disbursement or cash receipt, as this effect will only occur on the contractual verification dates or on the maturity dates of each transaction.

b) Fair value vs. book value

The fair values of the financial assets and liabilities, together with the book values presented in the balance sheet, are as follows:

				Consolidated
	09/30/2018		12/31/2017	
	Amortized cost	**Fair value**	**Amortized cost**	**Fair value**
Assets measured at fair value				
Forward exchange contracts and interest rate swap used to hedge transactions	**-**	**-**	-	-
Assets measured at amortized cost				
Cash and cash equivalents	**11,385**	**11,385**	6,679	6,679
Interest earnings bank deposits	**2,970**	**2,970**	2,785	2,785
Accounts receivable	**175,426**	**175,426**	122,611	122,611
	189,781	**189,781**	132,075	132,075
Liabilities measured at fair value				
Forward exchange contracts and interest rate swap used to hedge transactions	**18**	**18**	242	242
Liabilities measured by the amortized cost				
Loans and financing	**765,020**	**769,382**	616,912	656,443
Debentures	**9,814**	**9,814**	75,771	75,771
Foreign exchange advances	**22,664**	**22,664**	24,193	24,193
Suppliers and advance from receivables	**124,034**	**124,034**	115,376	115,376
Advance of real estate credits	**-**	**-**	-	-
	921,532	**925,894**	832,252	871,783

Notes to the financial statements

				Parent company
	09/30/2018			12/31/2017
	Amortized cost	Fair value	Amortized cost	Fair value
Assets measured at fair value				
Forward exchange contracts and interest rate swap used to hedge transactions	**-**	**-**	-	-
Assets measured at amortized cost				
Cash and cash equivalents	**2,308**	**2,308**	2,543	2,543
Interest earnings bank deposits	**2,676**	**2,676**	2,530	2,530
Accounts receivable	**182,381**	**182,381**	69,008	69,008
	187,365	**187,365**	74,081	74,081
Liabilities measured at fair value				
Forward exchange contracts and interest rate swap used to hedge transactions	**-**	**-**	-	-
Liabilities measured by the amortized cost				
Loans and financing	**641,406**	**652,109**	500,519	504,886
Debentures	**9,814**	**9,814**	75,771	75,771
Foreign exchange advances	**22,664**	**22,664**	24,193	24,193
Suppliers and advance from receivables	**184,532**	**184,532**	136,367	136,367
Advance of real estate credits	**-**	**-**	-	-
	858,416	**869,119**	736,850	741,217

Due to the short-term cycle, it is assumed that the fair value of cash and cash equivalents, receivables, suppliers, other accounts payable and advances from receivables are close to its book values.

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

According to the hierarchical classification criteria for determining fair value: Level 1: prices quoted (not adjusted) in active markets, net and visible to identical assets and liabilities and identical which are accessible at the measurement date; *Level 2:* prices quoted (that can be adjusted or not) for similar assets or liabilities in active markets; and Level 3: assets and liabilities that are not based on observable market data (unobservable inputs); the Company classified the fair values of financial instruments as Level 2.

Notes to the financial statements

25. Related parties

					Balances of subsidiaries outstanding with the parent company			Effect on the result of transactions of subsidiaries with parent company
	Current assets (ii)	Non-current assets (iii)	Total assets	Current liabilities (i)	Non-current liabilities	Total liabilities	Income	Expense
December 31, 2017								
Taurus Blindagens Ltda.	731	-	731	997	19,074 (iv)	20,071	-	-
Taurus Blindagens Nordeste Ltda.	26	-	26	775	28,015 (iv)	28,790	-	-
Taurus Holdings, Inc.	23,252	-	23,252	63,901	5,329 (v)	69,230	420,535	-
Taurus Investimentos Imobiliários Ltda.	421	-	421	1,681	-	1,681	-	-
Taurus Máquinas-Ferramenta Ltda.	-	14,044	14,044	-	-	-	-	1,523
Taurus Plásticos Ltda.	46	-	46	-	-	-	-	-
Polimetal Metalurgia e Plásticos Ltda.	18,745	-	18,745	68,411	-	68,411	546	178,416
	43,221	14,044	57,265	135,765	52,418	188,183	421,081	179,939
September 30, 2018								
Taurus Blindagens Ltda.	**-**	**-**	**-**	**790**	**8,389** (iv)	**9,179**	**-**	**592**
Taurus Blindagens Nordeste Ltda.	**-**	**-**	**-**	**312**	**23,536** (iv)	**23,848**	**-**	**1,143**
Taurus Holdings, Inc.	**73,462**	**-**	**73,462**	**60,668**	**6,449** (v)	**67,117**	**314,478**	**-**
Taurus Investimentos Imobiliários Ltda.	**108**	**-**	**108**	**1,221**	**8,375** (iv)	**9,596**	**-**	**901**
Taurus Máquinas-Ferramenta Ltda.	**-**	**16,759**	**16,759**	**-**	**-**	**-**	**715**	**-**
Taurus Plásticos Ltda.	**47**	**-**	**47**	**-**	**-**	**-**	**-**	**-**
Polimetal Metalurgia e Plásticos Ltda.	**21,716**	**-**	**21,716**	**92,014**	**-**	**92,014**	**202**	**126,542**
	95,333	**16,759**	**112,092**	**155,005**	**46,749**	**201,754**	**315,395**	**129,178**

(i) Refers to amounts recorded under Suppliers - R$ 91,841, other accounts payable - R$43,632 and advance from clients, R$ 19,532.
(ii) Refers to amounts recorded under Trade accounts receivable caption, R$ 73,883 and other accounts receivable - R$ 21,450.
(iii) Refers to values recorded under the captions financial loans R$ 16,759 with the parent company Forjas Taurus S.A. which are updated at 100% of CDI (Interbank Deposit Certificate).
(iv) Represent loan agreements totaling R$ 40,300 with subsidiary Taurus Blindagens Ltda., Taurus Blindagens Nordeste Ltda. and Taurus Investimentos Imobiliários Ltda which are restated to 100% of the CDI (Interbank Deposit Certificate).
(v) Refers to advances received from clients - R$ 6,449

Notes to the financial statements

Operations involving the Company and the subsidiary Taurus Holdings, Inc., refer to sales of firearms to be marketed by the subsidiary in the US market.

In relation to transactions involving the Company and the subsidiary Polimetal Metalurgia e Plásticos Ltda., refer to the purchase of products in the process, since the subsidiary carries out a part of the production process in the firearms' segment.

The transactions carried out with related parties follow the price conditions and terms agreed between the parties and cannot be compared to those practiced with other non-related parties.

As of September 30, 2018, the operations involving Forjas Taurus S.A. and CBC mainly refer to sale of firearms to be traded and the purchase of ammunition. The amount of these operations is shown below:

	Current assets	**Current liabilities**	**Income**	**Expense**
Companhia Brasileira de Cartuchos	334	21,298	503	25,433
CBC Participações	4,056	5,511	77,504	-
	4,390	26,809	78,007	25,433

Directors' fees and Board Members
The remuneration of directors and board members includes salaries, fees and benefits:

	Consolidated		**Parent company**	
	09/30/2018	**09/30/2017**	**09/30/2018**	**09/30/2017**
Salaries and benefits of statutory directors	**2,189**	**2,211**	**2,189**	**2,211**
Remuneration and benefits of the Board of Directors	**125**	**298**	**125**	**298**
Remuneration and benefits of the Tax Council	**357**	**284**	**357**	**284**
	2,671	**2,793**	**2,671**	**2,793**

The Company does not have remuneration benefit policies for key Management personnel that may be characterized as: post-employment benefits, termination benefits, share-based remuneration or other long-term benefits.

Operations of directors and board members
Directors and board members hold a non-material percentage of Company's voting shares.

Sureties among related parties
Loans and financing are guaranteed by promissory notes, fiduciary assignment of machinery and equipment, and real estate mortgages. The sureties granted between subsidiaries and parent company are as follows:

	09/30/2018	**12/31/2017**
Forjas Taurus S.A.	**123,614**	113,581
Taurus Blindagens Ltda	**721,235**	575,690
	844,849	689,271

Notes to the financial statements

26. Discontinued operations

A discontinued operation is an item of the Group's business including operations and cash flows that can be clearly distinguished from the rest of the Group and that:

- represents a separate major line of business or geographical area of operations;
- It is part of a single coordinated plan to sell a separate major line of business or geographical area of operations; or
- is a subsidiary acquired only for the purpose of resale.
- The classification as a discontinued operation is made upon its disposal or when the operation fails to meet the criteria for being held for sale, if this occurs before.

When an operation is classified as a discontinued operation, the comparative statements of operations and the statement of comprehensive income are reissued as if the operation had been discontinued since the beginning of the comparative period.

In March 2018, the Board of Directors unanimously authorized the offer of the helmets business – represented by Taurus Blindagens Ltda and Taurus Blindagens Nordeste Ltda. – to the market.

The preparation of the schedule was under the responsibility of a specialized firm according to the proposal already accepted by the Company.

The Helmets' segment was not classified as a discontinued operation or classified as held-for-sale before. Statement of income for comparative period is being restated in order to present discontinued operation separately from continued operations.

Although intra-group transactions were completely eliminated from consolidated income, Company Management chose to attribute the elimination of transactions between continued and discontinued operations prior to disposal in order to reflect the continuity of these transactions after disposal, since Management believes that the information is useful to users of the financial statements. To achieve this presentation, Company Management – starting from the results of discontinued operations – eliminated inter-segment sales (and costs resulting from these sales, less unrealized profits) made prior to its disposal.

(a) Net income (loss) from discontinued operations

	09/30/2018	09/30/2017
Net sales	63,209	67,470
Elimination of inter-segment income	(5,347)	(9,302)
External income	57,862	58,168
Expenses / costs / net financial income (loss)	(63,348)	(68,461)
Elimination of inter-segment expenses	5,347	9,302
Foreign expenses	(58,001)	(59,159)
Income (loss) from operating activities	(139)	(991)
Taxes on profits	3,748	319
Net income (loss) of discontinued operations	**3,609**	**(672)**
Earnings per share - Basic (in R$)	**0.048880**	(0.009099)

Notes to the financial statements

The income (loss) from discontinued operations as of September 30, 2018 is R$ 305,000.

(-R$ 672 as of September 30, 2017), is fully attributed to the controlling shareholders.

(b) Cash flow from discontinued operations

	09/30/2018	09/30/2017
Net cash generated by operating activities	**(76)**	11,502
Net cash generated in investment activities	**(2,466)**	(865)
Net cash invested in financing activities	**(9,412)**	10,291
Net cash generated by discontinued operations	**(11,954)**	20,928

27. Shareholders' equity / Unsecured liability (parent company)

a) Capital

On September 30, 2018, the Company's capital is R$ 404,489 (R$ 404,489 thousand as of December 31, 2017), represented by 64,688,212 shares, of which 46,445,314 common shares and 18,242,898 preferred shares, all registered, book-entry and with no par value.

Preferred shares

Preferred shares do not entitle to differentiated dividends and takes priority in the settlement of their share of capital.

According to the Company's Bylaws, in its Article 5, paragraph 4, the preferred shares will be entitled to vote at any General Meeting deliberations on the matters listed below, in which case each preferred share correspond to one vote:

(i) Transformation, Take-over, Merger or Spin-off of the Company;
(ii) Approval of agreements entered into between the Company and its Controlling Shareholder, as defined in Level 2 Regulation, directly of by means of third parties, as well as other companies in which the Controlling Shareholder holds interests, whenever, pursuant to law or statutory provision, such matters should be submitted to the General Meeting;
(iii) Appraisal of assets earmarked for the capital increase subscription of the Company;
(iv) Choice of a specialized company for determination of the Company's Economic Value; under Chapter VII hereof; and
(v) Change or revocation of statutory provisions which change or modify any of the requirements established in item 4.1 Regulations of the Level 2, excepting that this voting right shall prevail only while the Contract of Participation of Level 2 Corporate Governance is in force.

Authorized shares (in thousands of shares)

	09/30/2018	12/31/2017
Common shares	51,851	51,851
Preferred shares	103,702	103,702
	155,553	155,553

Notes to the financial statements

Shares issued and fully paid-in

	Common shares		Preferred shares	
	Amount in thousands	Amount in R$ thousand	Amount in thousands	Amount in R$ thousand
September 30, 2017				
Com.shares R$2.12 - Pref.shares R$2.54*	46,445	98,464	18,243	46,337
September 30, 2018				
Com.shares R$3.25 - Pref.shares R$3.72*	**46,445**	**150,946**	**18,243**	**67,864**

*Share closing quotation on the date indicated, multiplied by the total shares outstanding on that date.

b) Equity valuation adjustments

Deemed cost

The equity valuation adjustments' caption in shareholders' equity includes adjustments for the adoption of deemed cost of fixed assets on the transition date for IFRS. Amounts recorded in equity valuation adjustments are totally or partially reclassified to full or partial income (loss) for the year upon depreciation of items related to or disposal of assets.

Fair value of property investments

As described in note 14, in 2016 the Company recognized the fair value of investment property, according to the Brazilian accounting practices (BR GAAP) and international accounting practices (IFRS). The initial recognition of investment property at fair value is made in the shareholders' equity. After the initial recognition, the fair value should be reviewed on annual basis and the changes in fair value are recognized directly in the result for the year.

Accumulated translation adjustments

Accumulated translation adjustments include all foreign currency differences deriving from the translation of financial statements of foreign operations.

c) Earnings per share

Basic earnings per share - Continued operations	**09/30/2018**	09/30/2017
Income attributable to shareholders (in thousands of R$)	**(48,222)**	(49,719)
Balance of shares at the end of the year	**64,688,212**	64,688,212
Total shares according to CPC 41 – weighted average	**64,688,212**	64,688,212
Earnings per share - Basic (in R$)	**(0.7455)**	(0.7686)

Basic earnings per share - Discontinued operations	**09/30/2018**	09/30/2017
Income attributable to shareholders (in thousands of R$)	**3,609**	(672)
Balance of shares at the end of the year	**64,688,212**	64,688,212
Total shares according to CPC 41 – weighted average	**64,688,212**	64,688,212
Earnings per share - Basic (in R$)	**(0.0558)**	(0.0104)

Basic earnings per share	**09/30/2018**	09/30/2017
Income/(loss) attributable to shareholders (in thousands of R$)	**(44,613)**	(50,391)
Balance of shares at the end of the year	**64,688,212**	64,688,212
Total shares according to CPC 41 – weighted average	**64,688,212**	64,688,212
Earnings per share - Basic (in R$)	**(0.6897)**	(0.7790)

d) Capital transactions

The corporate restructuring in May 27, 2011 involving the subsidiary Polimetal Metalurgia e Plásticos Ltda. and the Company resulted in changes in ownership interest between the parties involved in the amount of R$ 40,996, which was recognized in unsecured liability in the capital transaction account.

28. Net operating income

According to CPC 47 / IFRS 15, income is recognized when the client obtains control of the products. If a reasonable estimate of potential return of goods cannot be made, when allowed, income recognition is

Notes to the financial statements

deferred until the return period expires or until a reasonable estimate of the returns can be made.

Pursuant to CPC 47 / IFRS 15, income for these contracts will be recognized to the extent that it is probable that there will be no significant reversal in the amount of accumulated income. Consequently, for agreements in which the Company is unable to make a reasonable estimate of the returns, income is expected to be recognized prior to the expiry of the period of return or before it is possible to make a reasonable estimate. A reimbursement liability and an asset for recovery will be recognized for these contracts and will be reported separately on the balance sheet.

The Company adopted CPC 47 / IFRS 15 using the cumulative effect method (with no practical expedients), with initial application of the standard recognized on initial date (that is, January 1, 2018). Consequently, the information presented for 2017 was not restated and, accordingly, it was presented as formerly reported according to CPC 30 / IAS 18 and related interpretations.

No amount was determined to be adjusted on January 01, 2018 as a result of adopting this pronouncement.

Sales tax
Sales revenues are subject to the following taxes and contributions, and the following basic rates:

	Rates
Value-added tax on sales and services–ICMS	0–25%
IPI - Excise tax	0–45%
Contribution for social security funding–COFINS	3% and 7.6%
Social integration program–PIS	0.65% and 1.65%

	Consolidated		**Parent company**	
	09/30/2018	**09/30/2017**	**09/30/2018**	**09/30/2017**
Sales of goods	**714,657**	613,314	**518,125**	475,359
Rendering of services	-	-	-	-
Total gross revenue	**714,657**	613,314	**518,125**	475,359
Sales tax	**(86,414)**	(67,242)	**(44,001)**	(28,900)
Refunds and rebates	(4,708)	(8,487)	(4,107)	(11,937)
Total net operating revenue	**623,535**	**537,585**	**470,017**	**434,522**

Because the Company's sales have short-term maturity, and the effects of the calculation of adjustment to present value are immaterial, the Company no longer presents the calculation of present value in its financial statements.

Notes to the financial statements

29. Expenses per type

	Consolidated		Parent company	
	09/30/2018	09/30/2017	09/30/2018	09/30/2017
Expenses according to the role				
Cost of products sold	**(387,423)**	(419,587)	**(318,800)**	(344,608)
Sales expenses	**(70,598)**	(69,621)	**(27,457)**	(30,395)
Administrative and general expenses	**(98,391)**	(101,239)	**(43,266)**	(61,602)
Other operating expenses	**(12,449)**	(9,788)	**(6,120)**	(3,986)
	(568,861)	(600,235)	**(395,643)**	(440,591)
Expenses per type				
Depreciation and amortization	**(25,092)**	(23,906)	**(5,550)**	(5,641)
Personnel expenses	**(166,560)**	(195,240)	**(50,585)**	(64,254)
Tax expenses	**32,742**	-	**(3,687)**	-
Raw materials and use and consumption materials	**(194,462)**	(188,775)	**(276,759)**	(144,346)
Auxiliary, conservation and maintenance materials	**(28,321)**	(36,603)	**(5,463)**	(3,894)
Freight and insurance	**(20,943)**	(22,175)	**(13,010)**	(13,183)
Third party services	**(26,906)**	(27,411)	**(11,469)**	(162,797)
Advertising and publicity	**(15,500)**	(13,526)	**(3,129)**	(2,921)
Expenses with product warranty	**(2,980)**	(4,715)	**(1,920)**	(3,979)
Water and electricity	**(8,983)**	(12,385)	**(1,101)**	(2,540)
Travel and accommodation	**(3,130)**	(3,925)	**(1,840)**	(2,571)
Commission expenses	**(18,711)**	(10,024)	**(9,043)**	(426)
Cost of write-off property, plant and equipment	**(5,912)**	(609)	**(255)**	(215)
Provision for contingencies	**(60,004)**	(31,162)	**(10,642)**	(24,774)
Rentals	**(636)**	(843)	**(591)**	(633)
Other expenses	**(23,463)**	(28,937)	**(599)**	(8,417)
	(568,861)	(600,235)	**(395,643)**	(440,591)

30. Net financial income (loss)

Financial income (loss) mainly includes income from interest on investment funds, changes in fair value of assets measured at fair value through profit or loss and gains on hedge instruments. The financial income (loss) is recognized within the accrual period.

	Consolidated		Parent company	
	09/30/2018	09/30/2017	09/30/2018	09/30/2017
Financial expenses				
Interest	**(49,441)**	(65,163)	**(48,939)**	(44,017)
Exchange-rate changes	**(160,885)**	(32,165)	**(154,888)**	(29,130)
IOF	**(1,466)**	(1,334)	**(1,289)**	(726)
Other expenses	**(10,727)**	(11,724)	**(8,247)**	(11,494)
	(222,519)	(110,386)	**(213,363)**	(85,367)
Financial income				
Interest	**4,813**	769	**3,050**	1,134
Exchange-rate changes	**33,539**	45,915	**32,826**	17,470
Swap on financial operations	**-**	-	**-**	-
Other income	**245**	1,126	**231**	276
	38,597	47,810	**36,107**	18,880
Net financial income (loss)	**(183,922)**	(62,576)	**(177,256)**	(66,487)

31. Insurance coverage

The Company adopts the policy of contracting insurance coverage for assets subject to risks to cover eventual claims, considering the nature of its activity. The adequacy of insurance coverage is determined by the Company's management, which considers it sufficient to cover any losses.

In 2018, insurance coverage for the Company was as follows:

	09/30/2018

Notes to the financial statements

	Consolidated	Parent company
Material damages	410,680	80,000
Civil liability	203,060	15,000
Loss of profit	161,993	161,993

32. Provision for product warranty

The Company quantifies and records an estimate for the costs related to the warranty, according to historical and current repair costs. The provision for product warranty ensures that the repair costs in case of replacement or repair do not affect the operating results for the periods in which these additional costs occurred. Therefore, amounts are recorded for the accrual basis of accounting. As of September 30, 2018 and December 31, 2017, the balances are shown as follow:

	Consolidated		Parent company	
	09/30/2018	**12/31/2017**	**09/30/2018**	**12/31/2017**
Domestic market	**8,827**	8,232	**7,359**	6,764
Foreign market	**10,273**	8,488	**-**	-
Total	**19,100**	**16,720**	**7,359**	**6,764**
Current liabilities	**13,356**	11,974	**7,359**	6,764
Non-current liabilities	**5,744**	4,746	**-**	-

33. Subsequent events

Operating restructuring U.S. market

On April 12, 2018, Taurus Manufacturing (United States) signed an agreement with Bainbridge Development Authority and the County of Decatur, State of Georgia, to move its head office in the USA from Miami, Florida, to Bainbridge, in Georgia. The head office will be moved when the Development Authority concludes the construction of a building of 18.5 thousand square meters. The construction project is expected to be concluded in the fourth quarter of 2019. As soon as the building is concluded, the Company will lease the building from the Development Authority for US$ 10 per year (ten dollars /year) in the first 30 years, with the option to purchase the building for US$ 100 (one hundred dollars) after 30 years.

The Company will have to comply with certain investment and employment goals up to 2025 to qualify to several tax incentives listed in the Agreement.

The estimated economic benefit to the Company of all the tax and property incentives amounts to approximately US$ 42,000,000 (forty-two million dollars).

Management believes that the transfer to Bainbridge, in Georgia, will provide to the Company a strategic and competitive advantage that will allow to increase the domestic production capacity to cover the firearm market in the USA. In addition, the Company will be able to improve the market's perception of the brand Taurus as result of the increase of the offer of products that are projected and manufactured in the USA. Also, the new address is more centralized in relation to the clients' base, which will permit a reduction of operating expenses when compared to the current location of the plant.

As result of the transfer, the Company listed its current head office in the USA in Miami, Florida, for sale, which already has a purchase intention agreement signed in the amount of US$ 12,150,000.00 (twelve million, one hundred and fifty thousand dollars) in December 2018. Immediately after the signing of the purchase and sale agreement, the Company will sign a new agreement for property rent until December 31, 2019.

The proceeds will be used to settle the mortgage of the property in the amount of approximately US$

Notes to the financial statements

6,000,000 (six million dollars). The Company will rent the property from the buyer until December 31, 2019 for approximately US$ 800,000 (eight hundred thousand dollars) and use the remaining proceeds to finance the transfer of the business to Bainbridge, GA.

Issuance of subscription bonus by the Company.
October 05, 2018, Forjas Taurus S.A. ("Company") approved the proposal from the Executive Board.

(a) The issuance of subscription bonus according to the conditions provided for in the Executive Board's Proposal and the main characteristics are as follows:

Number and Type: Up to 74,000,000 subscription bonus, all registered and book entry.

Issuance: Private, addressed mainly to the current shareholders of the Company, within the authorized capital limit of the Company and not following the current proportion between the Company's common and preferred shares, being certain that the number of preferred shares cannot exceed 2/3 (two thirds) of the Company's total issued shares.

Principal reason for issuance: Decrease in Company's indebtedness

Series: 4 (four) series as follows: (i) up to 25,000,000 series A bonus; (i) up to 20,000,000 series B bonus; (iii) up to 20,000,000 series C bonus; and (iv) up to 9,000,000 series D bonus.

Subscription right: Each subscription bonus, irrespective of Series, will entitle its holder to the right to subscribe 1 preferred share issued by the Company, which will have the same rights attributed to the other preferred shares of the Company.

Minimum Limit of issuance: It will be permitted the partial subscription of subscription bonus as long as it is subscribed bonus amounting to the total minimum limit of 50% of the total issued, being certain that TAURUSPAR PARTICIPAÇÕES S.A. (new name of CBC - PARTICIPAÇÕES S.A.), in the capacity of controlling shareholder of the Company, has informed the commitment to subscribe the total subscription bonuses to which it is entitled under its preemptive right and that it will assess the opportunity to request the reserve of surplus for any additional subscription.

Bonus issuance price: (i) R$ 0.20 for series A bonus; and (ii) R$ 0.10 for bonuses of the other series.

Strike price of the Subscription Right: (i) R$ 4.00 for shares derived from Series A bonus; (ii) R$ 5.00 for shares derived from Series B bonus; (iii) R$ 6.00 for shares derived from bonus of series C; and (iv) R$ 7.00 for shares derived from bonus of series D. These prices were defined based on article 170, §1, item III of the Brazilian Corporate Law, considering the average price of the Company's preferred share (FJTA4) weighted by the volume traded in B3's trading floors in the 3-month period 07/02/2018–10/02/2018 (which corresponds to R$ 4.00) and the progress of the value of shares in view of the duration of securities.

Payment Method of Bonus and strike price: In cash or credits from operations between the parties and the Company, with clear and certain value and which are recognized in the accounting.

Exercise term: (i) up to 04/05/2019 series A bonus; (i) up to 07/05/2019 series B bonus; (iii) until 10.07.2019 for Series C bonus; and (iv) until 10.05.2020 for Series D bonus.

Preference Right: The shareholders will be entitled to preemptive right for subscription of bonus.

Apportionment of surplus: one (1) apportionment round. If, after this round, the surplus remains, the balance not apportioned corresponding to a volume lower or equal to 5% of the issuance will be sold in stock exchange, in favor of the Company, pursuant to article 171, §7 of the Brazilian Corporation Law, without the need of prior registry with the CVM, as provided for in CVM Instructions 168 and 400. The balance exceeding this limit will be canceled.

Notes to the financial statements

Trading: The subscription bonuses will be admitted for trading in B3, on date to be timely informed to the shareholders by the Executive Board.

(b) Authorize the Company’s Executive Board to adopt all the procedures necessary to perform the issuance herein approved.

Opinions and Statements / Special Review Report - Unqualified

Report on the review of quarterly information-ITR

To the Shareholders, Board Members and Directors of

Forjas Taurus S.A.

São Leopoldo - RS

Introduction

We have reviewed the interim, individual and consolidated interim financial information of Forjas Taurus S.A. ("Company"), contained in the Quarterly Information - ITR Form for the quarter ended September 30, 2018, which comprises the balance sheet as of September 30, 2018 and related statements of income, of comprehensive income for the 3 and 9-months period then ended, of changes in shareholders' equity and of cash flows for the quarter then ended, including the explanatory notes.

Management is responsible for the preparation of the interim fiancial information in accordance with Technical Pronouncement CPC 21 (R1) and IAS 34 - Interim Financial Reporting, issued by the International Accounting Standards Board - IASB, as well as for the presentation of this information in a manner consistent with the standards issued by the Securities Commission, applicable to the preparation of the Quarterly Information - ITR. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of the review

Our review was carried out in accordance with the Brazilian and international review standards for interim information (NBC TR 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity and ISRE 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim information consists in asking questions, chiefly to the persons in charge of financial and accounting affairs, and in applying analytical procedures and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Brazilian and International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion on the individual and consolidated interim information

Based on our review, we are not aware of any facts that would lead us to believe that the individual and consolidated interim financial information included in the quarterly information referred to above was not prepared, in all material respects, in accordance with CPC 21 (R1) and IAS 34 issued by IASB and applicable to the preparation of Quarterly Information - ITR, and presented in a manner consistent with the standards issued by the Securities Commission.

Other issues - Statements of added value

The individual and consolidated interim financial information related to statements of added value (DVA) for the three-month period ended September 30, 2018, prepared under responsibility of Company's Management, and presented as supplementary information for IAS 34 purposes, was submitted to review procedures carried out jointly with the audit of Company's quarterly information. To form a conclusion, we evaluated whether these statements are reconciled with interim financial information and accounting records, as applicable, and whether their forms and contents are in accordance with criteria defined in Technical Pronouncement CPC 09 – Statement of Added Value. Based on our review, we are not aware of any other event that make us believe that those were not prepared, in all material respects, in accordance with individual and consolidated interim financial information taken as a whole.

Porto Alegre, November 8, 2018

KPMG Auditores Independentes

CRC SP014428/F-7

Cristiano Jardim Seguecio

Accountant CRC SP244525/O-9 T-RS

Opinions and Statements / Tax Council opinion or equivalent body

Fiscal council opinion

The Tax Council of Forjas Taurus S.A. In compliance with legal and statutory provisions, reviewed the information regarding the third quarter of 2018. Based on this review and on information contained in the Quarterly Information Review Report, issued without qualifications by KPMG Auditores Independentes and dated November 8, 2018, in addition to information and explanations received from the Company's management, it represents that the mentioned documents are appropriate for disclosure.

São Leopoldo, November 8, 2018.

Haroldo Zago

President

Mauro César Medeiros de Mello

Board Member

Amoreti Franco Gibbon

Board Member

Opinions and Statements / Statement of the Executive Officers on the Financial Statements

REPRESENTATION BY THE DIRECTORS OF FORJAS TAURUS S.A. ON THE FINANCIAL STATEMENTS FOR THE THIRD QUARTER OF 2018

Mr. Salesio Nuhs, Mr. Sergio Castilho Sgrillo Filho, Mr. Eduardo Minghelli and Mr. Ricardo Machado, Executive Officers of Forjas Taurus S.A., company with head office at Av. São Borja, 2181/Prédio A, CEP: 93.032-000, São Leopoldo, RS, enrolled in the EIN 92.781.335/0001-02, in compliance with provisions of items V and VI of article 25 of CVM Instruction 480, of December 07, 2009, state that they have reviewed, discussed and agreed with Financial Statements of Forjas Taurus S.A. and consolidated companies for the period from January 01, 2018 to September 30, 2018.

São Leopoldo, November 8, 2018.

Salesio Nuhs

CEO

Sergio Castilho Sgrillo Filho

Administrative and Financial Director

Investor Relations Director

Eduardo Minghelli

Executive Officer without specific designation

Ricardo Machado

Executive Officer without specific designation

Opinions and Statements / Statement of the Executive Officers on Independent Auditor’s Report

STATEMENT OF THE EXECUTIVE BOARD OF FORJAS TAURUS S.A. ON THE INDEPENDENT AUDITORS' REPORT

Mr. Salesio Nuhs, Mr. Sergio Castilho Sgrillo Filho, Mr. Eduardo Minghelli and Mr. Ricardo Machado, Executive Officers of Forjas Taurus S.A., company with head office at Av. São Borja, 2181/Prédio A, CEP: 93.032-000, São Leopoldo, RS, enrolled in the CNPJ [EIN] 92.781.335/0001-02, as provided in sections V and VI, article 25, CVM Instruction 480, dated December 07, 2009, hereby represent that they reviewed, discussed and agreed with the opinions expressed KPMG Auditores Independentes, contained in the Independent Auditors’ Review Report with regard to the Financial Statements for the period from January 01, 2018 to September 30, 2018, issued on November 8, 2018.

São Leopoldo, November 8, 2018.

Salesio Nuhs

CEO

Sergio Castilho Sgrillo Filho

Administrative and Financial Director

Investor Relations Director

Eduardo Minghelli

Executive Officer without specific designation

Ricardo Machado

Executive Officer without specific designation