# Contents

# Company information / Capital composition

| Quantity of shares (Units) | Current quarter 06/30/2017 |
|---|---|
| **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 thousand of reais)

| Code of account | Account description | Current quarter 06/30/2017 | Prior year 12/31/2016 |
|---|---|---|---|
| 1 | Total assets | 855,084 | 809,940 |
| 1.01 | Current assets | 259,239 | 212,008 |
| 1.01.01 | Cash and cash equivalents | 547 | 1,313 |
| 1.01.01.01 | Cash and banks | 372 | 611 |
| 1.01.01.02 | Interbank funds applied | 175 | 702 |
| 1.01.02 | Interest earning bank deposits | 2,040 | 2,552 |
| 1.01.03 | Accounts receivable | 56,289 | 45,701 |
| 1.01.03.01 | Trade accounts receivable | 56,289 | 45,701 |
| 1.01.04 | Inventories | 130,757 | 125,925 |
| 1.01.06 | Recoverable taxes | 37,575 | 7,269 |
| 1.01.06.01 | Current taxes recoverable | 37,575 | 7,269 |
| 1.01.07 | Prepaid expenses | 1,700 | 1,951 |
| 1.01.08 | Other Current assets | 30,331 | 27,297 |
| 1.01.08.03 | Other | 30,331 | 27,297 |
| 1.01.08.03.03 | Related parties - Financial loan | 13,046 | 8,150 |
| 1.01.08.03.04 | Other accounts receivable | 17,285 | 19,147 |
| 1.02 | Non-current assets | 595,845 | 597,932 |
| 1.02.01 | Long term assets | 32,136 | 31,860 |
| 1.02.01.01 | Interest earning bank deposits measured at fair value | 2,122 | 430 |
| 1.02.01.01.01 | Trading securities | 2,122 | 430 |
| 1.02.01.06 | Deferred taxes | 8,404 | 8,404 |
| 1.02.01.06.01 | Deferred income and social contribution taxes | 8,404 | 8,404 |
| 1.02.01.08 | Related party credits | 13,368 | 16,941 |
| 1.02.01.08.04 | Other related party credits | 13,368 | 16,941 |
| 1.02.01.09 | Other non-current assets | 8,242 | 6,085 |
| 1.02.01.09.03 | Recoverable taxes | 195 | 195 |
| 1.02.01.09.04 | Other | 8,047 | 5,890 |
| 1.02.02 | Investments | 520,464 | 521,752 |
| 1.02.02.01 | Ownership interest | 520,464 | 521,752 |
| 1.02.02.01.02 | Interest in subsidiaries | 520,274 | 521,562 |
| 1.02.02.01.04 | Other ownership interest | 190 | 190 |
| 1.02.03 | Property, plant and equipment | 37,546 | 38,398 |
| 1.02.03.01 | Fixed assets in operation | 29,389 | 29,670 |
| 1.02.03.03 | Constructions in progress | 8,157 | 8,728 |
| 1.02.04 | Intangible assets | 5,699 | 5,922 |
| 1.02.04.01 | Intangible assets | 5,699 | 5,922 |

# Individual financial statements/ Balance sheet – Liabilities

# (In thousand of reais)

| Code of account | Account description | Current quarter 06/30/2017 | Prior year 12/31/2016 |
|---|---|---|---|
| 2 | Total liabilities | 855,084 | 809,940 |
| 2.01 | Current liabilities | 432,799 | 354,038 |
| 2.01.01 | Social and labor obligations | 15,919 | 14,849 |
| 2.01.01.01 | Social charges | 3,868 | 4,451 |
| 2.01.01.02 | Labor obligations | 12,051 | 10,398 |
| 2.01.02 | Suppliers | 171,720 | 125,076 |
| 2.01.02.01 | Domestic suppliers | 163,372 | 117,529 |
| 2.01.02.02 | Foreign suppliers | 8,348 | 7,547 |
| 2.01.03 | Tax liabilities | 11,676 | 16,241 |
| 2.01.03.01 | Federal tax liabilities | 4,198 | 13,669 |
| 2.01.03.01.02 | Other Taxes | 4,198 | 13,669 |
| 2.01.03.02 | State tax liabilities | 7,454 | 2,531 |
| 2.01.03.03 | Municipal tax liabilities | 24 | 41 |
| 2.01.04 | Loans and financing | 87,059 | 20,799 |
| 2.01.04.01 | Loans and financing | 74,593 | 20,366 |
| 2.01.04.01.01 | In domestic currency | 2,328 | 3,638 |
| 2.01.04.01.02 | In foreign currency | 72,265 | 16,728 |
| 2.01.04.02 | Debentures | 12,466 | 433 |
| 2.01.05 | Other liabilities | 136,841 | 155,035 |
| 2.01.05.02 | Other | 136,841 | 155,035 |
| 2.01.05.02.01 | Dividends and interest on own capital | 3 | 3 |
| 2.01.05.02.04 | Financial loan | 32,572 | 28,835 |
| 2.01.05.02.05 | Foreign exchange withdrawals | 21,836 | 28,065 |
| 2.01.05.02.07 | Advance from receivables | 1,222 | 6,136 |
| 2.01.05.02.08 | Advances from clients | 66,707 | 65,769 |
| 2.01.05.02.09 | Other liabilities | 14,501 | 26,227 |
| 2.01.06 | Provisions | 9,584 | 22,038 |
| 2.01.06.01 | Tax, social security, labor and civil provisions | 2,820 | 16,916 |
| 2.01.06.01.02 | Social security and labor provisions | 2,820 | 15,776 |
| 2.01.06.01.03 | Provisions to employee benefits | 0 | 1,140 |
| 2.01.06.02 | Other provisions | 6,764 | 5,122 |
| 2.01.06.02.01 | Provision for guarantees | 6,764 | 5,122 |
| 2.02 | Non-current liabilities | 612,501 | 627,803 |
| 2.02.01 | Loans and financing | 492,626 | 546,076 |
| 2.02.01.01 | Loans and financing | 429,636 | 478,065 |
| 2.02.01.01.01 | In domestic currency | 5,284 | 6,428 |
| 2.02.01.01.02 | In foreign currency | 424,352 | 471,637 |
| 2.02.01.02 | Debentures | 62,990 | 68,011 |
| 2.02.02 | Other liabilities | 97,506 | 79,887 |
| 2.02.02.01 | Liabilities from Related parties | 54,373 | 39,158 |
| 2.02.02.01.02 | Debits with subsidiaries | 5,329 | 5,250 |
| 2.02.02.01.04 | Debts with other related parties | 49,044 | 33,908 |
| 2.02.02.02 | Other | 43,133 | 40,729 |
| 2.02.02.02.03 | Taxes payable | 5,709 | 944 |
| 2.02.02.02.04 | Provision for unsecured liability | 34,433 | 36,709 |
| 2.02.02.02.05 | Other liabilities | 2,991 | 3,076 |

# Individual financial statements/ Balance sheet – Liabilities

# (In thousand of reais)

| Code of account | Account description | Current quarter 06/30/2017 | Prior year 12/31/2016 |
|---|---|---|---|
| 2.02.04 | Provisions | 22,369 | 1,840 |
| 2.02.04.01 | Tax, social security, labor and civil provisions | 22,369 | 1,840 |
| 2.02.04.01.02 | Social security and labor provisions | 21,145 | 1,840 |
| 2.02.04.01.04 | Civil provisions | 1,224 | 0 |
| 2.03 | Shareholders' equity | -190,216 | -171,901 |
| 2.03.01 | Realized capital | 404,489 | 393,977 |
| 2.03.02 | Capital reserves | -40,996 | -40,832 |
| 2.03.02.06 | Advance for future capital increase | 0 | 164 |
| 2.03.02.09 | Capital transactions | -40,996 | -40,996 |
| 2.03.05 | Retained Earnings/Losses | -699,224 | -668,102 |
| 2.03.06 | Equity valuation adjustments | 48,952 | 49,736 |
| 2.03.07 | Accumulated translation adjustments | 96,563 | 93,320 |

# Individual financial statements / Statement of income

## (In thousand of reais)

| Code of account | Account description | Current quarter 04/01/2017–06/30/2017 | Accumulated of the current year 01/01/2017–06/30/2017 | Same quarter of the prior year 04/01/2016–06/30/2016 | Accumulated of the prior year 01/01/2016–06/30/2016 |
|---|---|---|---|---|---|
| 3.01 | Income from sales of goods and/or services | 160,689 | 290,213 | 110,490 | 187,779 |
| 3.02 | Cost of goods and/or services sold | -125,924 | -226,853 | -96,164 | -143,544 |
| 3.03 | Gross income | 34,765 | 63,360 | 14,326 | 44,235 |
| 3.04 | Operating expenses/income | -31,835 | -60,815 | -26,035 | -78,305 |
| 3.04.01 | Sales expenses | -10,276 | -19,704 | -8,666 | -13,224 |
| 3.04.02 | General and administrative expenses | -21,359 | -37,953 | -16,656 | -37,448 |
| 3.04.04 | Other operating income | 643 | 2,082 | 21 | 1,478 |
| 3.04.05 | Other operating expenses | -1,387 | -2,985 | -2,643 | -4,124 |
| 3.04.06 | Equity income (loss) | 544 | -2,255 | 1,909 | -24,987 |
| 3.05 | Income (loss) before financial income and taxes | 2,930 | 2,545 | -11,709 | -34,070 |
| 3.06 | Financial income (loss) | -60,419 | -66,487 | 27,012 | 46,106 |
| 3.06.01 | Financial income | 618 | 18,880 | 52,605 | 94,442 |
| 3.06.02 | Financial expenses | -61,037 | -85,367 | -25,593 | -48,336 |
| 3.07 | Income (loss) before income tax | -57,489 | -63,942 | 15,303 | 12,036 |
| 3.08 | Income and social contribution taxes | 32,037 | 32,037 | -745 | -745 |
| 3.08.01 | Current | 0 | 0 | -745 | -745 |
| 3.08.02 | Deferred assets | 32,037 | 32,037 | 0 | 0 |
| 3.09 | Net income from continued operations | -25,452 | -31,905 | 14,558 | 11,291 |
| 3.11 | Income/loss for the period | -25,452 | -31,905 | 14,558 | 11,291 |
| 3.99 | Earnings per share - (Reais R$ / Shares) | | | | |
| 3.99.01 | Basic earnings per share | | | | |
| 3.99.01.01 | Common shares | -0.39346 | -0.49321 | 0.24980 | 0.19374 |
| 3.99.01.02 | Preferred shares | -0.39346 | -0.49321 | 0.24980 | 0.19374 |
| 3.99.02 | Diluted earnings per share | | | | |
| 3.99.02.01 | Common shares | -0.39346 | -0.49321 | 0.24980 | 0.19374 |
| 3.99.02.02 | Preferred shares | -0.39346 | -0.49321 | 0.24980 | 0.19374 |

# Individual financial statements / Statement of comprehensive income

## (In thousand of reais)

| Code of account | Account description | Current quarter 04/01/2017–06/30/2017 | Accumulated of the current year 01/01/2017–06/30/2017 | Same quarter of the prior year 04/01/2016–06/30/2016 | Accumulated of the prior year 01/01/2016–06/30/2016 |
|---|---|---|---|---|---|
| 4.01 | Net income for the period | -25,452 | -31,905 | 14,559 | 11,292 |
| 4.02 | Other comprehensive income | 10,185 | 3,242 | -26,126 | -49,464 |
| 4.02.01 | Translation adjustments in the period | 10,185 | 3,242 | -26,126 | -49,464 |
| 4.03 | Comprehensive income for the period | -15,267 | -28,663 | -11,567 | -38,172 |

# Individual financial statements / Statement of cash flows - Indirect method

## (In thousand of reais)

| Code of account | Account description | Accumulated of the current year 01/01/2017–06/30/2017 | Accumulated of the prior year 01/01/2016–06/30/2016 |
|---|---|---|---|
| 6.01 | Net cash from operating activities | 20,548 | 13,238 |
| 6.01.01 | Cash generated in operations | -1,196 | 43,574 |
| 6.01.01.01 | Net income (loss) for the year before income and social contribution taxes | -63,942 | 12,036 |
| 6.01.01.02 | Depreciation and amortization | 3,760 | 3,367 |
| 6.01.01.03 | Cost of permanent asset written-off | 172 | 1,521 |
| 6.01.01.04 | Allowance for doubtful accounts | 896 | 1,093 |
| 6.01.01.05 | Equity in net income of subsidiaries | 0 | 24,987 |
| 6.01.01.07 | Provision for Derivative financial instruments | 0 | 8,139 |
| 6.01.01.08 | Provision for interest on loans and financing | 33,697 | 29,807 |
| 6.01.01.10 | Provision for inventory loss | 14,126 | 0 |
| 6.01.01.11 | Provision for contingencies | 9,004 | 2,967 |
| 6.01.01.12 | Provision for guarantees | 1,642 | -105 |
| 6.01.01.13 | Exchange rate change on loans and others | 11,775 | -42,453 |
| 6.01.01.14 | Write-off of goodwill on investment | 0 | 2,215 |
| 6.01.01.15 | Provision for freight and commissions | -12,326 | 0 |
| 6.01.02 | Changes in assets and liabilities | 21,744 | -30,336 |
| 6.01.02.01 | Decrease in trade accounts receivable | -9,904 | 9,756 |
| 6.01.02.02 | (Increase) in inventories | -18,958 | -71,251 |
| 6.01.02.03 | Decrease in accounts receivable | -35,246 | 1,798 |
| 6.01.02.04 | (Decrease) increase in suppliers | 46,358 | -8,054 |
| 6.01.02.05 | Increase in accounts payable and provisions | 39,494 | 37,415 |
| 6.02 | Net cash used in investment activities | -3,614 | -10,625 |
| 6.02.01 | Receivables with related companies | -2,557 | -15,349 |
| 6.02.03 | In investments | 1,288 | 0 |
| 6.02.04 | In property, plant and equipment | -2,794 | -5,918 |
| 6.02.05 | In intangible assets | -63 | -1,859 |
| 6.02.06 | Interest earnings bank deposits | 512 | 12,501 |
| 6.03 | Net cash from financing activities | -17,700 | -17,331 |
| 6.03.02 | Borrowings | 0 | 191,034 |
| 6.03.03 | Payments of loans | -34,193 | -207,107 |
| 6.03.05 | Capital increase | 10,512 | 17,541 |
| 6.03.06 | Payment of Interest on loans | -7,298 | -15,570 |
| 6.03.09 | Debts with related companies | 15,135 | -3,229 |
| 6.03.10 | Advance for future capital increase | -164 | 0 |
| 6.03.11 | Other | -1,692 | 0 |
| 6.05 | Increase (decrease) in cash and cash equivalents | -766 | -14,718 |
| 6.05.01 | Opening balance of cash and cash equivalents | 1,313 | 15,822 |
| 6.05.02 | Closing balance of cash and cash equivalents | 547 | 1,104 |

# Individual financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2017–06/30/2017

## (In thousand of reais)

| Code of account | Account description | Paid-up capital | Capital reserves, Options granted and Treasury shares | Profit reserves | Retained earnings (loss) | 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 | -31,122 | 2,459 | -28,663 |
| 5.05.01 | Net income for the period | 0 | 0 | 0 | -31,905 | 0 | -31,905 |
| 5.05.02 | Other comprehensive income | 0 | 0 | 0 | 783 | 2,459 | 3,242 |
| 5.05.02.04 | Translation adjustments in the period | 0 | 0 | 0 | 0 | 3,242 | 3,242 |
| 5.05.02.06 | Realization of equity valuation adjustment | 0 | 0 | 0 | 783 | -783 | 0 |
| 5.07 | Closing balances | 404,489 | -40,996 | 0 | -699,224 | 145,515 | -190,216 |

# Individual financial statements / Statement of changes in shareholders’ equity / DMPL - 01/01/2016–06/30/2016

# (In thousand of reais)

| Code of account | Account description | Paid-up capital | Capital reserves, Options granted and Treasury shares | Profit reserves | Retained earnings (loss) | Other comprehensive income | Shareholders' equity |
|---|---|---|---|---|---|---|---|
| 5.01 | Opening balances | 364,735 | -29,295 | 0 | -566,155 | 170,599 | -60,116 |
| 5.03 | Adjusted opening balances | 364,735 | -29,295 | 0 | -566,155 | 170,599 | -60,116 |
| 5.04 | Capital transactions with partners | 29,242 | -11,701 | 0 | 0 | 0 | 17,541 |
| 5.04.01 | Capital increases | 29,242 | -11,701 | 0 | 0 | 0 | 17,541 |
| 5.05 | Total comprehensive income | 0 | 0 | 0 | 12,201 | -50,373 | -38,172 |
| 5.05.01 | Net income for the period | 0 | 0 | 0 | 11,292 | 0 | 11,292 |
| 5.05.02 | Other comprehensive income | 0 | 0 | 0 | 909 | -50,373 | -49,464 |
| 5.05.02.04 | Translation adjustments in the period | 0 | 0 | 0 | 0 | -49,464 | -49,464 |
| 5.05.02.06 | Realization of equity valuation adjustment | 0 | 0 | 0 | 909 | -909 | 0 |
| 5.07 | Closing balances | 393,977 | -40,996 | 0 | -553,954 | 120,226 | -80,747 |

# Individual financial statements or Statement of added value

## (In thousand of reais)

| Code of account | Account description | Accumulated of the current year 01/01/2017–06/30/2017 | Accumulated of the prior year 01/01/2016–06/30/2016 |
|---|---|---|---|
| 7.01 | Income | 327,885 | 200,231 |
| 7.01.01 | Sale of merchandise, products and services | 325,504 | 199,846 |
| 7.01.02 | Other income | 1,616 | 1,478 |
| 7.01.04 | Formation/reversal of allowance for doubtful accounts | 765 | -1,093 |
| 7.02 | Inputs acquired from third parties | -244,201 | -144,276 |
| 7.02.01 | Cost of products, merchandise and services sold | -240,120 | -96,167 |
| 7.02.02 | Materials, Energy, Third-party services and other | -4,081 | -48,109 |
| 7.03 | Gross added value | 83,684 | 55,955 |
| 7.04 | Retentions | -3,761 | -3,482 |
| 7.04.01 | Depreciation, amortization and depletion | -3,761 | -3,482 |
| 7.05 | Net added value produced | 79,923 | 52,473 |
| 7.06 | Added value received as transfer | 16,625 | 69,455 |
| 7.06.01 | Equity income (loss) | -2,255 | -24,987 |
| 7.06.02 | Financial income | 18,880 | 94,442 |
| 7.07 | Total added value payable | 96,548 | 121,928 |
| 7.08 | Distribution of added value | 96,548 | 121,928 |
| 7.08.01 | Personnel | 33,584 | 32,420 |
| 7.08.01.01 | Direct remuneration | 26,433 | 27,823 |
| 7.08.01.02 | Benefits | 5,251 | 2,781 |
| 7.08.01.03 | Severance Pay Fund (FGTS) | 1,900 | 1,816 |
| 7.08.02 | Taxes, rates and contributions | 9,369 | 28,612 |
| 7.08.02.01 | Federal | -2,409 | 19,622 |
| 7.08.02.02 | State | 11,739 | 8,918 |
| 7.08.02.03 | Municipal | 39 | 72 |
| 7.08.03 | Third-party capital remuneration | 85,500 | 49,605 |
| 7.08.03.01 | Interest | 85,367 | 48,336 |
| 7.08.03.02 | Rents | 133 | 1,269 |
| 7.08.04 | Remuneration of own capital | -31,905 | 11,291 |
| 7.08.04.03 | Retained earnings / Loss for the period | -31,905 | 11,291 |

# Consolidated financial statements or Balance sheet – Assets

## (In thousand of reais)

| Code of account | Account description | Current quarter 06/30/2017 | Prior year 12/31/2016 |
|---|---|---|---|
| 1 | Total assets | 934,655 | 893,057 |
| 1.01 | Current assets | 512,805 | 472,452 |
| 1.01.01 | Cash and cash equivalents | 11,492 | 26,708 |
| 1.01.01.01 | Cash and banks | 11,232 | 25,890 |
| 1.01.01.02 | Marketable securities | 260 | 818 |
| 1.01.02 | Interest earning bank deposits | 2,040 | 2,552 |
| 1.01.03 | Accounts receivable | 137,898 | 150,197 |
| 1.01.03.01 | Trade accounts receivable | 137,898 | 150,197 |
| 1.01.04 | Inventories | 267,839 | 244,197 |
| 1.01.06 | Recoverable taxes | 63,444 | 20,497 |
| 1.01.06.01 | Current taxes recoverable | 63,444 | 20,497 |
| 1.01.07 | Prepaid expenses | 8,822 | 5,957 |
| 1.01.08 | Other Current assets | 21,270 | 22,344 |
| 1.01.08.03 | Other | 21,270 | 22,344 |
| 1.01.08.03.02 | Other accounts receivable | 21,270 | 22,344 |
| 1.02 | Non-current assets | 421,850 | 420,605 |
| 1.02.01 | Long term assets | 63,818 | 57,284 |
| 1.02.01.01 | Interest earning bank deposits measured at fair value | 2,352 | 634 |
| 1.02.01.01.01 | Trading securities | 2,352 | 634 |
| 1.02.01.06 | Deferred taxes | 46,364 | 44,536 |
| 1.02.01.06.01 | Deferred income and social contribution taxes | 46,364 | 44,536 |
| 1.02.01.09 | Other non-current assets | 15,102 | 12,114 |
| 1.02.01.09.03 | Recoverable taxes | 543 | 707 |
| 1.02.01.09.04 | Other | 14,559 | 11,407 |
| 1.02.02 | Investments | 50,457 | 50,457 |
| 1.02.02.01 | Ownership interest | 349 | 349 |
| 1.02.02.01.04 | Other ownership interest | 349 | 349 |
| 1.02.02.02 | Investment property | 50,108 | 50,108 |
| 1.02.03 | Property, plant and equipment | 234,046 | 238,650 |
| 1.02.03.01 | Fixed assets in operation | 213,995 | 220,428 |
| 1.02.03.03 | Constructions in progress | 20,051 | 18,222 |
| 1.02.04 | Intangible assets | 73,529 | 74,214 |
| 1.02.04.01 | Intangible assets | 73,529 | 74,214 |

# Consolidated financial statements or Balance sheet – Liabilities

## (In thousand of reais)

| Code of account | Account description | Current quarter 06/30/2017 | Prior year 12/31/2016 |
|---|---|---|---|
| 2 | Total liabilities | 934,655 | 893,057 |
| 2.01 | Current liabilities | 436,541 | 385,897 |
| 2.01.01 | Social and labor obligations | 37,520 | 34,645 |
| 2.01.01.01 | Social charges | 9,852 | 10,806 |
| 2.01.01.02 | Labor obligations | 27,668 | 23,839 |
| 2.01.02 | Suppliers | 156,809 | 128,712 |
| 2.01.02.01 | Domestic suppliers | 135,967 | 111,341 |
| 2.01.02.02 | Foreign suppliers | 20,842 | 17,371 |
| 2.01.03 | Tax liabilities | 38,046 | 39,170 |
| 2.01.03.01 | Federal tax liabilities | 26,394 | 35,097 |
| 2.01.03.01.01 | Income and social contribution tax payable | 6,490 | 3,416 |
| 2.01.03.01.02 | Other Taxes | 19,904 | 31,681 |
| 2.01.03.02 | State tax liabilities | 11,620 | 4,029 |
| 2.01.03.03 | Municipal tax liabilities | 32 | 44 |
| 2.01.04 | Loans and financing | 92,840 | 26,989 |
| 2.01.04.01 | Loans and financing | 80,374 | 26,556 |
| 2.01.04.01.01 | In domestic currency | 6,987 | 8,746 |
| 2.01.04.01.02 | In foreign currency | 73,387 | 17,810 |
| 2.01.04.02 | Debentures | 12,466 | 433 |
| 2.01.05 | Other liabilities | 94,370 | 105,199 |
| 2.01.05.02 | Other | 94,370 | 105,199 |
| 2.01.05.02.01 | Dividends and interest on own capital | 3 | 3 |
| 2.01.05.02.04 | Derivative financial instruments | 447 | 543 |
| 2.01.05.02.05 | Foreign exchange withdrawals | 21,836 | 28,065 |
| 2.01.05.02.08 | Advance from receivables | 11,919 | 6,136 |
| 2.01.05.02.09 | Advance from clients | 30,035 | 26,282 |
| 2.01.05.02.10 | Other liabilities | 30,130 | 44,170 |
| 2.01.06 | Provisions | 16,956 | 51,182 |
| 2.01.06.01 | Tax, social security, labor and civil provisions | 4,155 | 40,090 |
| 2.01.06.01.01 | Tax provisions | 315 | 318 |
| 2.01.06.01.02 | Social security and labor provisions | 3,840 | 33,235 |
| 2.01.06.01.04 | Civil provisions | 0 | 6,537 |
| 2.01.06.02 | Other provisions | 12,801 | 11,092 |
| 2.01.06.02.01 | Provision for guarantees | 12,801 | 11,092 |
| 2.02 | Non-current liabilities | 688,330 | 679,061 |
| 2.02.01 | Loans and financing | 607,760 | 641,123 |
| 2.02.01.01 | Loans and financing | 544,770 | 573,112 |
| 2.02.01.01.01 | In domestic currency | 11,695 | 15,045 |
| 2.02.01.01.02 | In foreign currency | 533,075 | 558,067 |
| 2.02.01.02 | Debentures | 62,990 | 68,011 |
| 2.02.02 | Other liabilities | 11,362 | 5,572 |
| 2.02.02.02 | Other | 11,362 | 5,572 |
| 2.02.02.02.04 | Taxes payable | 8,371 | 2,496 |
| 2.02.02.02.05 | Other liabilities | 2,991 | 3,076 |
| 2.02.03 | Deferred taxes | 14,990 | 15,190 |
| 2.02.03.01 | Deferred income and social contribution taxes | 14,990 | 15,190 |

# Consolidated financial statements or Balance sheet – Liabilities

# (In thousand of reais)

| Code of account | Account description | Current quarter 06/30/2017 | Prior year 12/31/2016 |
|---|---|---|---|
| 2.02.04 | Provisions | 54,218 | 17,176 |
| 2.02.04.01 | Tax, social security, labor and civil provisions | 48,701 | 11,741 |
| 2.02.04.01.01 | Tax provisions | 0 | 6,732 |
| 2.02.04.01.02 | Social security and labor provisions | 39,749 | 2,114 |
| 2.02.04.01.04 | Civil provisions | 8,952 | 2,895 |
| 2.02.04.02 | Other provisions | 5,517 | 5,435 |
| 2.02.04.02.01 | Provision for guarantees | 5,517 | 5,435 |
| 2.03 | Consolidated shareholders' equity | -190,216 | -171,901 |
| 2.03.01 | Realized capital | 404,489 | 393,977 |
| 2.03.02 | Capital reserves | -40,996 | -40,832 |
| 2.03.02.06 | Advance for future capital increase | 0 | 164 |
| 2.03.02.09 | Capital transactions | -40,996 | -40,996 |
| 2.03.05 | Retained Earnings/Losses | -699,224 | -668,102 |
| 2.03.06 | Equity valuation adjustments | 48,952 | 49,736 |
| 2.03.07 | Accumulated translation adjustments | 96,563 | 93,320 |

# Consolidated financial statements / Statement of income

## (In thousand of reais)

| Code of account | Account description | Current quarter 04/01/2017–06/30/2017 | Accumulated of the current year 01/01/2017–06/30/2017 | Same quarter of the prior year 04/01/2016–06/30/2016 | Accumulated of the prior year 01/01/2016–06/30/2016 |
|---|---|---|---|---|---|
| 3.01 | Income from sales of goods and/or services | 181,541 | 393,935 | 198,296 | 383,834 |
| 3.02 | Cost of goods and/or services sold | -134,415 | -288,570 | -134,051 | -273,286 |
| 3.03 | Gross income | 47,126 | 105,365 | 64,245 | 110,548 |
| 3.04 | Operating expenses/income | -61,080 | -121,670 | -81,175 | -152,004 |
| 3.04.01 | Sales expenses | -27,116 | -55,657 | -29,430 | -53,875 |
| 3.04.02 | General and administrative expenses | -35,848 | -68,276 | -33,093 | -74,034 |
| 3.04.04 | Other operating income | 5,037 | 9,709 | 133 | 1,823 |
| 3.04.05 | Other operating expenses | -3,153 | -7,446 | -18,150 | -24,417 |
| 3.04.06 | Equity income (loss) | 0 | 0 | -635 | -1,501 |
| 3.05 | Income (loss) before financial income and taxes | -13,954 | -16,305 | -16,930 | -41,456 |
| 3.06 | Financial income (loss) | -62,774 | -68,817 | 29,899 | 49,734 |
| 3.06.01 | Financial income | 697 | 20,756 | 56,588 | 101,725 |
| 3.06.02 | Financial expenses | -63,471 | -89,573 | -26,689 | -51,991 |
| 3.07 | Income (loss) before income tax | -76,728 | -85,122 | 12,969 | 8,278 |
| 3.08 | Income and social contribution taxes | 51,276 | 53,217 | 1,589 | 3,013 |
| 3.08.01 | Current | 3,098 | 4,629 | 3,756 | 5,143 |
| 3.08.02 | Deferred assets | 48,178 | 48,588 | -2,167 | -2,130 |
| 3.09 | Net income from continued operations | -25,452 | -31,905 | 14,558 | 11,291 |
| 3.11 | Consolidated income/loss for the period | -25,452 | -31,905 | 14,558 | 11,291 |
| 3.11.01 | Attributed to the Parent company's partners | -25,452 | -31,905 | 14,558 | 11,291 |
| 3.99 | Earnings per share - (Reais R$ / Shares) | | | | |
| 3.99.01 | Basic earnings per share | | | | |
| 3.99.01.01 | Common shares | -0.49321 | -0.39346 | 0.24980 | 0.19374 |
| 3.99.01.02 | Preferred shares | -0.49321 | -0.39346 | 0.24980 | 0.19374 |
| 3.99.02 | Diluted earnings per share | | | | |
| 3.99.02.01 | Common shares | -0.49321 | -0.39346 | 0.24980 | 0.19374 |
| 3.99.02.02 | Preferred shares | -0.49321 | -0.39346 | 0.24980 | 0.19374 |

# Consolidated financial statements or Statement of comprehensive income

## (In thousand of reais)

| Code of account | Account description | Current quarter 04/01/2017–06/30/2017 | Accumulated of the current year 01/01/2017–06/30/2017 | Same quarter of the prior year 04/01/2016–06/30/2016 | Accumulated of the prior year 01/01/2016–06/30/2016 |
|---|---|---|---|---|---|
| 4.01 | Consolidated net income for the period | -25,452 | -31,905 | 14,559 | 11,292 |
| 4.02 | Other comprehensive income | 10,185 | 3,242 | -26,126 | -49,464 |
| 4.02.01 | Translation adjustments in the period | 10,185 | 3,242 | -26,126 | -49,464 |
| 4.03 | Consolidated comprehensive income for the period | -15,267 | -28,663 | -11,567 | -38,172 |
| 4.03.01 | Attributed to the Parent company's partners | -15,267 | -28,663 | -11,567 | -38,172 |

# Consolidated financial statements / Statement of cash flows - Indirect method

## (In thousand of reais)

| Code of account | Account description | Accumulated of the current year 01/01/2017–06/30/2017 | Accumulated of the prior year 01/01/2016–06/30/2016 |
|---|---|---|---|
| 6.01 | Net cash from operating activities | 4,233 | 53,196 |
| 6.01.01 | Cash generated in operations | -8,596 | 35,694 |
| 6.01.01.01 | Net income (loss) before income and social contribution taxes | -85,122 | 8,278 |
| 6.01.01.02 | Depreciation and amortization | 17,729 | 16,996 |
| 6.01.01.03 | Cost of permanent assets written-off | 4,453 | 7,268 |
| 6.01.01.05 | Equity in net income of subsidiaries | 0 | 1,501 |
| 6.01.01.06 | Provision for Derivative financial instruments | 0 | 8,400 |
| 6.01.01.07 | Allowance for doubtful accounts | 1,696 | 1,444 |
| 6.01.01.10 | Provision for interest on loans and financing | 34,475 | 33,810 |
| 6.01.01.12 | Sale of investments | 0 | 2,636 |
| 6.01.01.13 | Write-off of goodwill on investment | 0 | 2,215 |
| 6.01.01.14 | Provision for freight and commissions | -12,326 | 0 |
| 6.01.01.16 | Provision for inventory loss | 14,126 | 0 |
| 6.01.01.17 | Provision for guarantees | 1,792 | -1,814 |
| 6.01.01.19 | Provision for contingencies | 5,366 | 10,376 |
| 6.01.01.20 | Exchange rate change on loans and others | 9,215 | -55,416 |
| 6.01.02 | Changes in assets and liabilities | 5,126 | 18,463 |
| 6.01.02.01 | Decrease in trade accounts receivable | 14,535 | 33,569 |
| 6.01.02.02 | (Increase) in inventories | -37,768 | -53,840 |
| 6.01.02.03 | (Increases) in other accounts receivable | -47,726 | -24,824 |
| 6.01.02.04 | Increase in suppliers | 27,662 | 53,537 |
| 6.01.02.05 | Increase in accounts payable and provisions | 48,423 | 10,021 |
| 6.01.03 | Other | 7,703 | -961 |
| 6.01.03.02 | Payment of IRPJ (Corporate Income Tax) and CSLL (Social contribution tax) | 7,703 | -961 |
| 6.02 | Net cash used in investment activities | -16,707 | 7,841 |
| 6.02.03 | Sale of investments | 0 | 5,000 |
| 6.02.04 | In property, plant and equipment | -15,526 | -18,772 |
| 6.02.05 | In intangible assets | 25 | -6,498 |
| 6.02.06 | Interest earning bank deposits | -1,206 | 28,111 |
| 6.03 | Net cash from financing activities | -2,742 | -98,753 |
| 6.03.02 | Borrowings | 48,246 | 219,770 |
| 6.03.03 | Payment of loans | -53,711 | -316,958 |
| 6.03.05 | Capital increase | 10,512 | 17,541 |
| 6.03.06 | Advance for future capital increase | -164 | 0 |
| 6.03.10 | Payment of Interest on loans | -7,625 | -19,106 |
| 6.05 | Increase (decrease) in cash and cash equivalents | -15,216 | -37,716 |
| 6.05.01 | Opening balance of cash and cash equivalents | 26,708 | 60,312 |
| 6.05.02 | Closing balance of cash and cash equivalents | 11,492 | 22,596 |

# Consolidated financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2017–06/30/2017

# (In thousand of reais)

| Code of account | Account description | Paid-up capital | Capital reserves, Options granted and Treasury shares | Profit reserves | Retained earnings (loss) | Other comprehensive income | Shareholders' equity | Interest of non-controlling shareholders | 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 | -31,122 | 2,459 | -28,663 | 0 | -28,663 |
| 5.05.01 | Net income for the period | 0 | 0 | 0 | -31,905 | 0 | -31,905 | 0 | -31,905 |
| 5.05.02 | Other comprehensive income | 0 | 0 | 0 | 783 | 2,459 | 3,242 | 0 | 3,242 |
| 5.05.02.04 | Translation adjustments in the period | 0 | 0 | 0 | 0 | 3,242 | 3,242 | 0 | 3,242 |
| 5.05.02.06 | Realization of equity valuation adjustment | 0 | 0 | 0 | 783 | -783 | 0 | 0 | 0 |
| 5.07 | Closing balances | 404,489 | -40,996 | 0 | -699,224 | 145,515 | -190,216 | 0 | -190,216 |

# Consolidated financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2016–06/30/2016

# (In thousand of reais)

| Code of account | Account description | Paid-up capital | Capital reserves, Options granted and Treasury shares | Profit reserves | Retained earnings (loss) | Other comprehensive income | Shareholders' equity | Interest of non-controlling shareholders | Consolidated shareholders' equity |
|---|---|---|---|---|---|---|---|---|---|
| 5.01 | Opening balances | 364,735 | -29,295 | 0 | -566,155 | 170,599 | -60,116 | 0 | -60,116 |
| 5.03 | Adjusted opening balances | 364,735 | -29,295 | 0 | -566,155 | 170,599 | -60,116 | 0 | -60,116 |
| 5.04 | Capital transactions with partners | 29,242 | -11,701 | 0 | 0 | 0 | 17,541 | 0 | 17,541 |
| 5.04.01 | Capital increases | 29,242 | -11,701 | 0 | 0 | 0 | 17,541 | 0 | 17,541 |
| 5.05 | Total comprehensive income | 0 | 0 | 0 | 12,201 | -50,373 | -38,172 | 0 | -38,172 |
| 5.05.01 | Net income for the period | 0 | 0 | 0 | 11,292 | 0 | 11,292 | 0 | 11,292 |
| 5.05.02 | Other comprehensive income | 0 | 0 | 0 | 909 | -50,373 | -49,464 | 0 | -49,464 |
| 5.05.02.04 | Translation adjustments in the period | 0 | 0 | 0 | 0 | -49,464 | -49,464 | 0 | -49,464 |
| 5.05.02.06 | Realization of equity valuation adjustment | 0 | 0 | 0 | 909 | -909 | 0 | 0 | 0 |
| 5.07 | Closing balances | 393,977 | -40,996 | 0 | -553,954 | 120,226 | -80,747 | 0 | -80,747 |

# Consolidated financial statements or Statement of added value

## (In thousand of reais)

| Code of account | Account description | Accumulated of the current year 01/01/2017–06/30/2017 | Accumulated of the prior year 01/01/2016–06/30/2016 |
|---|---|---|---|
| 7.01 | Income | 451,067 | 434,862 |
| 7.01.01 | Sale of merchandise, products and services | 448,726 | 434,483 |
| 7.01.02 | Other income | 2,270 | 1,823 |
| 7.01.04 | Formation/reversal of allowance for doubtful accounts | 71 | -1,444 |
| 7.02 | Inputs acquired from third parties | -300,985 | -264,109 |
| 7.02.01 | Cost of products, merchandise and services sold | -322,305 | -132,454 |
| 7.02.02 | Materials, Energy, Third-party services and other | 21,320 | -131,655 |
| 7.03 | Gross added value | 150,082 | 170,753 |
| 7.04 | Retentions | -17,971 | -15,675 |
| 7.04.01 | Depreciation, amortization and depletion | -17,971 | -15,675 |
| 7.05 | Net added value produced | 132,111 | 155,078 |
| 7.06 | Added value received as transfer | 20,756 | 99,872 |
| 7.06.01 | Equity income (loss) | 0 | -1,501 |
| 7.06.02 | Financial income | 20,756 | 101,373 |
| 7.07 | Total added value payable | 152,867 | 254,950 |
| 7.08 | Distribution of added value | 152,867 | 254,950 |
| 7.08.01 | Personnel | 87,282 | 106,248 |
| 7.08.01.01 | Direct remuneration | 68,141 | 90,878 |
| 7.08.01.02 | Benefits | 14,264 | 10,522 |
| 7.08.01.03 | Severance Pay Fund (FGTS) | 4,877 | 4,848 |
| 7.08.02 | Taxes, rates and contributions | 7,372 | 84,160 |
| 7.08.02.01 | Federal | -10,181 | 64,557 |
| 7.08.02.02 | State | 17,362 | 19,461 |
| 7.08.02.03 | Municipal | 191 | 142 |
| 7.08.03 | Third-party capital remuneration | 90,118 | 53,251 |
| 7.08.03.01 | Interest | 89,572 | 51,639 |
| 7.08.03.02 | Rents | 546 | 1,612 |
| 7.08.04 | Remuneration of own capital | -31,905 | 11,291 |
| 7.08.04.03 | Retained earnings / Loss for the period | -31,905 | 11,291 |

## Performance comment

TAURUS™

# 2Q17

## PRESS RELEASE

# Performance comment

*São Leopoldo, August 11, 2017 -* Forjas Taurus S.A., listed in Level 2 for BM&FBOVESPA 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 areas involving Containers, Plastics and M.I.M. (Metal Injection Molding), discloses its income figures for the **2nd quarter of 2017 (2Q17)**.

## 1. Highlights of the third quarter of 2017 (2Q17)

**Conference Call on Income Figures***

Tuesday, August 25, 2017

Time: 10 am (Brazil / 9 am (US-EST)

Accesses in Portuguese:
http://cast.comunique-se.com.br/taurus/2T17

Accesses in English:
http://cast.comunique-se.com.br/taurus/2Q17

*The conference call will be held in Portuguese only, with simultaneous translation into English.

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- ✓ **Significant retraction of the North American market.** Affected by the summer holidays (seasonality), and mainly by the post-election event reflected in a 15.6% drop in NICS in 2Q17 over 1Q17. The market is still marked by adjustments in the volumes of distributors' inventories, and by a substantially discount-based environment.

- ✓ **Consolidated net revenue reached R$ 181.5 million in 2Q17**, a decrease of 14.5% in relation to 1Q17, mainly in the North American market, where the reduction totaled 19.6% in the same period.

- ✓ **Consolidated gross margin reached 26.6% in 2Q17,** 0.8 p.p. lower than in 1Q17, due to the lower prices in the US, in view of the intensification of the discount-based scenario in the country.

- ✓ **EBITDA recorded a negative value of R$ 4.7 million in 2Q17,** impacted by the North American market environment and by increases in provisions for civil and labor contingencies.

- ✓ **Increase of 15% in the production for the quarter in relation to 1Q17.**

# Performance comment

## 2. Economic and financial performance - consolidated

The table that follows reflects the Company's consolidated economic and financial performance for 2Q17 as compared to performance recorded for 1Q17 and 2Q16.

### Consolidated Financial and Economic Summary

| In millions of R$ | 2Q17 | 1Q17 | 2Q16 | 1S17 | 1S16 | Change | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | 2Q17/1Q17 | 2Q17/2Q16 | 1Q17/1Q16 |
| **Net revenue** | **181.5** | **212.4** | **198.3** | **393.9** | **383.8** | **-14.5%** | **-8.5%** | **2.6%** |
| Domestic market | 40.7 | 45.8 | 48.3 | 86.5 | 94.3 | -11.1% | -15.7% | -8.3% |
| Foreign market | 140.8 | 166.6 | 150.0 | 307.4 | 289.5 | -15.5% | -6.1% | 6.2% |
| CGS | 133.2 | 154.2 | 134.1 | 287.4 | 273.3 | -13.6% | -0.7% | 5.2% |
| Gross income | 48.3 | 58.2 | 64.2 | 106.5 | 110.5 | -17.0% | -24.8% | -3.6% |
| ***Gross margin - %*** | **26.6%** | **27.4%** | **32.4%** | **27.0%** | **28.8%** | **-0.8 p.p.** | **-5.8 p.p.** | **-1.8 p.p.** |
| Operating expenses - SG&A | -62.3 | -60.5 | -81.2 | -122.8 | -152.0 | 3.0% | -23.3% | -19.2% |
| Operating income (EBIT) | -14.0 | -2.3 | -17.0 | -16.3 | -41.5 | 508.7% | -17.6% | -60.7% |
| ***EBIT margin %*** | **-7.7%** | **-1.1%** | **-8.6%** | **-4.1%** | **-10.8%** | **-6.6 p.p.** | **0.9 p.p.** | **6.7 p.p.** |
| Net financial income (loss) | -62.8 | -6.0 | 29.9 | -68.8 | 49.7 | 946.7% | - | - |
| Depreciation and amortization | 9.3 | 8.5 | 5.0 | 17.8 | 17.0 | 9.4% | 86.0% | 4.7% |
| Consolidated income / loss | -25.5 | -6.5 | 14.6 | -31.9 | 11.3 | 294.4% | - | - |
| ***Consolidated net margin - %*** | **-14.0%** | **-3.0%** | **7.3%** | **-8.1%** | **2.9%** | **-11.0 p.p.** | **-21.3 p.p.** | **-11.0 p.p.** |
| EBITDA | -4.7 | 6.1 | -11.9 | 1.4 | -24.4 | -177.0% | -60.5% | - |
| ***EBITDA margin – %*** | **-2.6%** | **2.9%** | **-6.0%** | **0.4%** | **-6.4%** | **-5.5 p.p.** | **3.4 p.p.** | **6.7 p.p.** |
| Total assets | 934.7 | 896.8 | 954.9 | 934.7 | 954.9 | 4.2% | -2.1% | -2.1% |
| Provision for unsecured liability | -190.2 | -174.9 | -80.7 | -190.2 | -80.7 | 8.8% | 135.7% | 135.7% |

### Net revenue

In 2Q17, the Company's consolidated net revenue totaled R$ 181.5 million, a decrease of 14.5% in relation to 1Q17. This decrease is mainly due to three factors observed in the US: (1) a decrease in the record volumes of US firearm consumption recorded by the end of 2016, due to the results of the US presidential election; (2) distributors and the market in general significantly reducing the volumes of their inventories due to the need to preserve cash and the low seasonality during this summer vacation; and (3) distributors focusing their purchases and sales on promotional products and with relevant discounts offered by the industry.

The launching of our new products into the North American market, expected substantially for the fourth quarter of this year, should contribute to the resumption of a portion of the margin, since these products are out of the traditional commodity price war, reaching another market segment.

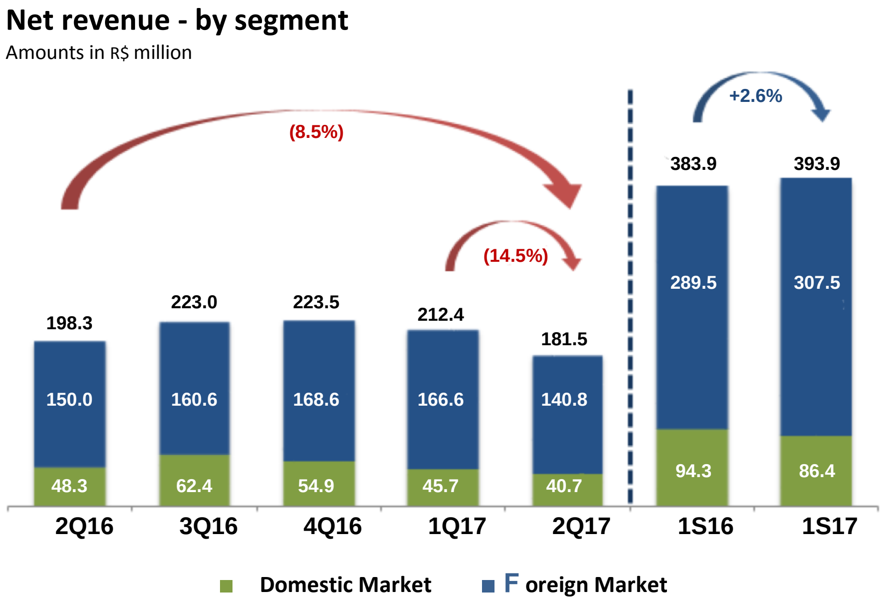
## Performance comment

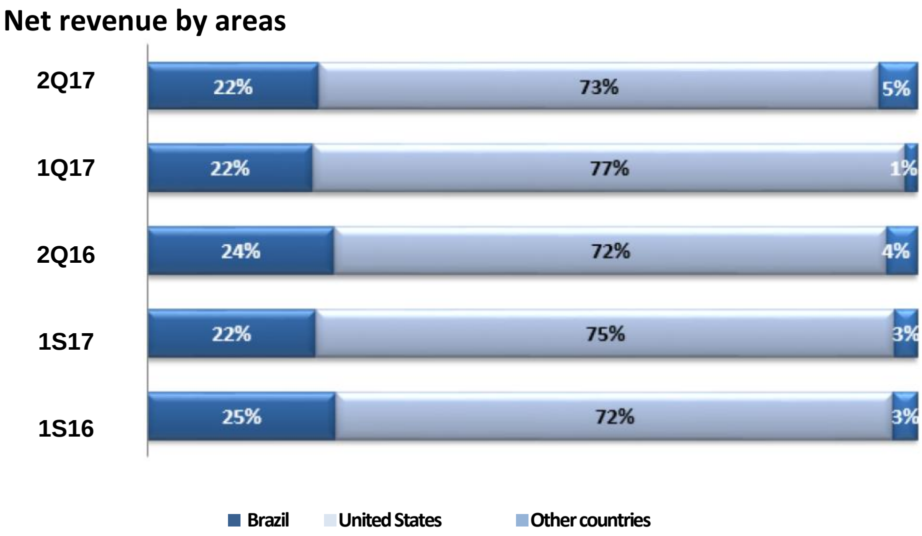
It is worth remembering that the effect on the Company's margin was softened by the improvement in the production process and by the long preparation the Company underwent over the last years. Since the changes in the Company's equity control, authorized by the Brazilian Administrative Council for Economic Defense (CADE) in February 2015, several initiatives and actions have been implemented to enable the Company to reach the current conditions to compete in the North American market. Among the main milestones of this process, we highlight the following:

- Change in the Company's shareholding control in February 2015;
- Consolidation of the three firearm plants in Rio Grande do Sul in a single plant;
- New management model with significant increase in production in the last 2 years;
- Modernization of the manufacturing process, safety controls and total focus on quality;
- Implementation of the SAP system for process management;
- Respect for the environment, with significant investments in environmental management;
- Restructuring of an important part of the financial debt, lengthening the Company's maturities;
- Resumption of investments in new products, complementing the product offer and improving existing models;
- Resumption of exports to other countries, besides the US, focusing on market diversification;
- Dedicated efforts to bring the Company closer to its customers, addressing identified issues and seeking solutions to all known cases, enhancing confidence in the Company and its products;

The Company have made several actions to realign its trajectory. However, the current market conditions impose further process management and refining efforts. However, we can already identify the assertiveness of the initiatives taken in the last 2 years, which allowed the Company to participate, in an extremely active and differentiated way, in the current world firearm scenario.

## Performance comment

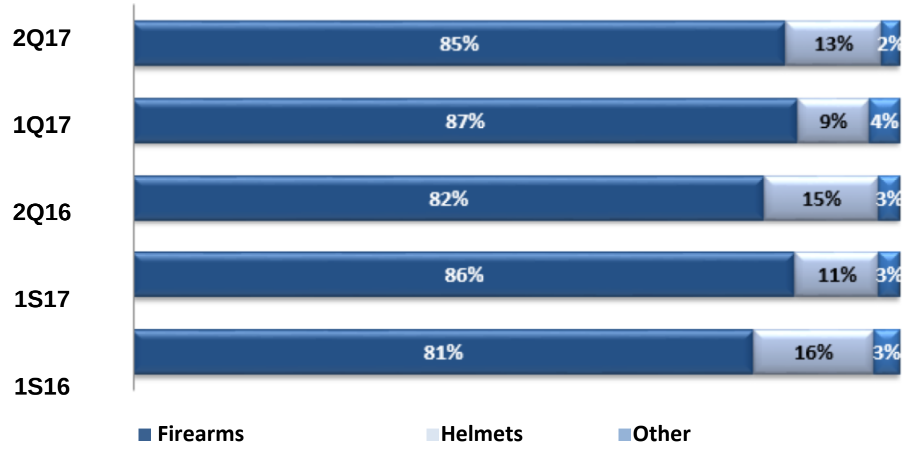



Exports in the quarter decreased 15.5% in relation to 1Q17, reaching R$ 140.8 million, influenced by a drop in sales in US, decreasing R$ 19.6% in the period. In relation to 2Q16, sales of firearms to the US decreased 6.8%. On the other hand, exports to other countries were the positive highlight, surpassing the 2016 levels. In 2Q17, sales to other markets reached R$ 8.4 million, 171.0% higher than the R$ 3.1 million recorded in 1Q17 and 5.0% higher than the R$ 8.0 million recorded in 2Q16. In the domestic market, sales decreased 11.1% in relation to 1Q17, totaling R$ 40.7 million. This result basically represents the seasonality of the domestic firearm market, which dropped 23.1% in relation to 1Q17. In relation to 2Q16, sales of firearms in the domestic market increased 4.2%. However, sales of helmets increased 13.9% in the quarter compared to the previous quarter, but decreased 23.2% compared to 2Q16.

# Performance comment

**Net revenue by segment**




In the chart above the breakdown by business segment of the Company's consolidated net revenue is shown. The lower performance of firearms segment, specially in USA, caused this segment to lose its share in consolidated net revenue from 87% in 1Q17 to 85% in 2Q17. On the other hand, the helmets segment, with the increased sales, recorded a higher share, reaching 13% in 2Q17, against 9% in the previous quarter. In turn, the "Others" segment recorded a decrease of 2 p.p. in its share, recording 2% in the period.

## Information per business segment

In the following table the consolidated financial highlights are shown by segment:

**Quarterly Comparison - Current vs. Previous Quarter**

| | Net revenue | | | | | Gross margin | | |
|---|---|---|---|---|---|---|---|---|
| | 2Q17 | Int.% | 1Q17 | Int.% | Var. | 2Q17 | 1Q17 | Var. |
| **Firearms** | 154.5 | 85% | 185.7 | 87% | -16.8% | 25.0% | 27.6% | -2.6 p.p. |
| **Helmets** | 22.9 | 13% | 20.1 | 9% | 13.9% | 28.8% | 30.3% | -1.5 p.p. |
| **Other** | 4.1 | 2% | 6.6 | 3% | -37.9% | 75.6% | 12.1% | 63.5 p.p. |
| **Total** | **181.5** | **100%** | **212.4** | **100%** | -14.5% | **26.6%** | **27.4%** | **-0.8 p.p.** |

# Performance comment

**Quarterly comparison - Year x Year**

| | Net revenue | | | | | Gross margin | | |
|---|---|---|---|---|---|---|---|---|
| | 2Q17 | Int.% | 2Q16 | Int.% | Var. | 2Q17 | 2Q16 | Var. |
| **Firearms** | 154.6 | 85% | 163.2 | 82% | -5.3% | 25.0% | 31.3% | -6.3 p.p. |
| **Helmets** | 22.9 | 13% | 29.8 | 15% | -23.2% | 28.8% | 31.9% | -3.1 p.p. |
| **Other** | 4.0 | 2% | 5.3 | 3% | -22.6% | 75.6% | 67.9% | 7.7 p.p. |
| **Total** | **181.5** | **100%** | **198.3** | **100%** | -8.5% | **26.6%** | **32.4%** | **-5.8 p.p.** |

**Semi-annual comparison**

| | Net revenue | | | | | Gross margin | | |
|---|---|---|---|---|---|---|---|---|
| | 1S17 | Int.% | 1S16 | Int.% | Var. | 1S17 | 1S16 | Var. |
| **Firearms** | 340.2 | 86% | 310.6 | 81% | 9.5% | 26.4% | 25.9% | 0.5 p.p. |
| **Helmets** | 43.0 | 11% | 60.1 | 16% | -28.5% | 29.5% | 36.6% | -7.1 p.p |
| **Other** | 10.7 | 3% | 13.1 | 3% | -18.3% | 36.4% | 61.8% | 25.4 p.p. |
| **Total** | **393.9** | **100%** | **383.8** | **100%** | 2.6% | **27.0%** | **28.8%** | **-1 p.p.** |

### 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 Sao Leopoldo/RS and Taurus Holdings, Inc. in the US carry out operations in this segment.

| NET REVENUE In millions of R$ | 2Q17 | 1Q17 | 2Q16 | 1S17 | 1S16 | Change 2Q17/1Q17 | Change 2Q17/2Q16 | Change 1Q17/1Q16 |
|---|---|---|---|---|---|---|---|---|
| **Firearms** | **154.6** | **185.7** | **163.2** | **340.3** | **310.6** | **-16.7%** | **-5.3%** | **9.6%** |
| **Brazil** | **15.0** | **19.5** | **14.4** | **34.5** | **23.3** | **-23.1%** | **4.2%** | **48.1%** |
| **Exports** | **139.6** | **166.2** | **148.8** | **305.8** | **287.3** | **-16.0%** | **-6.2%** | **6.4%** |
| United States | 131.2 | 163.1 | 140.8 | 294.3 | 275.3 | -19.5% | -6.8% | 6.9% |
| Other countries | 8.4 | 3.1 | 8.0 | 11.5 | 12.0 | 171.0% | 5.0% | -4.2% |

Net sales of firearms amounted to R$ 154.6 million in 2Q17, 16.7% lower than in 1Q17. In the domestic market, sales of firerms, seasonally weaker, dropped 23.1% in this quarter in relation to 1Q17. Compared to the same period of last year, sales in the domestic market increased 4.2%, driven by growth in sales in the civil market, since government sales continued dropping due to restricted public budgets.

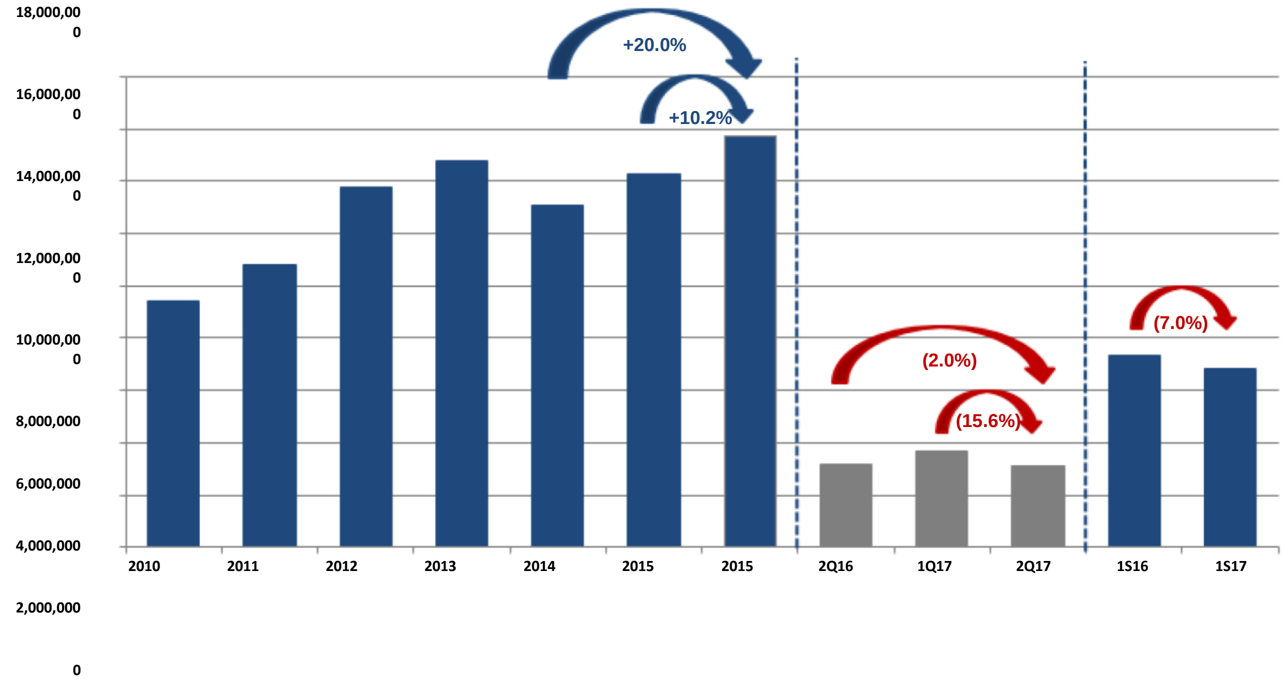
In the US, the scenario in 2Q17 is characterized by the aforementioned three factors, namely: (1) due to the results of the US presidential elections, there was a significant decrease in the record volumes of firearm sales recorded up to the end of 2016; (2) distributors significantly reduced the volumes of their inventories due to the need to preserve cash and the seasonality during this summer vacation; and (3) distributors focusing their purchases and sales on promotional products and with relevant discounts offered by the industry. In this quarter, sales to this market decreased 19.6% compared to 1Q17, reaching R$ 131.2 million.

## Performance comment

This scenario of lower demand is evidenced in the analysis of the NICS (National Instant Background Check System) market indicator, which allows to determine firearm purchase intentions in the USA. In 2Q17, there was a decrease of 15.6% compared to 1Q17, and of 2% compared to the same period of 2016. In the first semester, the indicator accumulated a drop of 7.0%.

### NI SC - National Instant Background Check System

**Number of inquiries**




On the positive side, sales to other countries stood out, recording growth of 171.0%, reaching R$ 8.4 million in 2Q17. This result also exceeds the total of R$ 8.0 million reported in 2Q16 by 5.0%. Also on the positive side, it is worth highlighting the production of firearms, which showed greater consistency in this quarter, accumulating a volume of production 15% higher in the quarter when compared with the production recorded in 1Q17.

With higher competition and lower demand in the US, the gross margin for firearms dropped 2.6 p.p., accounting for 25.0% in 2Q17. Compared to 2Q16, gross margin for the segment decreased 6.3%. In the semester, the indicator still maintains a 0.5 p.p. increase.

# Performance comment

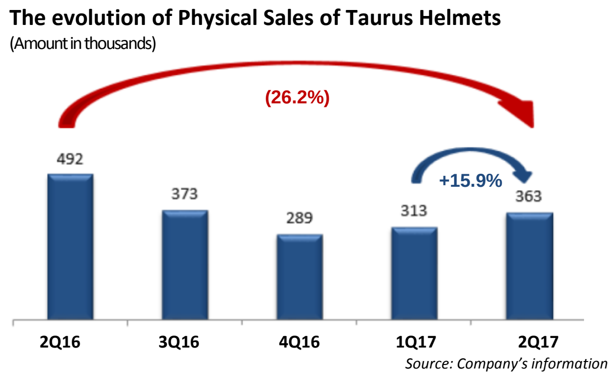
## II. Helmets

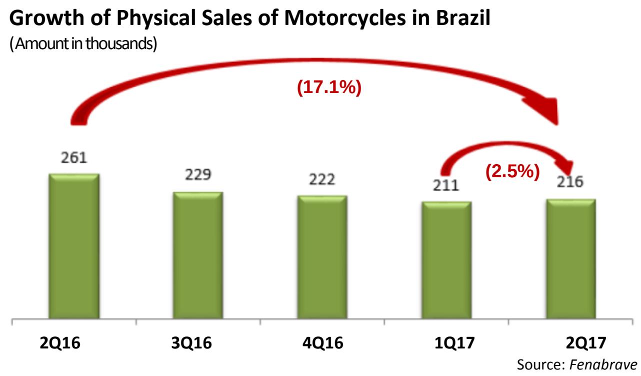
The segment of helmets is the second largest in the company, with the production units of Taurus Blindagens Ltda., in Mandirituba/PR, and Taurus Blindagens Nordeste Ltda., in Simoes Filho/BA.

| NET REVENUE In millions of R$ | 2Q17 | 1Q17 | 2Q16 | 1S17 | 1S16 | Change 2Q17/1Q17 | Change 2Q17/2Q16 | Change 1Q17/1Q16 |
|---|---|---|---|---|---|---|---|---|
| **Helmets** | **22.9** | **20.1** | **29.8** | **43.0** | **60.1** | **13.9%** | **-23.2%** | **-28.5%** |
| Brazil | 22.9 | 20.1 | 29.8 | 43.0 | 60.1 | 13.9% | -23.2% | -28.5% |

Sales of helmets totaled R$ 22.9 million in 2Q17, a growth of 13.9% in relation to 1Q17, due to a growth in physical sales volume. However, the segment's net revenue still records a decrease of 28.5% compared to 2016, accounting for R$ 43.0 million.

In the following chart, comparing the evolution of physical sales of the Company's helmets with physical sales of motorcycles in Brazil, there was an increase of 15.9% in the Company's sales of helmets in 2Q17 compared to 1Q17. On the other hand, sales of motorcycles in Brazil fell 2.5% in the same period, thus showing a Taurus market new share rebound in the quarter.




The gross margin in this segment was 28.8% in 2Q17, 1.5 p.p. below 1Q17. In the first semester, the gross margin of helmets reached 29.5%, 7.1 p.p. below the same period of 2016.

## Performance comment

### III. Other

In addition to firearms and helmets, Taurus also operates in other segments, such as the manufacture of plastic containers, motorcycle trunks, and metal-injection molded (MIM) parts. Only M.I.M. technology is used in Polimetal Metalurgia e Plásticos Ltda. unit in São Leopoldo/RS, and other products are produced at the Parana unit - Taurus Blindagens.

| | | | | | | Change | | |
|---|---|---|---|---|---|---|---|---|
| **NET REVENUE**<br>**In millions of R$** | **2Q17** | **1Q17** | **2Q16** | **1S17** | **1S16** | **2Q17/1Q17** | **2Q17/2Q16** | **1Q17/1Q16** |
| **Other** | **4.0** | **6.6** | **5.3** | **10.6** | **13.1** | **-39.4%** | **-24.5%** | **-19.1%** |
| Brazil | 2.7 | 6.2 | 4.1 | 8.9 | 10.9 | -56.5% | -34.1% | -18.3% |
| Exports | 1.3 | 0.4 | 1.2 | *1.7* | 2.2 | 225.0% | 8.3% | -22.7% |

This segment presented R$ 4.0 million in net sales in 2Q17, a 39.4% decline in relation to 1Q17. This segment has little representation in the company's revenue, and presents specific demands. Thus, variations in its result are quite normal. Year-to-date revenue from this segment totaled R$ 10.6 million, 19.1% lower than the income recorded in the same period of 2016.

## Operating expenses

In 2Q17, operating expenses totaled R$ 62.3 million, 3.0% greater compared to 1Q17, and a retraction of 23.3% compared to 2Q16. It is worth remembering that 2Q16 was impacted by the loss of R$ 15.2 million arising from (i) the write-off of th investment and goodwill on investment related to the sale of the interest in Famastil, and from the supplementary provision for lawyers' fees related to the Carter process. Regarding net revenue, operating expenses in 2Q17 represented 34.3%, 5.8 p.p. greater than in 1Q17, and 6.6 p.p. lower than the 40.9% recorded in 1Q16. During the semester, operating expenses totaled R$ 122.8 million, 19.2% lower compared to the first six-month period of 2016.

The Company recorded a restatement for provisions for labor and civil contingencies in a relevant amount, which had a negative impact on income (loss). In 2Q17, the Company recorded R$ 6.6 as a supplement in this caption (R$ 5.6 million in 1Q17), mainly related to the restatement of provisions, recording of provision for new labor claims, and provisions for civil claims formed in the quarter.

## Performance comment

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

| | 2Q17 | 1Q17 | 2Q16 | 1S17 | 1S16 | 2Q17x1Q17 | 2Q17x2Q16 | 1Q17x1Q16 |
|---|---|---|---|---|---|---|---|---|
| Operating expenses | 62.3 | 60.5 | 81.2 | 122.8 | 152.0 | 3.0% | -23.3% | -19.2% |
| Net revenue | 181.5 | 212.4 | 198.3 | 393.9 | 383.9 | -14.5% | -8.5% | 2.6% |
| % Operating expenses | 34.3% | 28.5% | 40.9% | 31.2% | 39.6% | 5.8 p.p. | -6.6 p.p. | -8.4 p.p. |

**EBITDA**

In 2Q17, the Company's cash flow measured by EBITDA recorded a negative balance of R$ 4.7 million in the quarter, against the a positive result of R$ 6.1 million in 1Q17 and also a negative result of R$ 11.9 million in 2Q16. In addition to the lower performance in the North American market, the Company's EBITDA was also impacted by the aforementioned additions of provisions for civil and labor contingencies, in the amount of R$ 6.6 million. During the semester, consolidated EBITDA records R$ 1.4 million, with a negative result of R$ 24.4 million in the same period of prior year.

CONSOLIDATED EBITDA

In millions of R$

| | 2Q17 | 1Q17 | 2Q16 | 1S17 | 1S16 | 2Q17x1Q17 | 2Q17x2Q16 | 1Q17x1Q16 |
|---|---|---|---|---|---|---|---|---|
| = Income / loss for the period | (31.0) | (6.5) | 14.6 | (37.5) | 11.3 | 376.9% | -312.3% | - |
| (+)IR/CSLL | (51.3) | (1.9) | (1.6) | (53.2) | (3.0) | 2600.0% | 3106.3% | 1673.3% |
| (+) Net financial income. | 68.3 | 6.0 | (29.9) | 74.3 | (49.7) | 1038.3% | -328.4% | - |
| (+) Depreciation/amortization | 9.3 | 8.5 | 5.0 | 17.8 | 17.0 | 9.4% | 86.0% | 4.7% |
| **= EBITDA CVM Inst. 527/12** | **(4.7)** | **6.1** | **(11.9)** | **1.4** | **(24.4)** | - | **-60.5** | - |

## Financial income (loss)

In 2Q17, the calculated financial income (loss) was negative by R$ 62.8 million, against an income (loss), also negative by R$ 6.0 million in 1Q17. We highlight the caption exchange rate changes, which is very sensitive to exchange rate volatility. In 2Q17, such caption recorded a negative balance of R$ 28.1 million, against a positive amount of R$ 16.4 million in 1Q17. This negative balance in 2Q17 refers to the closing rate of the US Dollar in June/2017, which recorded a valuation of 3.1% in relation to March/2017. With the adhesion of the Company to the Tax Regularization Program established by Provisional Measure 766, dated January 4, 2017 (PRT), fines relating to tax liabilities included in the program were recorded, in the amount of R$ 8.8 million.

# Performance comment

**FINANCIAL INCOME (LOSS)**
In millions of R$

| | 2Q17 | 1Q17 | 2Q16 | 1S17 | 1S16 |
|---|---|---|---|---|---|
| Interest | (22.6) | (21.1) | (19.6) | (43.7) | (37.2) |
| Exchange rate changes | (28.1) | 16.4 | 55.5 | (11.7) | 98.5 |
| Swap on financial operations | - | - | (4.4) | - | (9.1) |
| Deductible fines | (8.8) | - | - | (8.8) | - |
| Other income/expenses | (3.3) | (1.3) | (1.6) | (2.8) | (2.5) |
| **Net financial income (loss)** | **(62.8)** | **(6.0)** | **29.9** | **(67.0)** | **49.7** |

## Consolidated income (loss)

In 2Q17, the Company recorded a loss of R$ 25.5 million, against an income (loss), also negative of R$ 6.5 million in 1Q17. During the semester, the Company accumulates a loss of R$ 31.9 million, against an income totaling R$ 11.3 million in the same period of 2016.

### 3. Financial position

On Jun/17, the Company's gross indebtedness was R$ 734.8 million, of which R$ 127.0 million maturing in the short-term, and R$ 607.8 million maturing in the long-term. In relation to March 2017, gross debt recorded an increase of 5.0%, partly due to the appreciation of the US dollar, and partly due to the provisioning of interest on debt.

Cash and cash equivalents and interest earning bank deposits amounted to R$ 15.9 million in Jun/17, 39.5% lower than R$ 26.3 million of Mar/17. Accordingly, the Company’s net indebtedness increased 6.7% in Jun/17 compared to Mar/17, recording R$ 718.9 million.

The decrease in cash and cash equivalents is mainly due to the poor performance of the North American market, as previously mentioned.

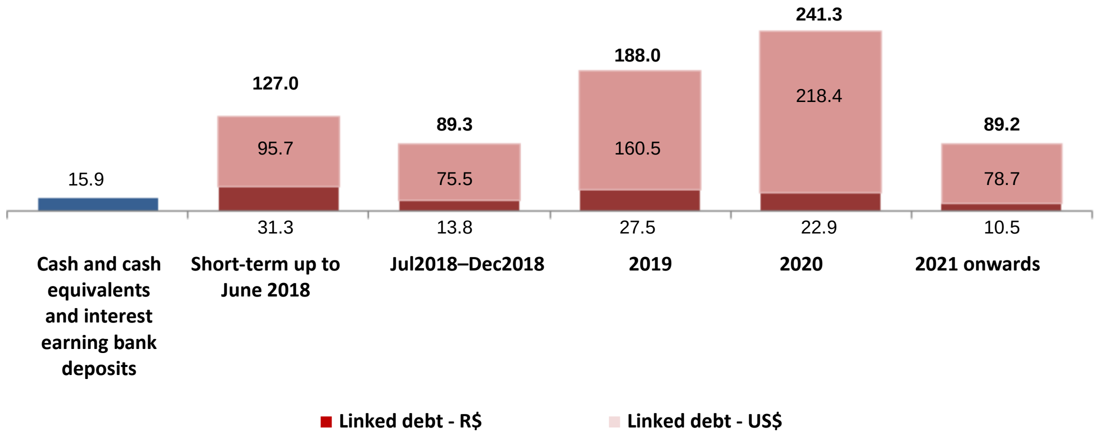
The breakdown and schedule of Taurus debt repayment in Jun/17 is as follows:

# Performance comment

**INDEBTEDNESS**
In millions of R$

| | INDEBTEDNESS | Jun 2017 | Mar 2017 | Dec 2016 | Jun 2017 X Mar 2017 | Jun 2017 X Dec 2016 |
|---|---|---|---|---|---|---|
| Short-term | Loans and financing | 80.4 | 34.6 | 26.6 | 132.4% | 202.3% |
| | Debentures | 12.5 | 3.6 | 0.4 | 247.2% | 3025.0% |
| | Advance from receivables | 11.9 | 9.0 | 6.1 | 32.2% | 95.1% |
| | Foreign exchange withdrawals | 21.8 | 23.3 | 28.1 | -6.4% | -22.4% |
| | Financial instruments | 0.4 | 0.4 | 0.5 | 0.0% | -20.0% |
| | **TOTAL SHORT-TERM** | **127.0** | **70.9** | **61.7** | **79.1%** | **105.8%** |
| Long term | Loans and financing | 544.8 | 560.8 | 573.1 | -2.9% | -4.9% |
| | Debentures | 63.0 | 68.2 | 68.0 | -7.6% | -7.4% |
| | **TOTAL LONG-TERM** | **607.8** | **629.0** | **641.1** | **-3.4%** | **-5.2%** |
| **TOTAL DEBT** | | **734.8** | **699.9** | **702.8** | **5.0%** | **4.6%** |
| Cash and cash equivalents and interest earning bank deposits | | 15.9 | 26.3 | 29.9 | -39.5% | -46.8% |
| **Net indebtedness** | | **718.9** | **673.6** | **672.9** | **6.7%** | **6.8%** |

**DEBT PAYMENT SCHEDULE AS OF JUNE 30, 2017**
Amounts in millions of Reais

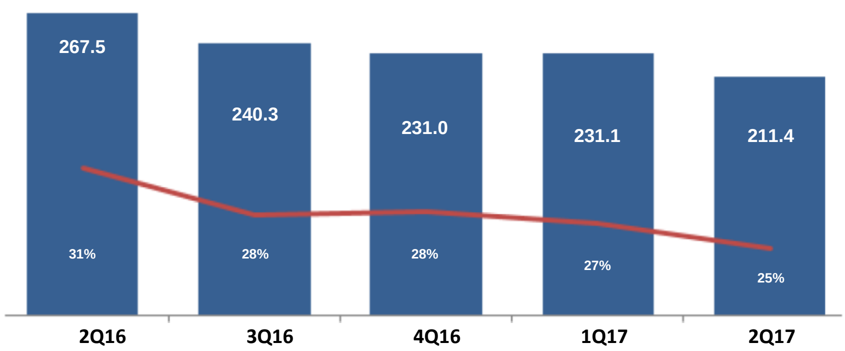



## 4. Working Capital

In the 2Q17, the Need for working capital investment had a retraction of R$ 19.7 million over the prior quarter. When related to annualized net revenue, the need for working capital investment reached 25% in 2Q17, a retraction of 2 p.p. in relation to 1Q17.

## Performance comment

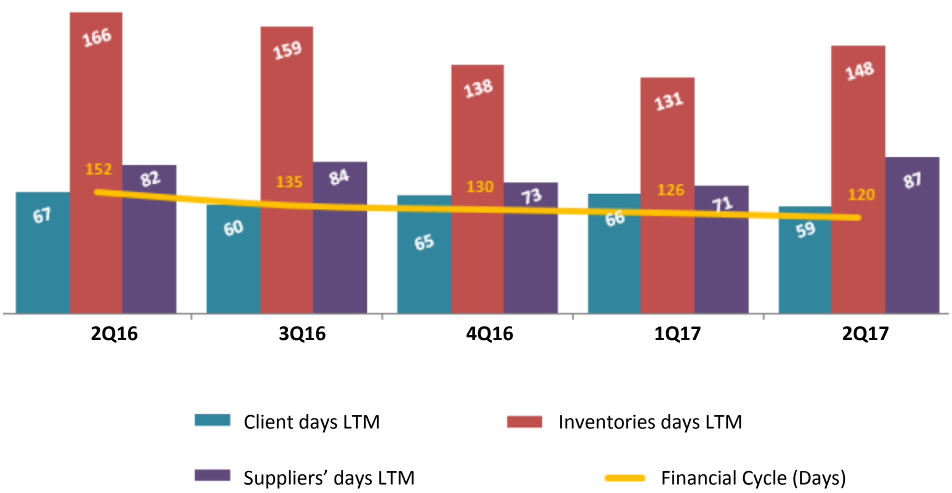
**Need for working capital investment**
In millions of R$




NIG = Inventories + Accounts Receivable - Suppliers - Social and Labor Liabilities

The Company's financial cycle was down 6 days in 2Q17, recording 120 cycle days, in relation to 1Q17. However, this result is impacted by the delays in payments to suppliers, due to the greater cash restrictions faced by the Company in this quarter as a result of the adverse scenario in the American market. This positive effect on the financial cycle should be reduced by the regularization of these payments. It is also worth highlighting that both the reduction in customer days and the increase in inventory days are also related to the current scenario in the North American market.

**Trade accounts receivable, Inventories and Suppliers' days**



# Performance comment

### 5. Cash flow

In 2Q17, the Company had an operating cash flow of R$ 3.0 million. On the other hand, investment activities consumed R$ 5.5 million in the period, while financing activities had a negative balance of R$ 8.8 million in the quarter.

As a result, the Company recorded a cash consumption of R$ 11.3 million in 2Q17, compared to R$ 3.9 million in 1Q17. Thus, cash closing balance decreased 49.1% in 2Q17 compared to 1Q16, totaling R$ 11.7 million.

The table that follows reflects a breakdown of the Company's cash flow for 2Q17.

| **CASH FLOW – CONSOLIDATED** In millions of R$ | 2Q17 | 1Q17 | 2Q16 | 1S17 | 1S16 | 2Q17 X 1Q17 | 2Q17 X 2Q16 | 1S17 X 1S16 |
|---|---|---|---|---|---|---|---|---|
| **Cash at the beginning of the period** | **23.0** | **26.9** | **33.0** | **26.9** | **60.4** | **-14.5%** | **-30.3%** | **-55.5%** |
| **Cash generated by operating activities** | **3.0** | **1.2** | **(1.3)** | **4.3** | **53.3** | **-** | **-330.8%** | **-** |
| Loss before income and social contribution taxes on net income | (76.7) | (8.4) | 13.0 | (85.1) | 8.3 | 813.1% | - | - |
| Depreciation and amortization | 9.3 | 8.5 | 5.0 | 17.7 | 17.0 | 9.4% | 86.0 | 4.1% |
| Cost of permanent assets written-off | (1.0) | 5.4 | (1.8) | 4.5 | 7.3 | - | -44.4% | -38.4% |
| Equity in net income of subsidiaries | - | - | 0.6 | - | 1.5 | - | - | - |
| Provisions for financial charges | 16.1 | 18.4 | 17.7 | 34.5 | 42.2 | -12.5% | -9.0% | -18.2% |
| Provision for contingencies | 1.2 | 4.1 | 7.5 | 5.4 | 10.4 | -70.7% | -8.0% | -48.1% |
| Allowance for doubtful accounts | (1.6) | 3.3 | 1.4 | 1.7 | 1.4 | -148.5% | - | 21.4% |
| Provision for guarantees | - | 1.8 | (1.0) | 1.3 | (1.8) | - | - | - |
| Exchange rate change on loans and other | 32.6 | (23.4) | (26.6) | 9.2 | (55.4) | - | - | - |
| Changes in assets and liabilities | 15.4 | (8.5) | (21.4) | 6.9 | 18.5 | - | - | - |
| Payment of IRPJ (Corporate Income Tax) and CSLL (Social contribution tax) | 7.7 | - | (0.6) | 7.7 | (1.0) | - | - | - |
| Write-off of investment (Famastil) | - | - | 4.9 | - | 4.9 | - | - | - |
| **Investment activities** | **(5.5)** | **(10.0)** | **7.3** | **(15.5)** | **7.3** | **-45.0%** | **-175.3%** | **-** |
| In property, plant and equipment | (5.9) | (9.6) | (0.8) | (15.5) | (18.8) | -38.5% | 537.5% | -17.6% |
| In intangible assets | 0.1 | (0.1) | - | - | (6.5) | - | - | - |
| Sale of investment (Famastil) | - | - | 5.0 | - | 5.0 | - | - | - |
| Interest earning bank deposits | 0.3 | (0.3) | 3.2 | - | 28.1 | - | -90.6% | - |
| Other receivables | | - | (0.1) | - | - | - | - | - |
| **Financing activities** | **(8.8)** | **4.9** | **(16.3)** | **(4.0)** | **(98.8)** | **-279.6%** | **-** | **-** |
| Borrowings | 30.8 | 17.5 | 54.1 | 43.2 | 219.8 | 76.0% | -43.1% | -78.1% |
| Payments of loans | (36.4) | (18.5) | (76.4) | (54.9) | (317.0) | 96.8% | -52.4% | -82.7% |
| Payment of Interest on loans | (3.2) | (4.4) | (11.5) | (7.6) | (19.1) | -27.3% | -72.2% | -60.2% |
| Capital increase | - | 10.5 | 17.5 | 10.5 | 17.5 | - | - | - |
| Other | - | (0.2) | - | (0.2) | - | - | - | - |
| **Cash generation** | **(11.3)** | **(3.9)** | **(10.3)** | **(15.2)** | **(37.7)** | **189.7%** | **9.7%** | **-59.7%** |
| **Cash at the End of the Period** | **11.7** | **23.0** | **22.7** | **11.7** | **22.7** | **-49.1%** | **-48.5%** | **-48.5%** |

# Performance comment

## 6. Capital market and corporate governance

Forjas Taurus S.A. is a publicly-held Brazilian company, and has listed on the BM&FBOVESPA 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 2Q17 the Company’s preferred shares had a devaluation of 5.0% as compared to 1Q17. As for common shares, they remained stable over the same period. As a result, the Company's market value, recorded a decrease of 1.5% in 2Q17, compared to 1Q17, reaching R$ 109.4 million.

**PERFORMANCE OF SHARES AND MARKET VALUE**

| | | | | Change | | |
|---|---|---|---|---|---|---|
| **Share quotation** Closure | **2Q17** | **1Q17** | **2Q16** | **2Q17x1Q17** | **2Q17x2Q16** | **1Q17x1Q16** |
| Common shares - FJTA3 | R$ 1.68 | R$ 1.68 | R$ 1.59 | 0.0% | 5.7% | 4.3% |
| Preferred shares - FJTA4 | R$ 1.72 | R$ 1.81 | R$ 1.56 | -5.0% | 10.3% | -4.4% |
| IBOVESPA | 62,900 | 64,984 | 51,527 | -3.2% | 22.1% | 4.4% |

| **Market value** In millions of R$ | **2Q17** | **1Q17** | **2Q16** | **2Q17x1Q17** | **2Q17x2Q16** | **1Q17x1Q16** |
|---|---|---|---|---|---|---|
| Common shares - FJTA3 | R$ 78.0 | R$ 78.0 | R$ 71.0 | 0.0% | 9.9% | 8.6% |
| Preferred shares - FJTA4 | R$ 31.4 | R$ 33.0 | R$ 21.3 | -5.0% | 47.5% | 27.8% |
| TOTAL | R$ 109.4 | R$ 111.0 | R$ 92.3 | -1.5% | 18.6% | 13.5% |

**Notes to the financial statements**

# Notes to the quarterly information - ITR

***(In thousands of reais - R$, unless otherwise stated)***

## 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 BM&FBOVESPA (trading symbols are FJTA3, FJTA4).

The Company operates in segments of Firearms and Accessories, Helmets and Accessories, Containers and Plastics, and Metal Injection Molding (MIM) (Metal Injection Molding), having four industrial plants, three of them in Brazil, located in Rio Grande do Sul, in Paraná and Bahia, one in Miami, in 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. Exports to the US mainly serve the civil market and government agencies in other regions.

## Going concern

In the first semester of 2017, the Company continued to seek improving its operations and refining the integration with its suppliers, aiming to provide improvements in cash generation and recovery of operating margins. This period was also used to improve the ERP system, to enable a better integration between the Company and its suppliers, which resulted in operations with higher volumes produced.

The Company's operations were affected by changes in the North American economic and political environment, the main destination of firearm sales, in the second quarter of 2017. Compared to the first quarter of this year, there was a decrease of 14.5% in consolidated net revenue. This reduction is a result of three main factors observed in the US, as follows: (1) a decrease in the record volumes of US firearm consumption recorded up to the end of 2016, mainly due to the results of the US presidential election; (2) distributors significantly reduced the volumes of their inventories due to the need to preserve cash and the seasonality during this summer vacation in the US; and (3) distributors focusing their purchases and sales on promotional products and with relevant discounts offered by the industry, delaying purchases to obtain a greater advantage in product acquisitions.

This movement in the North American market had a negative impact on the sales of this second quarter, and on cash generation of said operation, with repercussions on cash generation in Brazil as well. In view of this scenario, the Company adopted some cash retention measures, such as the renegotiation of interest payments due to the bank syndicated, which matured on July 3, 2017, and the payment postponement of overdue amounts to suppliers, which had to be reviewed to better fit the current scenario.
With respect to the renegotiation of interest payments to the syndicate of banks, the amount paid represented approximately 1/3 of the amount due, and the balance was renegotiated for payment in monthly installments, from August to December 2017. This transaction already has the formal agreement of all creditors.

**Notes to the financial statements**

The resumption of the profitability of transactions in the North American market is expected to occur during the second semester of the year, especially due to the adequacy of the product mix to the current market standard, and the start of production of the new pistol, called SPECTRUM, which is expected to start in September and will be fully manufactured in the US plant. Among the adequacies made in the North American market, the launch of the SPECTRUM pistol, which already has a robust order backlog, should contribute to the resumption of part of the margin, since these products are out of the common price war of traditional products, reaching another niche in the market.

The Company continues to take administrative and operational actions aimed at increasing its production and operational efficiency, and controlling its economic/financial position, to meet the growing demand for its products, improve its margins, recover profitability and balance its cash flows.

## 2 Presentation of quarterly information

### 2.1 Preparation basis

The individual and consolidated quarterly information was prepared based on the historical cost, except for non-derivative financial instruments measured at fair value through profit or loss.

### *a. Statement of conformity*

The Company's individual and consolidated quarterly financial information was prepared in accordance with CPC 21 (R1) issued by Comitê de Pronunciamentos Contábeis ("CPC") and IAS 34 - Interim Financial Reporting, issued by International Accounting Standards Board -IASB, as well as with respect to standards disclosed by Comissão de Valores Mobiliários, applicable to the preparation of Quarterly Information (Informações Trimestrais - ITR).

### *b. Statement of the Board*

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 August 10, 2017.

## Notes to the financial statements

## 2.2 Basis of consolidation

| | | Equity interest | |
|---|---|---|---|
| | **Country** | **06/30/2017** | **12/31/2016** |
| 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.
(**) On April 24, 2015, T.Investments Co. Inc., was established in Panama, with the aim of managing the international investments of Forjas Taurus S.A.. Forjas Taurus S.A. holds 100% of the capital of T. Investments Co. Inc.
(***) On January 5, 2016 a partial spin-off by Taurus Blindagens Ltda. resulted in Taurus Plásticos Ltda.

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. Foreign 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.

**Notes to the financial statements**

## 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 valuesmay 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: 10 - Inventories (Provision for inventory loss), 13 - Income and social contribution taxes, 14 - Investment Property, 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.

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.
- 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. Financial instruments

### *(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.

## Notes to the financial statements

These assets are classified as loans and receivables.

Loans and receivables are initially recognized at fair value plus any transaction costs directly assignable. After their initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method, adjusted at any impairment losses.

### *(ii) Non-derivative financial liabilities*

The Company has the following non-derivative financial liabilities: loans, financing, nonconvertible debentures, bank overdraft protection, 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 financial hedge derivatives 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 amount 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.

### b. Impairment

The Company and its subsidiaries assess 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.

### c. 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.

### d. New standards, interpretations and non-standard reviewes

Several new standards or amendments to standards and interpretations will become effective for the years started after January 1, 2017. The Group did not adopt these amendments when preparing this quarterly information. The Group does not plan to adopt these standards in advance.

## Notes to the financial statements

### *IFRS 15 Income from Contracts with Clients*

IFRS 15 introduces a comprehensive framework for determining whether and when income is recognized, and how income is measured. IFRS 15 replaces current income recognition standards, including CPC 30 (IAS 18) Income, CPC 17 (IAS 11) Construction Contracts, and CPC 30 Interpretation A (IFRIC 13) Client Loyalty Programs.

IFRS 15 becomes effective for annual periods starting on or after January 1, 2018. Early adoption is permitted only for financial statements in accordance with IFRS.

### *(i) Sale of products*

For product sales, income is currently recognized when the goods are delivered to the client's location, considered as the time when the client accepts the goods and the risks and benefits related to ownership are transferred. Income is recognized at this time, provided that the income and costs can be measured reliably, receipt of consideration is probable, and there is no continuous involvement of Management with the products.

According to IFRS 15, income must be 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 deferred until the return period expires or until a reasonable estimate of the returns can be made.

According to IFRS 15, income from these agreements will be recognized to the extent it is probable that a significant reversal in the value of accumulated income will not occur. 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.

### *(ii) Transition*

The Company will adopt IFRS 15 in its financial statements for the year ended December 31, 2018 and intends to use the retrospective approach. As a result, the Company will apply all the requirements of IFRS 15 to each comparative period presented, adjusting its financial statements previously reported.

The Company plans to use practical expedients for completed contracts. This means that completed contracts that started and ended in the same comparative reporting period, as well as those that are completed contracts at the beginning of the oldest period reported, will not be re-reported.

The Company is currently conducting a detailed evaluation of the impact resulting from the adoption of IFRS 15 and expects to disclose additional quantitative information prior to the adoption of the standard.

## Notes to the financial statements

### *IFRS 9 Financial Instruments*

IFRS 9 replaces guidelines of IAS 39 (CPC 38) Financial Instruments: Recognition and measurement. IFRS 9 includes new models for the classification and measurement of financial instruments and measurement of expected credit losses for financial and contractual assets, and new requirements on hedge accounting. The new standard maintains the IAS 39 guidelines about acknowledging and disacknowledging financial instruments.

IFRS 9 will become effective for annual periods starting on or after January 1, 2018, with early adoption allowed only to financial statements, pursuant to IFRSs.

The effective impact of the adoption of IFRS 9 on the Company's financial statements in 2018 cannot be estimated with confidence, as it will depend on the financial instruments held by the Company and the economic conditions in 2018, as well as accounting decisions and judgment calls that the Company will make in the future. The new standard will require the Company to review its accounting procedures and internal controls related to the classification and measurement of financial instruments, and these changes are not yet finalized. The Company is currently conducting a detailed evaluation of the impact resulting from the adoption of IFRS 15 and expects to disclose additional quantitative information prior to the adoption of the standard.

### *(i) Classification - Financial assets*

IFRS 9 contains a new approach to financial asset classification and measurement that reflects the business model in which the assets are managed and their cash flow characteristics.

IFRS 9 contains three main classification categories for financial assets: measured at amortized cost, at fair value through other comprehensive income (FVTOCI) and at fair value through profit or loss (FVTPL). The standard eliminates the categories existing in IAS 39 of held-to-maturity, loans and receivables, and available for sale.

According to IFRS 9, derivatives embedded in contracts where the host is a financial asset within the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is evaluated for its classification.

### *(ii) Impairment - Financial and contractual assets*

IFRS 9 replaces the "incurred losses" model of CPC 38 (IAS 39) with a prospective "expected credit losses" model. This will require a relevant judgment as to how changes in economic factors affect the expected credit losses, which will be determined based on weighted probabilities.

The new model of expected losses will be applied to financial assets measured at amortized cost or VFTOCI, with the exception of investments in equity instruments and contractual assets.

According to IFRS 9, the provisions for expected losses will be measured on one of the following bases:

Expected credit losses for 12 months, i.e., credit losses that result from potential delinquency events within 12 months after the reporting date; and Lifetime expected credit losses, i.e., credit losses that result from all possible delinquency events over the expected life of a financial instrument.
The measurement of lifetime expected credit losses applies if the credit risk of a financial asset at the reporting date has increased significantly since its initial recognition, and the 12-month credit loss measurement applies if the risk has not increased significantly since its initial recognition. An entity may determine that the credit risk of a financial asset has not increased significantly if the asset has low credit risk on the reporting date. However, the measurement of lifetime expected credit losses always applies to trade accounts receivable and contractual assets without a

## Notes to the financial statements

significant financing component; an entity may opt to apply this policy also to trade accounts receivable and contractual assets with a significant financing component.

The Company believes that impairment losses should increase and become more volatile for assets under the model of IFRS 9. The Company has not yet finalized the methodology for impairment that it will apply under IFRS 9.

### *(iii) Classification - Financial liabilities*

IFRS 9 retains a large part of the requirements of IAS 39 for the classification of financial liabilities.

However, according to IAS 39, all changes in fair value of the liabilities designated as FVTPL are recognized in Income, whereas, according to IFRS 9, these changes in fair value are generally reported as follows:

The amount of the change in fair value that is attributable to changes in the credit risk of the financial liability is presented in OCI; and

The remaining amount of the change in fair value is presented in income (loss).

## Notes to the financial statements

### *(iv) Hedge accounting*

In the initial application of IFRS 9, the Company may choose, as the accounting policy, to continue to apply the hedge accounting requirements of IAS 39 instead of the new requirements of IFRS 9. The Company is assessing the adoption of the requirements of IFRS 9.

IFRS 9 will require the Company to assure that hedge accounting relationships are aligned with the Company's risk management objectives and strategies, and that the Company applies a more qualitative and forward-looking approach to assessing the effectiveness of the hedge. IFRS 9 also introduces new requirements for rebalancing hedging relationships and prohibits the voluntary discontinuation of hedge accounting. According to the new model, it is likely that more risk management strategies, particularly those of a hedge of a risk component (other than foreign currency risk) of a non-financial item, may qualify for hedge accounting. Currently, the Company does not hedge such risk components.

The Company uses forward foreign exchange contracts to hedge the variability of cash flows arising from changes in foreign exchange rates relating to loans, receivables, sales and purchases of inventories in foreign currency.

The Company designates only changes in the fair value of the spot element of forward foreign exchange contracts as a hedge instrument, in cash flow hedge relationships. According to IAS 39, changes in the fair value of the future element of forward foreign exchange contracts are recognized immediately in income (loss).

With the adoption of IFRS 9, the Company may opt to account for changes in the fair value of the future element separately, as a hedge cost. In such a case, such changes would be recognized in OCI and accumulated in a hedge cost reserve as a separate component within shareholders' equity, and subsequently accounted for in the same way as the accumulated gains and losses in the cash flow hedge reserve.

According to IAS 39, for all cash flow hedges, the amounts accumulated in the cash flow hedge reserve are reclassified to Income (loss) in the same period in which the expected cash flows of the hedged object impact the income (loss). However, according to IFRS 9, for cash flow hedges for the foreign currency risk associated with the expected purchases of non-financial assets, the amounts accumulated in the cash flow hedge reserve and in the hedge cost reserve will be included directly in the initial cost of the non-financial asset when it is recognized.

### *(v) Disclosures*

IFRS 9 will require extensive new disclosures, specifically regarding hedge accounting and credit risk and expected credit losses. The Company is assessing the implementation of changes in its systems and controls in order to comply with the new requirements.

### *(vi) Transition*

Changes in the accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except for the changes described below:

## Notes to the financial statements

The Company intends to take advantage of the exemption that allows it not to re-report comparative information from prior periods resulting from changes in the classification and measurement of financial instruments (including credit losses). The differences in the book balances of financial assets and liabilities resulting from the adoption of IFRS 9 will generally be recognized in retained earnings and reserves on January 1, 2018.

The new requirements of hedge accounting should be adopted on prospective basis. However, the Company may opt to adopt the change expected in the accounting of changes in the fair value of the forward element of the exchange agreements on retroactive basis. The Company did not make any decision in regard to this option.

The following assessments should be made based on the facts and circumstances that existed on the date of the initial adoption:

Determination of the business model within which a financial asset is held.

The designation and revoke of previous designations of certain financial assets and liabilities measured at fair value through profit or loss.

The designation of certain investments in equity instruments not held for trading such as fair value through other comprehensive income (FVTOCI).

### IFRS 16 Leases

IFRS 16 introduces a single model for the accounting of leases on the balance sheet for lessees. A lessee recognizes a right-of-use asset, which represents its right to use the leased asset, and a lease liability, which represents its obligation to make lease payments. Optional exemptions are available for short-term leases and leases of low-value items. The lessor's accounting remains similar to the current standard, i.e., lessors continue to classify the leases as financial leases or operating leases.

IFRS 16 replaces the current lease standards, including CPC 06 (IAS 17) Commercial Lease Transactions and ICPC 03 (IFRIC 4, SIC 15 and SIC 27) Supplementary aspects of lease transactions.

The standard in force for annual periods starting on or after January 1, 2019. Early adoption is permitted only for financial statements in accordance with IFRSs and entities that apply IFRS 15 Income from Contracts with Clients on or before the date of first adoption of IFRS 16.

The Company began an initial evaluation of the potential impact on its financial statements. The Company is assessing the use of operating exemptions.

### *(i) Determine whether an agreement contains a lease*

The Company has real estate lease agreements, where it operates.

In the transition to IFRS 16, the Company may opt to:

- Adopt the definition of lease agreement under IFRS 16 to all its agreements; or
- Adopt a practical procedure and not reassess whether an agreement is, or contains, a lease.

## Notes to the financial statements

- The Company is assessing if it will adopt the practical procedure and the potential impact on its financial statements, and if it will affect the number of agreements identified as lease in the transition.

### *(ii) Transition*

As lessee, the Company may adopt the standard using a:

Retrospective approach; or

Modified retrospective approach with optional practical expedients.

The lessee will adopt this choice on a consistent basis to all its leases. The Group shall early adopt IFRS 16 as of January 1, 2019. The Company has not yet determined which transition approach it will adopt.

The Company has not yet quantified the impact of the adoption of IFRS 16 on its assets and liabilities. The quantitative effect of the adoption IFRS 16 will depend specifically on the transition method chosen, the use of practical procedures and recognition exemptions, and any additional leases that the Company will sign. The Company expects to disclose its transition approach and quantitative information prior to the adoption.

### *Other changes*

The following new standards or amended standards are not expected to have a significant impact on the Company's financial statements.

Changes to CPC 10 (IFRS 2) – Share-based payment in relation to the classification and measurement of certain share-based payment transactions.

Changes to CPC 36 Consolidated Statements (IFRS 10) and CPC 18 Investments in Associates (IAS 28) in relation to sales or contributions of assets between an investor and its associated company or joint venture.

The Company also understands that there are no other standards and interpretations issued and not yet adopted that might, in management's opinion, have a significant impact on the income (loss) or shareholders' equity disclosed by the Company. The Management intends to adopt such measures when they become applicable to the Company.

## Notes to the financial statements

# 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 receivables*

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 customer and represent the maximum outstanding amount for which credit approval is not required; these limits are quarterly 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 related party transactions.

In the second quarter of 2017, excluding these transactions for consolidation purposes, the Company has a single customer that individually represents more than 8% of sales, which is the Parent Company of Forjas Taurus, CBC - Companhia Brasileira de Cartuchos. No other customer represents more than 5% of the Company's revenue.

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.

## Notes to the financial statements

*Credit risk exposure*

The maximum credit risk exposure on balance sheet date was:

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | Book value | | Book value | |
| | 06/30/2017 | 12/31/2016 | 06/30/2017 | 12/31/2016 |
| Financial assets held to maturity | | | | |
| Trade accounts receivable | **137,898** | 150,197 | **56,289** | 45,701 |
| Cash and cash equivalents | **11,492** | 26,708 | **547** | 1,313 |
| Interest earnings bank deposits | **4,392** | 3,186 | **4,162** | 2,982 |
| Total | **153,782** | 180,091 | **60,998** | 49,996 |

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

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | Book value | | Book value | |
| | 06/30/2017 | 12/31/2016 | 06/30/2017 | 12/31/2016 |
| Domestic - trade accounts receivable | **75,507** | 56,631 | **42,665** | 36,093 |
| United States clients - trade accounts receivable | **65,452** | 101,178 | **-** | |
| Other | **26,573** | 24,258 | **25,909** | 22,577 |
| Total | **167,532** | 182,067 | **68,574** | 58,670 |

The Company's maximum exposure to loans and receivables on the date of report by type of counterparty was as follows:

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | Book value | | Book value | |
| | 06/30/2017 | 12/31/2016 | 06/30/2017 | 12/31/2016 |
| Clients - public agencies | **9,644** | 19,511 | **10,415** | 17,228 |
| Clients - distributors | **140,185** | 149,996 | **40,456** | 32,032 |
| End clients | **17,703** | 12,560 | **17,703** | 9,410 |
| Total | **167,532** | 182,067 | **68,574** | 58,670 |

## Notes to the financial statements

### *Impairment losses*

The Company and its subsidiaries establish a provision for impairment that represents its estimate of losses incurred in relation to trade accounts receivable, other receivables and investments. The maturity of loans and receivables granted on the date of the financial statements was:

| | **Consolidated** | | | |
|---|---|---|---|---|
| | **Gross** | **Gross** | ***Impairment*** | ***Impairment*** |
| | **06/30/2017** | **12/31/2016** | **06/30/2017** | **12/31/2016** |
| Not overdue | **103,458** | 100,739 | **-** | - |
| Overdue - in days: | | | | |
| 0–30 | **17,914** | 32,981 | **-** | - |
| 31–360(1) | **21,268** | 25,322 | **(5,337)** | (8,846) |
| >365 | **24,892** | 23,025 | **(24,297)** | (23,024) |
| Total | **167,532** | 182,067 | **(29,634)** | (31,870) |

(1) A substantial portion of backward values refer to sales to public agencies with average delays of payments up to 90 days, this is considered usual by Management for public sector clients.

| | **Parent company** | | | |
|---|---|---|---|---|
| | **Gross** | **Gross** | ***Impairment*** | ***Impairment*** |
| | **06/30/2017** | **12/31/2016** | **06/30/2017** | **12/31/2016** |
| Not overdue | **29,153** | 19,195 | **-** | - |
| Overdue - in days: | | | | |
| 0–30 | **5,296** | 8,680 | **-** | - |
| 31–360(1) | **23,002** | 24,324 | **(1,757)** | (6,498) |
| >365 | **11,123** | 6,471 | **(10,528)** | (6,471) |
| Total | **68,574** | 58,670 | **(12,285)** | (12,969) |

(1) A substantial portion of backward valuesrefer to sales to public agencies with average delays of payments up to 90 days, this is considered usual by Management for public sector clients.

## 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.

## Notes to the financial statements

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 | | | | | |
|---|---|---|---|---|---|---|
| | 06/30/2017 | | | | | |
| | Book value | Contractual cash flow | Up to 1 year | 1–2 years | 2–5 years | >5 years |
| **Non-derivative financial liabilities** | | | | | | |
| Suppliers | 156,809 | 156,809 | 156,809 | - | - | - |
| Loans and financing | 625,144 | 773,796 | 84,095 | 90,230 | 582,525 | 16,946 |
| Debentures | 75,456 | 125,474 | 13,681 | 13,899 | 97,894 | - |
| Foreign exchange advances | 21,836 | 22,949 | 22,949 | - | - | - |
| Advance from receivables | 11,919 | 11,919 | 11,919 | - | - | - |
| **Derivative financial instruments** | | | | | | |
| Derivative instruments (liabilities) | 447 | 447 | 447 | - | - | - |
| | 891,611 | 1,091,394 | 289,900 | 104,129 | 680,419 | 16,946 |

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | 12/31/2016 | | | | | |
| | Book value | Contractual cash flow | Up to 1 year | 1–2 years | 2–5 years | >5 years |
| **Non-derivative financial liabilities** | | | | | | |
| Suppliers | 128,712 | 128,712 | 128,712 | | | |
| Loans and financing | 599,668 | 791,409 | 29,742 | 151,355 | 592,477 | 17,835 |
| Debentures | 68,444 | 144,442 | 537 | 24,099 | 119,806 | - |
| Foreign exchange advances | 28,065 | 31,507 | - | 31,507 | - | - |
| Advance from receivables | 6,136 | 6,136 | 6,136 | - | - | - |
| **Derivative financial instruments** | | | | | | |
| Derivative instruments (liabilities) | 543 | 543 | 543 | | | |
| | 831,568 | 1,102,749 | 165,670 | 206,961 | 712,283 | 17,835 |

| | Parent company | | | | | |
|---|---|---|---|---|---|---|
| | 06/30/2017 | | | | | |
| | Book value | Contractual cash flow | Up to 1 year | 1–2 years | 2–5 years | >5 years |
| **Non-derivative financial liabilities** | | | | | | |
| Suppliers | 171,720 | 171,720 | 171,720 | - | - | - |
| Loans and financing | 504,229 | 640,487 | 78,156 | 86,292 | 476,039 | - |
| Debentures | 75,456 | 125,474 | 13,681 | 13,899 | 97,894 | - |
| Foreign exchange advances | 21,836 | 22,949 | 22,949 | - | - | - |
| Advance from receivables | 1,222 | 1,222 | 1,222 | - | - | - |
| | 774,463 | 961,852 | 287,728 | 100,191 | 573,933 | - |

## Notes to the financial statements

| | Parent company | | | | | |
|---|---|---|---|---|---|---|
| | 12/31/2016 | | | | | |
| | **Book value** | **Contractual cash flow** | **Up to 1 year** | **1–2 years** | **2–5 years** | **>5 years** |
| **Non-derivative financial liabilities** | | | | | | |
| Suppliers | 125,076 | 125,076 | 125,076 | - | - | |
| Loans and financing | 498,431 | 679,369 | 23,210 | 146,797 | 509,362 | - |
| Debentures | 68,444 | 144,442 | 537 | 24,099 | 119,807 | - |
| Foreign exchange advances | 28,065 | 31,507 | - | 31,507 | - | - |
| Advance from receivables | 6,136 | 6,136 | 6,136 | - | - | - |
| | 726,152 | 986,530 | 154,959 | 202,403 | 629,169 | - |

## 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 currency exposure with respect to forecast sales.

#### *Sensitivity analysis*

The probable base scenario for 2017 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 2017 and those prevailing on June 30, 2017.

## Notes to the financial statements

The sensitivity analysis also considered a change from 25% to 50% on exchange rate changes considered in the probable scenario.

| **Currencies and ratios** | | **Rate - 06/30/2017** | **Probable scenario** | **Possible scenario △ 25%** | **Scenario scenario △ 50%** |
|---|---|---|---|---|---|
| US dollar | Write-off | **3.31** | 3.35 | 2.51 | 1.68 |
| US dollar | Increase | **3.31** | 3.35 | 4.19 | 5.03 |

*Awareness of the changes in the foreign currency:*

| | | | **Consolidated** | | |
|---|---|---|---|---|---|
| | | **Balances as of 06/30/2017** | **Probable scenario** | **Possible scenario (25%)** | **Remote scenario (50%)** |
| **Assets - Depreciation of Dollar** | | | | | |
| Accounts receivable | Dollar - USD | **27,817** | 351 | (7,294) | (17,568) |
| **Liabilities - Dollar incr.** | | | | | |
| Loans and financing | Dollar - USD | **(189,921)** | (2,400) | (50,480) | (98,560) |
| Suppliers | Dollar - USD | **(6,300)** | (80) | (1,675) | (3,269) |
| Foreign exchange advances | Dollar - USD | **(6,601)** | (83) | (1,754) | (3,425) |
| Advances from clients | Dollar - USD | **(3,957)** | (50) | (1,052) | (2,053) |
| Other | Dollar - USD | **(8,264)** | (104) | (2,196) | (4,288) |

| | | | **Parent company** | | |
|---|---|---|---|---|---|
| | | **Balances as of 06/30/2017** | **Probable scenario** | **Possible scenario (25%)** | **Remote scenario (50%)** |
| **Assets - Depreciation of Dollar** | | | | | |
| Accounts receivable | Dollar - USD | **7,832** | 99 | (1,884) | (3,866) |
| **Liabilities - Dollar incr.** | | | | | |
| Loans and financing | Dollar - USD | **(156,718)** | (5,021) | (41,655) | (81,329) |
| Suppliers | Dollar - USD | **(2,523)** | (141) | (671) | (1,310) |
| Foreign exchange advances | Dollar - USD | **(6,601)** | (3,842) | (1,754) | (3,425) |
| Advances from clients | Dollar - USD | **(15,925)** | (532) | (4,233) | (8,264) |
| Other | Dollar - USD | **(8,282)** | (159) | (2,201) | (4,298) |

### e. 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.

## Notes to the financial statements

As of June 30, 2017, the management considered the likely scenario for 2017 is a CDI rate of 10.14% and TJLP of 7.0%. 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:

| **Currency** | **06/30/2017** | **Probable scenario** | **Scenario △ 25%** | **Scenario △ 50%** |
|---|---|---|---|---|
| CDI - write-off | 10.14% | 10.14% | 7.61% | 5.07% |
| CDI - incr. | 10.14% | 10.14% | 12.68% | 15.21% |
| TJLP - incr. | 7.00% | 7.00% | 8.75% | 10.50% |
| Selic | 10.15% | 8.75% | 10.94% | 13.13% |
| Libor 30 days | 1.23% | 1.23% | 1.53% | 1.84% |
| LIBOR 3 months | 1.30% | 1.30% | 1.62% | 1.94% |
| *LIBOR 6 months* | 1.45% | 1.45% | 1.81% | 2.17% |

| | | **Consolidated** | | | |
|---|---|---|---|---|---|
| | | **Gain (loss)** | | | |
| | **Index** | **Balance at 06/30/2017** | **Probable scenario** | **Scenario 25%** | **Scenario 50%** |
| Interest earning bank deposits | CDI - write-off | 4,652 | - | (118) | (236) |
| Loans | Rise in the CDI rate | (135,673) | - | (3,439) | (6,879) |
| Loans | TJLP | (6,886) | - | (121) | (241) |
| Libor 30 days | Libor 30 days | (94,382) | - | (289) | (579) |
| LIBOR 3 months | LIBOR 3 months | (436,401) | - | (1,414) | (2,829) |
| Taxes in installments | Selic | (9,375) | 38 | (168) | (373) |

| | | **Parent company** | | | |
|---|---|---|---|---|---|
| | | **Gain (loss)** | | | |
| | **Index** | **Balance 06/30/2017** | **Probable scenario** | **Scenario 25%** | **Scenario 50%** |
| Interest earning bank deposits | CDI - write-off | 4,337 | - | (110) | (220) |
| Financial loans | CDI - write-off | (35,733) | - | 906 | 1812 |
| Loans | Rise in the CDI rate | (135,673) | - | (3,439) | (6,879) |
| Loans | TJLP | (6,671) | - | (117) | (233) |
| LIBOR 3 months | LIBOR 3 months | (436,401) | - | (1414) | (2,829) |
| Taxes in installments | Selic | (7,752) | 109 | (61) | (231) |

## Notes to the financial statements

## 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 | |
|---|---|---|
| | **06/30/2017** | **12/31/2016** |
| Total liabilities | **1,124,871** | 1,064,958 |
| Less: Cash and cash equivalents and interest earning bank deposits | **(15,884)** | (29,894) |
| Net debt (A) | **1,108,987** | 1,035,064 |
| Total quotaholders' equity (B) | **(190,216)** | (171,901) |
| Net debt to equity ratio as of June 30, 2017 and December 31 December 2016 (A/B) | **(5.83)** | (6.02) |

## 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 moulds 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.), plastic products (Taurus Plásticos 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 and social contribution taxes, 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 | | Helmets | | Other | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 06/30/2017 | 06/30/2016 | 06/30/2017 | 06/30/2016 | 06/30/2017 | 06/30/2016 | 06/30/2017 | 06/30/2016 |
| External income | **340,250** | 310,684 | **43,051** | 60,060 | **10,634** | 13,090 | **393,935** | 383,834 |
| Inter-segment income | **343,944** | 219,493 | **6,649** | 438 | **2,456** | 3,684 | **353,049** | 223,614 |
| Cost of sales | **(250,951)** | (230,373) | **(30,430)** | (38,069) | **(7,189)** | (4,844) | **(288,570)** | (273,286) |
| Gross income (loss) | **433,243** | 299,804 | **19,270** | 22,429 | **5,901** | 11,930 | **458,414** | 334,163 |
| Sales expenses | **(46,129)** | (44,080) | **(8,760)** | (9,116) | **(758)** | (661) | **(55,647)** | (53,857) |
| General and administrative expenses | **(61,399)** | (57,807) | **(4,278)** | (6,083) | **(1,812)** | (5,129) | **(67,489)** | (69,019) |
| Depreciation and amortization | **(521)** | (4,715) | **(268)** | (313) | **(9)** | (5) | **(798)** | (5,033) |
| Other operating income (expenses), net | **1,380** | (21,761) | **(200)** | (409) | **1,083** | (424) | **2,263** | (22,594) |
| Equity in income of subsidiaries | - | - | **624** | 841 | **(624)** | (2,342) | - | (1,501) |
| | **(106,669)** | (128,363) | **(12,882)** | (15,080) | **(2,120)** | (8,561) | **(121,671)** | (152,004) |
| Operating income (loss) | **326,574** | 171,441 | **6,388** | 7,349 | **3,781** | 3,369 | **336,743** | 182,159 |
| Financial income | **5,287** | 90,620 | **4,608** | 3,941 | **(3,967)** | 7,164 | **5,928** | 101,725 |
| Financial expenses | **(73,288)** | (47,766) | **(2,203)** | (2,225) | **747** | (2,000) | **(74,745)** | (51,991) |
| Net financial income (loss) | **(68,001)** | 42,854 | **2,405** | 1,716 | **(3,220)** | 5,164 | **(68,817)** | 49,734 |
| Income (loss) per segment subject to be disclosed before income and social contribution taxes | **258,573** | 214,295 | **8,793** | 9,065 | **561** | 8,533 | **267,926** | 231,893 |
| Elimination of inter-segment income | **(343,944)** | (219,493) | **(6,649)** | (438) | **(2,456)** | (3,684) | **(353,049)** | (223,614) |
| Income before income and social contribution taxes | **(85,371)** | (5,198) | **2,144** | 8,627 | **(1,895)** | 4,849 | **(85,122)** | 8,278 |
| Income and social contribution taxes | **46,493** | 4,466 | **69** | (974) | **6,655** | (479) | **53,217** | 3,013 |
| Net income for the year | **(38,878)** | (732) | **2,213** | 7,653 | **4,760** | 4,370 | **(31,905)** | 11,291 |
| Assets of reportable segments | **772,781** | 583,802 | **88,876** | 172,958 | **72,998** | 198,229 | **934,655** | 954,989 |
| Liabilities of reportable segments | **1,072,465** | 905,386 | **46,135** | 43,985 | **11,807** | 86,365 | **1,130,407** | 1,035,736 |

## Notes to the financial statements

### Geographical information

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

| | Firearms | | Helmets | |
|---|---|---|---|---|
| | 06/30/2017 | 06/30/2016 | 06/30/2017 | 06/30/2016 |
| **Domestic market** | | | | |
| Southeastern region | **21,894** | 10,491 | **13,193** | 15,790 |
| South region | **6,269** | 1,964 | **2,365** | 3,692 |
| Northeastern region | **3,114** | 1,112 | **14,730** | 20,137 |
| Mid-west region | **2,510** | 9,541 | **6,450** | 9,736 |
| North region | **710** | 255 | **6,313** | 10,705 |
| | **34,497** | 23,363 | **43,051** | 60,060 |
| **Foreign market** | | | | |
| United States | **294,242** | 275,343 | - | - |
| Peru | **1,069** | 535 | - | - |
| Argentina | **1,557** | 1,916 | - | - |
| Germany | **926** | 201 | | |
| France | **1,744** | 1,035 | - | - |
| Chile | **1,831** | - | - | - |
| South Africa | **498** | 1,482 | - | - |
| Philippines | **714** | - | - | - |
| Nicaragua | **-** | 979 | - | - |
| Burkina Faso | **462** | - | - | - |
| El Salvador | **146** | 192 | - | - |
| Italy | **779** | 94 | - | - |
| Czech Republic | **-** | 148 | - | - |
| Guatemala | **263** | - | - | - |
| Israel | **151** | 147 | - | - |
| Other countries | **1,371** | 5,249 | - | - |
| | **305,753** | 287,321 | - | - |
| | **340,250** | 310,684 | **43,051** | 60,060 |

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 | |
|---|---|---|---|---|
| | 06/30/2017 | 12/31/2016 | 06/30/2017 | 12/31/2016 |
| Cash balance | **28** | 13 | **10** | 7 |
| Demand deposits | **11,204** | 25,877 | **362** | 604 |
| Interest earnings bank deposits | **260** | 818 | **175** | 702 |
| **Cash and cash equivalents** | **11,492** | 26,708 | **547** | 1,313 |

## 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, 2017 (82.52% to 101.00% of CDI at December 31, 2016) with counterparty financial institutions considered by management as the prime line.

# 8 Financial investments and linked accounts

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | **06/30/2017** | **12/31/2016** | **06/30/2017** | **12/31/2016** |
| Money market investments in CDB | **4,392** | 3,186 | **4,162** | 2,982 |
| **Total** | **4,392** | 3,186 | **4,162** | 2,982 |
| Current | **2,040** | 2,552 | **2,040** | 2,552 |
| Non-current | **2,352** | 634 | **2,122** | 430 |

Financial investments are paid by the average variable rate of 99.26% of CDI at June 30, 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 Trade accounts receivable

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

The 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 | |
|---|---|---|---|---|
| | **06/30/2017** | **12/31/2016** | **06/30/2017** | **12/31/2016** |
| Domestic clients | **75,507** | 71,035 | **42,665** | 36,093 |
| Foreign clients | **92,025** | 111,032 | **25,909** | 22,577 |
| | **167,532** | 182,067 | **68,574** | 58,670 |
| Allowance for doubtful accounts - domestic | **(21,031)** | (21,245) | **(6,836)** | (7,601) |
| Allowance for doubtful accounts - abroad | **(8,603)** | (10,625) | **(5,449)** | (5,368) |
| | **(29,634)** | (31,870) | **(12,285)** | (12,969) |
| Total | **137,898** | 150,197 | **56,289** | 45,701 |

## 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, 2016 | **(31,870)** | **(12,969)** |
| Additions | **(1,696)** | **(896)** |
| Exchange rate change | **3,932** | **1,580** |
| Balance at June 30, 2017 | **(29,634)** | **(12,285)** |

# 10 Inventories

Inventories are shown at the lower of cost and net realizable value. The cost of inventories is based on the weighted moving 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 | |
|---|---|---|---|---|
| | **06/30/2017** | **12/31/2016** | **06/30/2017** | **12/31/2016** |
| Finished products | **137,583** | 96,500 | **101,706** | 109,574 |
| Raw material | **134,486** | 147,697 | **33,281** | 16,351 |
| (Provision for losses) | **(4,230)** | - | **(4,230)** | - |
| | **267,839** | 244,197 | **130,757** | 125,925 |

# 11 Recoverable taxes

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | **06/30/2017** | **12/31/2016** | **06/30/2017** | **12/31/2016** |
| ICMS | **12,912** | 8,740 | **4,455** | 920 |
| IPI | **15,273** | 842 | **14,208** | 5 |
| PIS | **3,685** | 932 | **3,802** | 617 |
| COFINS | **13,079** | 4,084 | **13,801** | 2,655 |
| Income and social contribution taxes | **18,990** | 6,566 | **1,504** | 3,267 |
| INSS | **48** | 40 | **-** | - |
| Total | **63,987** | 21,204 | **37,770** | 7,464 |
| Current | **63,444** | 20,497 | **37,575** | 7,269 |
| Non-current | **543** | 707 | **195** | 195 |
| Total | **63,987** | 21,204 | **37,770** | 7,464 |

## Notes to the financial statements

# 12 Other accounts receivable

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | **06/30/2017** | **12/31/2016** | **06/30/2017** | **12/31/2016** |
| Advances to suppliers | **14,975** | 17,478 | **13,285** | 15,508 |
| Advances to employees | **2,327** | 1,726 | **1,041** | 794 |
| Judicial deposits (Note 23) | **14,559** | 11,407 | **8,047** | 5,890 |
| Receivables from insurance | **2,339** | 2,339 | **2,257** | 2,257 |
| Other receivables | **1,629** | 801 | **702** | 588 |
| | **35,829** | 33,751 | **25,332** | 25,037 |
| Current assets | **21,270** | 22,344 | **17,285** | 19,147 |
| Non-current assets | **14,559** | 11,407 | **8,047** | 5,890 |

# 13 Income and social contribution taxes

The income and social contribution taxes 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 and social contribution taxes based on estimated profits, the same rates as above are used but on percentage of revenue of 32%. The rate of income tax is 35% for the US subsidiary.

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

## Notes to the financial statements

# a. Breakdown of assets and deferred tax liabilities

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | 06/30/2017 | 12/31/2016 | 06/30/2017 | 12/31/2016 |
| **On temporary differences of assets, tax loss and negative basis** | | | | |
| Provision for sales commissions | **1,616** | 1,616 | **993** | 993 |
| Provision of labor proceedings | **3,946** | 3,946 | **1,826** | 1,826 |
| Allowance for doubtful accounts | **5,494** | 5,494 | **2,474** | 2,474 |
| Provision for product warranty | **7,297** | 7,297 | **2,190** | 2,190 |
| Provision for legal risks | **2,961** | 2,961 | - | - |
| Provision for inventory loss | **2,131** | 2,131 | - | - |
| Derivative financial instruments | **189** | 189 | - | - |
| Tax loss and negative basis of social contribution on net income (i) | **34,912** | 34,912 | **7,000** | 7,000 |
| Inventories - unrealized profits | **4,360** | 2,858 | **3,626** | - |
| Other items | - | 1,432 | - | - |
| | **62,906** | 62,836 | **18,109** | 14,483 |
| **On temporary liability differences** | | | | |
| Equity valuation adjustments | **(12,183)** | (12,183) | **(2,356)** | (2,356) |
| Difference for depreciation base | **(7,484)** | (7,484) | - | - |
| Goodwill allocation | **(9,899)** | (9,899) | - | - |
| Financial charges | **(1,499)** | (1,499) | **(1,370)** | (1,370) |
| Derivative financial instruments | - | (2,353) | **(2,353)** | (2,353) |
| Other items | **(467)** | (72) | - | - |
| | **(31,532)** | (33,490) | **(6,079)** | (6,079) |
| **Total assets and liabilities, net** | **31,374** | 29,346 | **12,030** | 8,404 |
| Classified as noncurrent assets | **46,364** | 44,536 | **12,030** | 8,404 |
| Classified in the non-current liabilities | **(14,990)** | (15,190) | - | - |

| Changes in deferred taxes: | Consolidated | Parent company |
|---|---|---|
| Opening balance of deferred taxes, net | **29,346** | **8,404** |
| Allocated in income (loss) | **48,518** | **35,663** |
| Allocated to shareholders’ equity | - | - |
| Offsetting of the Tax Regularization Program | **(46,490)** | **(32,037)** |
| Effect of exchange rate changes | - | - |
| **Closing balance of deferred taxes, net** | **31,374** | **12,030** |

| Total assets and liabilities, net | FTSA | TIIL | POLIMETAL | TIMI | TICI | TMF L | TOTAL |
|---|---|---|---|---|---|---|---|
| Classified as noncurrent assets | **12,030** | - | **34,334** | - | - | - | **46,364** |
| Classified in the non-current liabilities | - | **(9,827)** | **(27)** | **(5,136)** | - | - | **(14,990)** |
| **Total** | **12,030** | **(9,827)** | **34,307** | **(5,136)** | - | - | **31,374** |

## Notes to the financial statements

(i) The Company's management has considered the existence of the accumulated balances of tax losses and the negative basis of social contribution on net income for the parent company and the subsidiaries Polimetal Metalurgia e Plásticos Ltda., Taurus Blindagens Ltda. and Taurus Holdings, Inc. with the evaluation of the existence of future taxable income, which supports the recording of deferred tax assets, based on the operating activities of the Company's segments.

Projections indicate that the balance of tax credits recorded under Forjas Taurus S.A. and its subsidiaries Polimetal Metalurgia e Plásticos Ltda., Taurus Blindagens Ltda. and Taurus Holdings, Inc. will be absorbed by the estimated taxable income for the next years, as follows:

| | | **Consolidated** | | **Parent company** |
|---|---|---|---|---|
| **Year** | **Total** | **% Interest** | **Total** | **% Interest** |
| 2017 | 2,180 | 7% | - | 0% |
| 2018 | 2,527 | 8% | - | 0% |
| 2019 | 3,098 | 10% | 94 | 1% |
| 2020 | 4,859 | 16% | 1,433 | 12% |
| 2021 | 10,330 | 33% | 5,856 | 49% |
| 2022 | 8,380 | 27% | 4,647 | 39% |
| | 31,374 | 100% | 12,030 | 100% |

The amount of tax losses and negative basis of social contribution on which deferred taxes are not recorded totaled R$ 609,003 (R$ 651,215 as of December 31, 2016) in the consolidated, and R$ 212,827 (R$ 222,905 as of December 31, 2016) in the parent company.

The main balances of tax loss carryforwards and negative basis are recorded in the parent company Forjas Taurus S.A. Tax credits arising from tax losses and negative social contribution basis not recognized by this subsidiary totaled R$ 212,827 (R$ 222,905 as of December 31, 2016).

## Notes to the financial statements

### *Reconciliation of effective rate for income and social contribution taxes*

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | **06/30/2017** | **06/30/2016** | **06/30/2017** | **06/30/2016** |
| Loss before income and social contribution taxes | **(85,122)** | 8,278 | **(63,942)** | 12,036 |
| Combined statutory rate: | **34%** | 34% | **34%** | 34% |
| Income and social contribution taxes at the combined statutory rate | **28,941** | (2,815) | **21,740** | (4,093) |
| ***Permanent additions:*** | | | | |
| Non-deductible expenses | **(453)** | (205) | **(253)** | (100) |
| Equity income (loss) | **(8,515)** | (510) | **(767)** | (8,496) |
| ***Permanent exclusions:*** | | | | |
| Reintegra | **1,652** | - | **1,652** | - |
| Tax incentives of subsidiaries | **877** | - | **-** | - |
| Dividends received | **6,479** | - | **-** | - |
| Effects of differentiated rate of deemed profit subsidiaries | **365** | 223 | **-** | - |
| Offset of tax loss and negative basis in PRT (Tax Regularization Program) | **46,490** | - | **32,037** | - |
| Deferred taxes not formed on tax loss and negative basis of CSLL | **(18,624)** | (34,924) | **(18,016)** | (18,503) |
| Deferred charges not recorded on unrealized exchange rate change | **(2,879)** | 33,499 | **(2,968)** | 30,952 |
| Deferred taxes not recorded on other items | **(1,116)** | 7,745 | **(1,388)** | (505) |
| **Income and social contribution taxes in income (loss) for the year** | **53,217** | 3,013 | **32,037** | (745) |
| Current | **4,629** | 5,143 | - | (745) |
| Deferred assets | **48,588** | (2,130) | **32,037** | - |
| | **53,217** | 3,013 | **32,037** | (745) |
| Effective rate | **-62.52%** | 36.40% | **-50.10%** | -6.19% |

## Notes to the financial statements

As shown above, 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.

The table below shows the breakdown of the total calculation bases and the respective deferred tax assets that could be recorded in the Consolidated

| | | | | | | | | Consolidated |
|---|---|---|---|---|---|---|---|---|
| | | | | 06/30/2017 | | | | 03/31/2017 |
| | **Base** | **25%** | **9%** | **Total** | **Base** | **25%** | **9%** | **Total** |
| Provision for sales commissions | (11,198) | (2,799) | (1,008) | **(3,807)** | (4,236) | (1,059) | (381) | **(1,440)** |
| Provision of labor proceedings | (28,320) | (7,080) | (2,549) | **(9,629)** | (39,467) | (9,867) | (3,552) | **(13,419)** |
| Allowance for doubtful accounts | (26,547) | (6,637) | (2,389) | **(9,026)** | (26,285) | (6,571) | (2,366) | **(8,937)** |
| Provision for product warranty | (6,505) | (1,626) | (585) | **(2,211)** | (8,552) | (2,138) | (770) | **(2,908)** |
| Provision for legal risks | (27,852) | (6,963) | (2,507) | **(9,470)** | (27,985) | (6,996) | (2,519) | **(9,515)** |
| Provision for inventory loss | 419 | 105 | 38 | **143** | (1,381) | (345) | (124) | **(469)** |
| Tax loss and negative basis of social contribution on net income | (478,389) | (119,597) | (43,055) | **(162,652)** | (667,527) | (166,882) | (60,077) | **(226,959)** |
| Fair value of investment property AAP | 35,009 | 8,752 | 3,151 | **11,903** | 28,904 | 7,226 | 2,601 | **9,827** |
| Restated cost of property, plant and equipment | 29,066 | 7,267 | 2,616 | **9,883** | 1,464 | 366 | 132 | **498** |
| Allocation of Heritage goodwill | 16,833 | 4,208 | 1,515 | **5,723** | 16,833 | 4,208 | 1,515 | **5,723** |
| Unshipped notes | (4,434) | (1,109) | (399) | **(1,508)** | (4,990) | (1,248) | (449) | **(1,697)** |
| Difference for depreciation base | (1,733) | (433) | (156) | **(589)** | (2,701) | (675) | (243) | **(918)** |
| Provision for tax expenses | (6,075) | (1,519) | (547) | **(2,066)** | (6,651) | (1,663) | (599) | **(2,262)** |
| Recognition base difference Exchange rate change | (7,163) | (1,791) | (645) | **(2,436)** | (15,631) | (3,908) | (1,407) | **(5,315)** |
| Provision for profit sharing | 281 | 70 | 25 | **95** | (2,957) | (739) | (266) | **(1,005)** |
| | (516,607) | (129,152) | (46,495) | **(175,647)** | (761,162) | (190,291) | (68,505) | **(258,796)** |

# Notes to the financial statements

The table below shows the breakdown of the total calculation bases and the respective deferred tax assets that could be recorded in the Parent Company:

| | | | | | | | | **Parent company** |
|---|---|---|---|---|---|---|---|---|
| | | | | **06/30/2017** | | | | **03/31/2017** |
| | **Base** | **25%** | **9%** | **Total** | **Base** | **25%** | **9%** | **Total** |
| Provision for sales commissions | (9,451) | (2,363) | (851) | **(3,214)** | (3,345) | (836) | (301) | **(1,137)** |
| Provision of labor proceedings | (11,480) | (2,870) | (1,033) | **(3,903)** | (20,379) | (5,095) | (1,834) | **(6,929)** |
| Allowance for doubtful accounts | (11,708) | (2,927) | (1,054) | **(3,981)** | (10,943) | (2,736) | (985) | **(3,721)** |
| Provision for product warranty | (5,038) | (1,259) | (453) | **(1,712)** | (7,084) | (1,771) | (638) | **(2,409)** |
| Provision for legal risks | (1,097) | (274) | (99) | **(373)** | (1,203) | (301) | (108) | **(409)** |
| Provision for inventory loss | 420 | 105 | 38 | **143** | (1,380) | (345) | (124) | **(469)** |
| Tax loss and negative basis of social contribution on net income | (156,240) | (39,060) | (14,062) | **(53,122)** | (140,392) | (35,098) | (12,635) | **(47,733)** |
| Restated cost of property, plant and equipment | 1,391 | 348 | 125 | **473** | 1,464 | 366 | 132 | **498** |
| Unshipped notes | 89 | 22 | 8 | **30** | (552) | (138) | (50) | **(188)** |
| Difference for depreciation base | 59 | 15 | 5 | **20** | (340) | (85) | (31) | **(116)** |
| Provision for tax expenses | 4,286 | 1,071 | 386 | **1,457** | 3,700 | 925 | 333 | **1,258** |
| Recognition base difference Exchange rate change | (6,542) | (1,636) | (589) | **(2,225)** | (15,272) | (3,818) | (1,374) | **(5,192)** |
| Provision for profit sharing | 72 | 18 | 7 | **25** | (1,941) | (485) | (175) | **(660)** |
| | (195,239) | (48,810) | (17,572) | **(66,382)** | (197,667) | (49,417) | (17,790) | **(67,207)** |

## Notes to the financial statements

# 14 Investment property

Investment property is initially measured at cost and, subsequently at fair value, and changes to fair value are recognized in the income (loss).

Gains and losses in the sale of an investment property (calculated by the difference between the net value received in the sale and the item book value) are recognized in the statement of income. When an investment property previously recognized as a fixed asset is sold, any amount recognized in equity valuation adjustment is transferred to retained earnings.

## a. Reconciliation of book value

| | **Consolidated** |
|---|---|
| | **2017** |
| Historical cost | 21,204 |
| Fair value | 28,904 |
| Balance at June 30, 2017 | **50,108** |

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 consolidated financial statements, reclassified the items formerly classified as Property, plant and equipment to Investment Property. The adjustment to fair value was initially recorded in shareholders’ equity, net of deferred income and social contribution taxes.

## b. Measurement of fair value

### *(i) Fair value hierarchy*

The fair value of investment properties 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.
The measurement of fair value of all the properties for investment was classified as Level 3 based on the inputs used (Note 3).

### *(ii) Characterization of evaluated assets*

Location: Avenida do Forte, n° 511 - Porto Alegre (RS)
Industrial complex, not occupied, with 18,600.00 $m^2$ of built area in urban land of 29.900.00 $m^2$ of area.

## Notes to the financial statements

### *(iii) Methodologies adopted*

It was used the evolution method of evaluation, since in the local real estate market there are no properties with characteristics similar to the property evaluated to carry out the direct comparative method. Accordingly, the evaluations of buildings, improvements and land were performed separately, reaching a total value for the conjunction.

***Buildings and improvements***

The evaluation of buildings and improvements adopted the Method of Quantification of Cost of Improvements. With the analysis of the characteristics of the civil works, budgets of new constructions have been prepared, applying physical depreciations, through the "K" factor and Factor of Adjustment to Obsolescence and State of Conservation.

The other constructions such as bases, pavements, fences and other non-standardized structures were calculated through breakdown of costs.

***Urban land***

For evaluation of land it was used the Direct Comparative Method of Market Data for the enrollment numbers held in the local real estate market, offers, purchases and sales of similar properties for proper comparison through statistic treatment of market data.

For the other enrollment numbers it was used the involution method, based on the attestation that the best use of the land evaluated would be obtained by dividing it into lots, through a hypothetical project. The evaluation under this process considers the probable income from the trading of these lots and also all the expenses inherent in the transformation of the gross land into lots; and it also defines the maximum value to be attributed to the land so that it is economically feasible.

According to the location and other characteristics of each land, the value was determined after extensive survey of values traded and offered in the surroundings of the evaluated real estate, and based on consultation of competent people, connected to the local real estate market, business and offers published in local newspapers, websites, advertisements and real estate agencies.

After obtaining the survey values, it was applied a statistical treatment to calculate the most probable value of the properties.

### *(iv) Values and data presented*

The appraisal report presented the depreciation rate, current market value or depreciated replacement cost, apparent age, remaining useful life, with the following definitions:

(a) Depreciation rate is the ratio between apparent age and total useful life of the asset;

(b) Current market value or depreciated replacement cost may be defined as the initial value that the Company would spend in the market to replace the asset, considering a normal deal between independent people without other interests, and the present conditions of use of the asset;

## Notes to the financial statements

(c) Apparent age is the age of the asset in years, since its construction;

(d) Useful life represents the estimated remaining time of use of the evaluated asset, in years. This value is obtained through the difference between the apparent age and useful life of the project, pursuant to ABNT NBR 15575- 1_2013.

### *(v) Survey of values*

*Buildings and improvements*
Quantitative and qualitative budgets have been made related to the cost of reproduction of the buildings, and since they were built for an industry with singular characteristics, they may be used for other industrial and commercial purposes.
The replacement values were defined based on calculations of the current average acquisition cost of construction materials and the like. They result from a survey conducted in the supply market and were analyzed considering the components of each construction, plus labor costs, projects, fees, taxes and direct and indirect expenses.

*Urban land*
For the survey of values, consultations have been made with real estate agencies, newspapers, brokers, buyers and people connected to the real estate market.

### *(vi) Level of precision*

*Market value*
In the evaluation, the Level of Foundation GRADE I and Level of Precision GRADE I have been attained, in conformity with the following standards of ABNT – Brazilian Association of Technical Standards, applicable to this evaluation:

NBR-14653-1 (Appraisal of assets - General procedures); NBR-14653-2 (Evaluation of assets - Urban Real Estate).

The variables used in the model to determine the values of the evaluated area were:

(a) Total Area: quantitative variable representing the total area of the land in $m^2$;

(b) Urban Sector: qualitative variable that characterizes data according to the district where they are located;

(c) Vocation: dichotomic variable that classifies the lots according to the best activity developed in the property, namely: lots with industrial or commercial vocation and lots with residential vocation;

(d) Date of event: dichotomic variable that classifies: lots currently for sale and lots of properties that were available for sale in 2014.

## Notes to the financial statements

(e) Unit value of the Land: dependent variable expressed in reais by square meter.

*Determination of asset values*

| | Consolidated |
|---|---|
| | **2017** |
| Buildings | 11,775 |
| Land | 37,870 |
| Improvements | 463 |
| **Total** | **50,108** |

## Notes to the financial statements

# 15 Investments

| | 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.(I) | Parent company 06/30/2017 | Parent company 12/31/2016 |
|---|---|---|---|---|---|---|---|---|---|---|
| Current assets | 35,343 | 28,441 | 4,846 | 253,672 | 33,978 | 7,981 | 78,334 | 735 | | |
| Non-current assets | 114,963 | 60,953 | 1,861 | 119,463 | - | 64,214 | 264,944 | 2,483 | | |
| Current liabilities | 14,088 | 37,874 | 1,722 | 57,344 | - | 1,242 | 72,046 | 35,881 | | |
| Non-current liabilities | 8,770 | 2,299 | 27 | 123,593 | - | 9,306 | 47,847 | 21,988 | | |
| Capital | 73,855 | 9,400 | 6,355 | 1,008 | 36,390 | 53,292 | 304,780 | 293,639 | | |
| Shareholders' equity | 127,448 | 49,221 | 4,958 | 201,785 | 33,978 | 61,647 | 223,385 | (54,651) | | |
| Net income | 11,420 | 38,280 | 4,431 | 294,804 | - | 1,959 | 104,479 | - | | |
| Net income (loss) for the year | 2,212 | 3,037 | (709) | (14,264) | - | 1,480 | 12,422 | 3,613 | | |
| 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 (%) | 0.01% | 0.10% | 0.01% | 100% | 100% | 81.86% | 100% | 63.00% | | |
| Opening balances | 1 | 47 | 1 | 210,604 | 33,473 | 68,068 | 209,368 | - | **521,562** | 518,067 |
| Spin-off | - | - | - | - | - | - | - | - | - | 1 |
| Paid-up capital (3) | - | - | - | - | - | - | - | - | - | 74,190 |
| Equity income (loss) (2) | - | **2** | - | **(18,597)** | - | **1,471** | **12,593** | **2,276** | **(2,255)** | (32,275) |
| Capital investment loss | - | - | - | - | - | - | - | - | - | - |
| Exchange rate change over investments | - | - | - | **2,739** | **504** | - | - | - | **3,243** | (45,534) |
| Dividends received | - | - | - | - | - | - | - | - | - | - |
| Capital transactions | - | - | - | - | - | - | - | - | - | - |
| Equity evaluation adjustment | - | - | - | - | - | - | - | - | - | 19,077 |
| Write-off Goodwill Famastil | - | - | - | - | - | - | - | - | - | (2,215) |
| Reclassified for provision for unsecured liability (1) | - | - | - | - | - | - | - | **(2,276)** | **(2,276)** | (9,749) |
| Closing balances (2) | **1** | **49** | **1** | **194,746** | **33,977** | **69,539** | **221,961** | - | **520,274** | 521,562 |

(1) The unsecured liability of the subsidiary Taurus Máquinas-Ferramenta Ltda., in the amount of R$ 34,433, is recorded in "Related parties" 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.
(3) The capital contribution in the subsidiary Taurus Máquinas-Ferramenta Ltda., in the amount of R$ 20,000, and in Polimetal Metalurgia e Plásticos Ltda., in the amount of R$ 54,190, were made with loan capitalization.

## 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.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** |
| | **06/30/2017** | **12/31/2016** |
| Assets | **373,135** | 360,271 |
| Liabilities | **171,350** | 146,961 |
| Net income | **294,804** | 575,098 |
| Loss for the year | **(14,264)** | (4,259) |

### 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. Every year, the Company evaluates the need to form an impairment for intangible assets and also for the recoverability of its fixed assets. The tests performed did not indicate the need of forming a provision for impairment losses on Company's property, plant and equipment.

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 carrying amount 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** |
|---|---|
| Buildings | 27 years |
| Machinery and equipment | 15–20 years |
| Dies and tools | 5 years |
| Furniture | 15 years |
| Other components | 5–6 years |

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

## Notes to the financial statements

Consolidated

| | Land | Buildings | Machinery and facilities | Furniture and computers | Vehicles | Other | Construction in progress | Advances to suppliers | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost or deemed cost** | | | | | | | | | |
| Balance at December 31, 2015 | 38,244 | 110,201 | 266,821 | 29,785 | 2,589 | 191 | 21,308 | 227 | 469,366 |
| Additions | 2,549 | 10,671 | 4,178 | 1,323 | - | - | 28,150 | 145 | 47,016 |
| Disposals | (21,208) | (6) | (25,670) | (5,647) | (117) | (119) | (11,443) | - | (64,210) |
| Transfers | (67) | 15,344 | 5,449 | (667) | (190) | - | (19,793) | (76) | 0 |
| Effect of exchange rate changes | (1,301) | (8,653) | (8,824) | (1,551) | (1,262) | (32) | - | - | (21,623) |
| Balance at December 31, 2016 | 18,217 | 127,557 | 241,954 | 23,243 | 1,020 | 40 | 18,222 | 296 | 430,549 |
| Additions | 2,588 | 137 | 5,438 | 499 | - | - | 6,674 | 194 | 15,530 |
| Disposals | (4,464) | - | (1,978) | (2) | (74) | (60) | (104) | (1) | (6,683) |
| Transfers | (391) | 2,163 | 2,121 | 809 | 18 | 21 | (4,741) | - | - |
| Effect of exchange rate changes | 138 | 662 | 726 | 125 | 3 | (1) | - | - | 1,653 |
| Balance at June 30, 2017 | 16,088 | 130,519 | 248,261 | 24,674 | 967 | 0 | 20,051 | 489 | 441,049 |
| **Depreciation** | | | | | | | | | |
| Balance at December 31, 2015 | (184) | (25,350) | (149,990) | (18,335) | (2,318) | - | - | - | (196,177) |
| Depreciation for the year | (44) | (4,498) | (26,950) | (1,977) | (65) | - | - | - | (33,534) |
| Disposals | 34 | 811 | 20,430 | 4,698 | 1,500 | - | - | - | 27,473 |
| Effect of exchange rate changes | 0 | 2,125 | 6,961 | 1,215 | 38 | - | - | - | 10,339 |
| Balance at December 31, 2016 | (194) | (26,912) | (149,549) | (14,399) | (845) | - | - | - | (191,899) |
| Depreciation for the year | 0 | (3,467) | (11,888) | (1,156) | (29) | - | - | - | (16,540) |
| Disposals | 194 | 0 | 1,907 | 2 | 67 | - | - | - | 2,170 |
| Transfers | 0 | 0 | 0 | 0 | 0 | - | - | - | - |
| Effect of exchange rate changes | 0 | (179) | (447) | (105) | (3) | - | - | - | (734) |
| Balance at June 30, 2017 | 0 | (30,558) | (159,977) | (15,658) | (810) | - | - | - | (207,003) |
| **Book value** | | | | | | | | | |
| December 31, 2016 | 18,023 | 100,645 | 92,405 | 8,844 | 175 | 40 | 18,222 | 296 | 238,650 |
| June 30, 2017 | 16,088 | 99,961 | 88,284 | 9,016 | 157 | - | 20,051 | 489 | 234,046 |

## Notes to the financial statements

| | Buildings | Machinery and facilities | Furniture and computers | Vehicles | Construction in progress | Advances to suppliers | Parent company Total |
|---|---|---|---|---|---|---|---|
| **Cost or deemed cost** | | | | | | | |
| Balance at December 31, 2015 | 3,177 | 64,003 | 8,903 | 1,464 | 7,585 | - | 85,132 |
| Additions | 3,194 | 221 | 631 | - | 8,728 | - | 12,774 |
| Disposals | - | (7,084) | (3,548) | (104) | (482) | - | (11,218) |
| Transfers | 3,739 | 3,374 | (8) | (2) | (7,103) | - | - |
| Effect of exchange rate changes | - | - | - | (1,224) | - | - | (1,224) |
| Balance at December 31, 2016 | 10,110 | 60,514 | 5,978 | 134 | 8,728 | - | 85,464 |
| Additions | 120 | 30 | 223 | - | 2,052 | 368 | 2,793 |
| Disposals | - | (643) | - | (7) | (42) | - | (692) |
| Transfers | 1,529 | 904 | 516 | - | (2,949) | - | - |
| Effect of exchange rate changes | - | - | - | - | - | - | - |
| Balance at June 30, 2017 | 11,759 | 60,805 | 6,717 | 127 | 7,789 | 368 | 87,565 |
| **Depreciation** | | | | | | | |
| Balance at December 31, 2015 | (1,357) | (42,168) | (5,946) | (1,323) | - | - | (50,794) |
| Depreciation for the year | (439) | (5,335) | (576) | (40) | - | - | (6,390) |
| Disposals | - | 6,082 | 2,743 | 1,293 | - | - | 10,118 |
| Effect of exchange rate change | - | - | - | - | - | - | - |
| Balance at December 31, 2016 | (1,796) | (41,421) | (3,779) | (70) | | | (47,066) |
| Depreciation for the year | (543) | (2,621) | (301) | (9) | | | (3,474) |
| Disposals | - | 519 | - | 2 | - | - | 521 |
| Transfers | - | - | - | - | - | - | - |
| Effect of exchange rate changes | - | - | - | - | - | - | - |
| Balance at June 30, 2017 | (2,339) | (43,523) | (4,080) | (77) | - | - | (50,019) |
| | (2,339) | (45,523) | (4,080) | (77) | | | |
| **Book value** | | | | | | | |
| December 31, 2016 | 8,314 | 19,093 | 2,199 | 64 | 8,728 | - | 38,398 |
| June 30, 2017 | 9,420 | 17,282 | 2,637 | 50 | 7,789 | 368 | 37,546 |

## Notes to the financial statements

### Construction in progress

The balance of constructions in progress in the amount of R$ 7,790 in the parent company, and of R$ 19,434 in the consolidated in June 2017 (R$ 8,728 and R$ 18,222 in 2016, respectively) refers to machinery and equipment still in the implementation phase and constructions in progress. These assets should come into operation during 2017.

### Guarantee

The Company uses its assets as guarantees for the funds obtained from financial institutions. Although much of the fixed assets is guaranteeing loans and financing, the Company has been historically settling its obligations in the contractual terms, and the guarantees with assets have never been used. In 2017, the Company used the amount of R$ 71,833 in guarantees (R$ 94,773 in 2016).

### Reclassification for investment property

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified as an investment property. Any gain on from this remeasurement is recognized in income (loss) as the gain reverses a impairment loss on the specific property, and any remaining gain recognized as other comprehensive income and presented under equity valuation adjustment account. Any loss is immediately recognized in income (loss).

## 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.

## Notes to the financial statements

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.

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.

| | | | | 06/2017 | 12/2016 |
|---|---|---|---|---|---|
| | **Cost** | **Accumulated amortization** | **Effects of exchange rate change** | **Net balance** | **Net balance** |
| Software | 6,172 | (2,044) | - | 4,128 | 4,464 |
| Trademarks and patents | 21,198 | (6,840) | - | 14,358 | 14,203 |
| Client Relationship | 14,005 | (7,140) | (97) | 6,768 | 7,358 |
| Goodwill | 44,054 | - | (911) | 43,143 | 43,070 |
| Product development | 5,132 | - | - | 5,132 | 5,119 |
| | 90,561 | (16,024) | (1,008) | 73,529 | 74,214 |

## Notes to the financial statements

| | Software | Trademarks and patents | Client Relationship | Goodwill | Product development | Total |
|---|---|---|---|---|---|---|
| | | | | | | Consolidated |
| **Cost** | | | | | | |
| Balance at December 31, 2016 | 6,097 | 21,043 | 13,796 | 43,905 | 5,119 | 89,960 |
| Acquisitions | 75 | - | - | - | - | 75 |
| Transfers | - | - | - | - | - | - |
| Write-offs | - | - | - | - | (46) | (46) |
| Effect of exchange rate changes | - | 155 | 209 | 149 | 59 | 572 |
| Balance at June 30, 2017 | 6,172 | 21,198 | 14,005 | 44,054 | 5,132 | 90,561 |
| **Amortization** | | | | | | |
| Balance at December 31, 2016 | (1,633) | (6,840) | (6,438) | (835) | - | (15,746) |
| Amortization for the year | (411) | - | (702) | - | - | (1,189) |
| Transfers | - | - | - | - | - | - |
| Write-offs | - | - | - | - | - | - |
| Effect of exchange rate changes | - | - | (97) | (76) | - | (97) |
| Balance at June 30, 2017 | (2,044) | (6,840) | (7,237) | (911) | - | (17,032) |
| **Book value** | | | | | | |
| December 31, 2016 | 4,464 | 14,203 | 7,358 | 43,070 | 5,119 | 74,214 |
| June 30, 2017 | 4,128 | 14,358 | 6,768 | 43,143 | 5,132 | 73,529 |

## Notes to the financial statements

*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 | 2016 |
|---|---|
| **Firearms** | 42,682 |

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, 2016, the tests performed did not indicate the need of forming a provision for impairment losses on goodwill and intangible assets with indefinite useful lives. There was no significant change related to goodwill for the quarter.

*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:

| | Discount Rate WACC | Average growth rate |
|---|---|---|
| **Cash-generating unit** | **2017** | **2017** |
| Firearms | 16.8% | 9.4% |

*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 22.4% for Firearms CGU and of 36.9% for Armouring 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 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | 06/30/2017 | | 12/31/2016 | |
| | **Currency** | **Nominal interest rate** | **Year of maturity** | **Contracted value** | **Book value** | **Contracted value** | **Book value** |
| Loans and financing | | | | | | | |
| Working capital | RS | CDI +2.42–3.00% p.a. | 2018 | **2,500** | - | 2,500 | 1,253 |
| FINAME | R$ | 2.50–8.70% p.a. | 2021 | **8,515** | **1,529** | 8,515 | 2,284 |
| FINEP | R$ | 4–5.25% p.a. | 2020 | **14,095** | **6,955** | 14,095 | 8,348 |
| BNDES | R$ | 3.50% p.a. | 2020 | **9,995** | **6,672** | 9,995 | 7,675 |
| FNE | R$ | 9.50% p.a. | 2019 | **9,806** | **3,526** | 9,806 | 4,232 |
| Advance from receivables | R$ | 23.90% p.a. | 2017 | **6,136** | **11,919** | 6,136 | 6,136 |
| Foreign exchange advance | USD | 9.80% p.a. | 2017 | **28,065** | **21,836** | 28,065 | 28,065 |
| Working capital | USD | Libor + 1.55–5.6% p.a | 2021 | **499,162** | **527,077** | 499,162 | 490,990 |
| Working capital | USD | 80–l00% CDI p.a. | 2019 | **65,072** | **60,217** | 65,072 | 65,466 |
| Investments | USD | 5.33% p.a. | 2021-Beyond | **6,035** | **15,463** | 6,035 | 15,652 |
| Investments | USD | Libor + 2.25% p.a. | 2021-Beyond | **1,731** | **3,705** | 1,731 | 3,768 |
| Total | | | | | **658,899** | | 633,869 |
| Current liabilities | | | | | **114,129** | | 60,757 |
| Non-current liabilities | | | | | **544,770** | | 573,112 |

## Notes to the financial statements

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Parent company | | | | | | |
| | | | | 06/30/2017 | | 12/31/2016 | |
| | Currency | Nominal interest rate | Year of maturity | Contracted value | Book value | Contracted value | Book value |
| Loans and financing | | | | | | | |
| Working capital | R$ | CDI+2.42–3.00% | 2018 | **2,500** | **-** | 2,500 | 1,253 |
| FINAME | R$ | 2.50–5.50% | 2021 | **2,304** | **940** | 2,304 | 1,139 |
| BNDES | R$ | 3.50% | 2020 | **9,995** | **6,672** | 9,995 | 7,675 |
| Advance from receivables | R$ | 24.60% | 2017 | **6,136** | **1,222** | 6,136 | 6,136 |
| Foreign exchange advances | USD | 9.80% | 2017 | **28,065** | **21,836** | 28,358 | 28,065 |
| Working capital | USD | Libor+ 3.41–5.60% | 2021 | **424,162** | **436,400** | 424,162 | 422,898 |
| Working capital | USD | 85–100% CDI | 2019 | **65,072** | **60,217** | 65,072 | 65,466 |
| Total | | | | | **527,287** | | **532,632** |
| Current liabilities | | | | | **97,651** | | **54,567** |
| Non-current liabilities | | | | | **429,636** | | **478,065** |

Schedule of maturities of non-current liabilities:

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| **Year of maturity** | **06/30/2017** | **12/31/2016** | **06/30/2017** | **12/31/2016** |
| 2018 | **78,790** | 124,786 | **75,481** | 119,314 |
| 2019 | **166,974** | 167,547 | **161,420** | 162,119 |
| 2020 | **220,271** | 201,081 | **128,289** | 131,652 |
| 2021 onwards | **78,735** | 79,698 | **64,446** | 64,980 |
| | **544,770** | 573,112 | **429,636** | 478,065 |

## Notes to the financial statements

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, chattel mortgage, 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.

| | | | | | 06/30/2017 |
|---|---|---|---|---|---|
| | | | | | Parent company |
| **MATURITIES** | **2018** | **2019** | **2020** | **2021** | **TOTAL** |
| PPE | 66,228 | 128,722 | 126,429 | 64,431 | **385,810** |
| DEBENTURES | 10,515 | 20,990 | 20,990 | 10,495 | **62,990** |
| **TOTAL** | **76,743** | **149,712** | **147,419** | **74,926** | **448,800** |

### Covenants

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. Said ratios indices should be measured and met annually.

### Interest payment

The maturity of the 1st interest payment of the bank syndicate occurred on July 7, 2017, whose amount was negotiated with the banks, resulting in an amortization agreement in the amount of R$ 10,000, and the balance of R$ 17,000 paid in five monthly and consecutive installments, where the 1st installment maturing on August 8, 2017 was fully paid.

## 19 Debentures

## Notes to the financial statements

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 | 06/30/2017 | 12/31/2016 |
|---|---|---|---|---|---|---|
| 3th issuance (a) | 100,000 | 06/13/2014 | 10,000 | DI rate + 10.30% (2016) | **75,456** | 68,444 |
| | | | | Grand total | **75,456** | 68,444 |
| | | | | Current liabilities | **12,466** | 433 |
| | | | | Non-current liabilities | **62,990** | 68,011 |
| | | | | Incurred cost transactions | **3,584** | 3,584 |
| | | | | Appropriate cost transactions | **3,219** | 2,962 |
| | | | | Unearned transaction costs | **365** | 622 |

### Covenants

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 ratios are duly monitored by management. The 3rd issue agreement requires that the indexes should be met on annual basis.

## Notes to the financial statements

# 20 Other accounts payable

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | 06/30/2017 | 12/31/2016 | 06/30/2017 | 12/31/2016 |
| Performance bonus | 1,188 | 191 | - | - |
| Discounts granted | 5,440 | 8,703 | - | - |
| Royalties | 5,284 | 3,846 | 5,284 | 3,846 |
| Insurance and freight | 3,338 | 15,749 | 2,880 | 11,777 |
| FEE Banking Syndicate | 5,605 | - | 5,605 | - |
| Sales commissions | 2,716 | 8,917 | 1,989 | 7,816 |
| Other | 9,550 | 9,840 | 1,734 | 5,864 |
| | 33,121 | **47,246** | 17,492 | **29,303** |
| Current | 30,130 | 44,170 | 14,501 | 26,227 |
| Non-current | 2,991 | 3,076 | 2,991 | 3,076 |

# 21 Salaries and social security charges

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | 06/30/2017 | 12/31/2016 | 06/30/2017 | 12/31/2016 |
| Salaries | **3,220** | 3,296 | **2,552** | 2,108 |
| Social security charges | **9,852** | 10,806 | **3,868** | 4,451 |
| Provisions for vacations | **24,448** | 20,543 | **9,499** | 8,290 |
| | **37,520** | **34,645** | **15,919** | **14,849** |

# 22 Taxes, rates and contributions

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | 06/30/2017 | 12/31/2016 | 06/30/2017 | 12/31/2016 |
| ICMS | 6,212 | 5,732 | 1,891 | 2,709 |
| IPI | 91 | 8,761 | - | 8,447 |
| PIS | 1,172 | 1,039 | 717 | 560 |
| COFINS | 5,030 | 4,820 | 3,060 | 2,578 |
| SPECIAL TAX - FAET (USA) | 12,596 | 13,872 | - | - |
| IRRF | 6,490 | 3,054 | - | 1,943 |
| Income and social contribution taxes | 816 | 3,416 | 415 | - |
| Installment payment of PRT | 13,546 | - | 11,048 | - |
| Other | 464 | 972 | 254 | 948 |
| | 46,417 | **41,666** | **17,385** | **17,185** |
| **Current** | 38,046 | **39,170** | 11,676 | **16,241** |
| **Non-current** | 8,371 | **2,496** | 5,709 | **944** |

## Notes to the financial statements

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

**Statement of debts included in installment payment - Consolidated**

| | IPI | IRPJ/CSLL | PIS/COFINS | IOF | IRRF/PCC | AFRMM/II | INSS | Total |
|---|---|---|---|---|---|---|---|---|
| Value Principal | 30,136 | 2,149 | 7,377 | 1,483 | 1,098 | 497 | 307 | 43,047 |
| Fine | 6,027 | 531 | 2,519 | 302 | 225 | 99 | 230 | 9,933 |
| Interest | 4,108 | 1,214 | 2,355 | 181 | 127 | 81 | 125 | 8,191 |
| | **40,271** | **3,894** | **12,251** | **1,966** | **1,450** | **677** | **662** | **61,171** |
| Offset of tax loss and negative basis of social contribution on net income | 30,606 | 2,959 | 9,311 | 1,495 | 1,101 | 515 | 503 | 46,490 |
| **Balance - Pmt in 24 instatallments** | **9,665** | **935** | **2,940** | **471** | **349** | **162** | **159** | **14,681** |
| Payments | (747) | (72) | (227) | (36) | (27) | (13) | (13) | (1,135) |
| **Balances as of 06/30/2017** | **8,918** | **863** | **2,713** | **435** | **322** | **149** | **146** | **13,546** |

**Statement of debts included in installment payment - Parent company**

| | IPI | PIS/COFINS | IOF | IRRF/PCC | AFRMM/II | INSS | Total |
|---|---|---|---|---|---|---|---|
| Value Principal | 30,103 | 5,440 | 342 | 711 | 497 | 307 | 37,400 |
| Fine | 6,021 | 1,088 | 68 | 142 | 99 | 230 | 7,648 |
| Interest | 4,063 | 778 | 42 | 83 | 81 | 125 | 5,172 |
| | **40,187** | **7,306** | **452** | **936** | **677** | **662** | **50,220** |
| Offset of tax loss and negative basis of social contribution on net income | 30,542 | 5,553 | 344 | 711 | 515 | 503 | 38,167 |
| **Balance - Payment in 24 installments** | **9,645** | **1,753** | **108** | **225** | **162** | **159** | **12,053** |
| Payments | (804) | (146) | (9) | (19) | (14) | (13) | (1,005) |
| **Balance at 06/30/2017** | **8,841** | **1,607** | **99** | **206** | **148** | **146** | **11,048** |

## 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 | | | |
|---|---|---|---|---|
| | | | 06/30/2017 | 12/31/2016 |
| | **Provision** | **Judicial deposit (i)** | **Net** | **Net** |
| Labor | 43,589 | 13,501 | 30,088 | 24,999 |
| Civil | 8,952 | - | 8,952 | 9,433 |
| Tax | 315 | 1,058 | (743) | 5,992 |
| | 52,856 | 14,559 | 38,297 | 40,424 |
| Classified in current liabilities | 4,155 | | | |
| Classified in the non-current liabilities | 48,701 | | | |

***(i) Recorded in other accounts receivable in non-current assets.***

| | Parent company | | | |
|---|---|---|---|---|
| | | | 06/30/2017 | 12/31/2016 |
| | **Provision** | **Judicial deposit (i)** | **Net** | **Net** |
| Labor | 23,965 | 8,047 | 15,918 | 11,726 |
| Civil | 1,224 | - | 1,224 | 1,140 |
| Tax | - | - | - | - |
| | 25,189 | 8,047 | 17,142 | 12,866 |
| Classified in current liabilities | 2,820 | | | |
| Classified in the non-current liabilities | 22,369 | | | |

Changes in provisions are as follows:

| | Consolidated | | |
|---|---|---|---|
| | **Civil and labor** | **Tax** | **Total** |
| Balance at December 31, 2016 | 44,781 | 7,050 | 51,831 |
| Provisions formed during the year | 13,084 | 214 | 13,298 |
| Provisions used during the year | (4,406) | - | **(4,406)** |
| Reversal of provision | (918) | (6,949) | (7,867) |
| **Balance at June 30, 2017** | **52,541** | **315** | 52,856 |

## Notes to the financial statements

| | Parent company | | |
|---|---|---|---|
| | Civil and labor | Tax | Total |
| Balance at December 31, 2016 | 18,756 | - | 18,756 |
| Provisions formed during the year | 9,048 | - | 9,048 |
| Provisions used during the year | (2,571) | - | (2,571) |
| Reversal of provision | (44) | - | (44) |
| **Balance at June 30, 2017** | **25,189** | - | **25,189** |

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 | | | |
|---|---|---|---|---|---|---|---|---|
| | 06/30/2017 | | 12/31/2016 | | 06/30/2017 | | 12/31/2016 | |
| | Possible | Remote | Possible | Remote | Possible | Remote | Possible | Remote |
| Tax | 12,141 | 418 | 25,893 | 418 | 736 | - | 736 | - |
| Civil | 17,700 | 372 | 18,123 | 357 | 10,841 | 221 | 11,264 | 206 |
| Labor | 43,353 | 4,622 | 59,823 | 3,403 | 27,286 | 1,832 | 38,270 | 1,703 |
| Other | 8,006 | 712 | 8,006 | 722 | 7,728 | 330 | 7,728 | 340 |
| | 81,200 | 6,124 | 111,845 | 4,900 | 46,591 | 2,383 | 57,998 | 2,249 |

*Hunter Douglas*

The subsidiary Taurus Máquinas-Ferramenta Ltda. was party to a lawsuit filed by the company Hunter Douglas N.V. (a company organized under the laws of Curacao, headquartered in Rotterdam, the Netherlands) against the company Wotan Máquinas Ltda. on the collection originated from export financing loan agreement signed between the two in 2001. Defendant due to the supervening location of the industrial park held with Wotan Máquinas Ltda. in 2004 by that subsidiary.

By means of a signing of a Definitive Purchase and Sale and Credit Assignment Agreement, entered into on June 26, 2015, in which T. Investments Co. Inc., a company belonging to Taurus Group, a corporation headquartered in the city of Panama, acquired the credit of Hunter Douglas N.V. against Wotan Máquinas Ltda. and other rights in the amount of US$ 10,250,000. The fulfillment of this commitment resulted in the acquisition of the following by the Company: i) credit of Hunter Douglas N.V. before Wotan Máquinas Ltda.; ii) all rights linked or ancillary to the credit, especially mortgages, and iii) all rights arising from the proceeding, directly linked to credit or not.

On April 29, 2016, the parties signed in the aforementioned process agreement to close the dispute, which was homologated on June 30, 2016. In the homologated agreement, Wotan Máquinas Ltda. agreed to transfer the real estate properties recorded under enrollment numbers 63.714 and 11.400 of the registry of real estate properties of the city of Gravataí (RS), to T INVESTMENTS, as settlement of the liability.

Real estate properties were evaluated at R$ 14,000 (real estate 11,400) and R$ 15,800 (real estate 63,714) totaling R$ 29,800.

## Notes to the financial statements

The transfer was not made in the term established in the agreement, since WOTAN MÁQUINAS LTDA. failed to meet the precedent conditions to make the transfer, remaining T INVESTMENTS as assignee of the mortgage according to registrations contained in the enrollment numbers informed. T INVESTMENTS CO. INC should promote the execution of the agreement homologated so as to obtain in court the transfer of real estate.

*Carter Case*

The main proceeding which Taurus is party, is related to the signing of a agreement to end the lawsuit filed in US Court for the Southern District of Florida against Taurus and its subsidiaries in the United States, Taurus Holdings, Inc. and Taurus International Manufacturing, Inc. (together, the "Companies"). Said agreement resulted from individual lawsuit, Chris Carter vs. Forjas Taurus, S.A. et. al., on alleged defects presented in certain models of the Companies' pistols, classified as a possible risk of loss by its legal advisors. However, the possible consequences of this lawsuit led to the decision, in April 2015, to enter into said agreement, which aimed to minimize potential future risks to the Company, related to a possible change in the level of the lawsuit and considering the specific features of the North-American legal environment, even with a historically low number of defects reported by the Company's customers.

On July 18, 2016, the Judge of the U.S. District Court for the Southern District of Florida granted final approval. This decision also recognized the value of USD 9,000 thousand as lawyers' fees payable in 03 (three) annual installments on: i) January 15, 2017; ii) January 15, 2018 and; iii) January 15, 2019.

However, the parties negotiated and on August 26, 2016 they filed a joint request to change the terms of the agreement, solely with respect to the payment of legal fees. In the proposal submitted to the Judge, the value was reduced from USD 9,000 thousand to USD 8,300 thousand, in single payment.

On October 18, 2016, the Judge of the U.S. District Court for the Southern District of Florida homologated the request of amendment mentioned and it will be definitive in case no appeal is filed by any of the interested parties or third parties in the legal term. Such amount was deposited in court by Taurus by means of a secured account and will be released after the judgment of appeals in progress, except if in the judgment of these appeals, the agreement was entirely annulled, on definitive basis.

On June 29, 2017, the Eleventh Circuit Court of Appeals confirmed the approval of the master agreement and the decision will become final after the expiration of the appeal period, provided that there is no appeal filed by any parties or any interested third parties.

It is hereby ratified that all the other payments related to the agreement, in the total value of USD 12,438 thousand, were made in 2015.

The agreement approved is the result of intense negotiations and, based on the opinion of its US legal advisors, management of Taurus understands that its signing was the most effective measure to end the lawsuit in reference and its possible developments, as well as the one that involved the least financial impact to the Company, avoiding the risks and potential additional adverse effects to which the Company would be exposed in the event of continued litigation.

## Notes to the financial statements

*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 No. CSMAM-002/30/16 and Sanctioning Process No. 003/30/2016 in addendum to Process No. CSMAM 01/30/14) which challenges the possibility or not of partial or total noncompliance 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$ 22,681,184.00 (twenty-two million, six hundred and eighty-one thousand, one hundred and eighty-four reais).

In relation to Sanctioning Process No. 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 of Federal Law No. 8.666/93, combined with article 81 of State Law (SP) No. 6.544/89.

In relation to Sanctioning Process No. CSMAM 01/30/14, administrative decision was given suspending the Company's right to contract with the public administration of the State of São Paulo, without the application of any monetary penalty. However, there is the possibility that this decision may lead to some lawsuit filed against the Company, claiming the eventual reimbursement of the amounts received by it as a contra entry of the supply agreement. The Company, with the assistance of its legal advisors, estimated the updated total amounts related to said contracts at R$ 30,206, and the risks related to a possible lawsuit as possible.

Anyway, the declaration of suspension of the right to contract with administration is restricted to the federated entity of the declaring authority (State of São Paulo), not affecting negotiations with other States.

Finally, sales to the government of the State of São Paulo in the last 3 years represented less than 1% of the Company's consolidated sales in the period.

*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 financial statements of the Company on this date.

## Notes to the financial statements

# 24 Financial instruments

## 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** | |
|---|---|---|---|---|
| | **06/30/2017** | **12/31/2016** | **06/30/2017** | **12/31/2016** |
| Derivative financial instruments liabilities | (447) | (543) | - | - |
| | (447) | (543) | - | - |

All the operations with financial instruments are classified and recognized in the financial statements of the Company, as the table below:

| | | **06/30/2017** | | **Consolidated 12/31/2016** | |
|---|---|---|---|---|---|
| **Instrument** | **Contracting currency referring to the notional amount** | **Notional in thousands** | **Fair value** | **Notional in thousands** | **Fair value** |
| Swap Fixed x Libor (i) | Dollars US Dollars - USD | **5,711** | (447) | **5,711** | **(543)** |
| | | **5,711** | (447) | **5,711** | **(543)** |

(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.

## Notes to the financial statements

## 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 | | | |
|---|---|---|---|---|
| | 30-06- | 2017 | 31-12 | 2016 |
| | Book value | Fair value | Book value | Fair value |
| **Assets measured at amortized cost** | | | | |
| Cash and cash equivalents (ii) | 11,492 | 11,492 | 26,708 | 26,708 |
| Interest earning bank deposits (ii) | 4,392 | 4,392 | 3,186 | 3,186 |
| Accounts receivable (iii) | 137,898 | 137,898 | 150,197 | 150,197 |
| | **153,782** | 153,782 | 180,091 | 180,091 |
| **Liabilities measured at fair value** | | | | |
| Forward exchange contracts and interest rate swap used to hedge transactions (i) | 447 | 447 | **543** | **543** |
| **Liabilities measured by the amortized cost** | | | | |
| Loans and financing (iv) | 625,144 | 592,113 | 599,668 | 474,255 |
| Debentures (iv) | 75,456 | 95,701 | 68,444 | 74,276 |
| Foreign exchange advances (iv) | 21,836 | 21,867 | 28,065 | 24,698 |
| Suppliers and advance from receivables (ii) | 168,728 | 168,728 | 134,848 | 134,848 |
| | 891,164 | 878,409 | 831,025 | 708,077 |

| | Parent company | | | |
|---|---|---|---|---|
| | 06/30/2017 | | 12/31/2016 | |
| | Book value | Fair value | Book value | Fair value |
| **Assets measured at amortized cost** | | | | |
| Cash and cash equivalents (ii) | 547 | 547 | 1,313 | 1,313 |
| Interest earning bank deposits (ii) | 4,162 | 4,162 | - | - |
| Accounts receivable and other receivables (iii) | 56,289 | 56,289 | 45,701 | 45,701 |
| | **60,998** | 60,998 | 47,014 | 47,014 |
| **Liabilities measured by the amortized cost** | | | | |
| Loans and financing (iv) | 504,229 | 592,113 | 498,431 | 414,774 |
| Debentures (iv) | 75,456 | 95,701 | 68,444 | 74,276 |
| Foreign exchange advances (iv) | 21,836 | 21,867 | 28,065 | 24,698 |
| Suppliers and advance from receivables (ii) | 172,942 | 172,942 | 131,212 | 131,212 |
| | 774,463 | 882,623 | 726,152 | 644,960 |

(ii) The fair value of forward exchange agreements is based on the listed market price, if available. If a listed market price is not available, fair value is estimated by discounting the difference between the contractual forward price and the current forward price by using a risk-free interest rate (based on government bonds). The fair value of swap contracts is based on brokers' quotations. These quotations are tested for reasonability by estimating discounted future cash flows based on contract conditions and maturities and using market interest rates of similar instruments on the measurement date. Fair values reflect the instrument credit risk and include adjustments to consider the credit risk of the Company's entity and the counterpart, if applicable.

## Notes to the financial statements

(iii) 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.

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

(v) 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. For liability convertible debt securities, the market interest rate is calculated by referring to similar liabilities that do not have the conversion option. For financial leases, the interest rate is calculated by referring to similar lease agreements.

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 (credits with related parties) (iii) | Total assets | Current liabilities (i) | Non-current liabilities | | Total liabilities | Income | Expense |
| **December 31, 2016** | | | | | | | | | |
| Taurus Blindagens Ltda. | 58 | - | 58 | 788 | 22,155 | (iv) | 22,943 | - | 694 |
| Taurus Blindagens Nordeste Ltda. | 86 | - | 86 | 328 | 18,586 | (iv) | 18,914 | - | 433 |
| Taurus Holdings, Inc. | - | - | - | 67,540 | 5,103 | (v) | 72,643 | 106,801 | 325 |
| Taurus Investimentos Imobiliários Ltda. | 265 | - | 265 | 1,107 | - | | 1,107 | - | 184 |
| Taurus Máquinas-Ferramenta Ltda. | - | 18,266 | 18,266 | - | 37,101 | | 37,101 | 526 | - |
| Taurus Plásticos Ltda. | 21 | - | 21 | - | - | | - | - | - |
| Polimetal Metalurgia e Plásticos Ltda. | 8,916 | - | 8,916 | 37,989 | - | | 37,989 | 97 | 45,812 |
| | 9,346 | 18,266 | 27,612 | 107,752 | 82,945 | | 190,697 | 107,424 | 47,448 |
| **June 30, 2017** | | | | | | | | | |
| Taurus Blindagens Ltda. | **67** | **-** | **67** | **937** | **21,091** | **(iv)** | **22,028** | **(8)** | **1,035** |
| Taurus Blindagens Nordeste Ltda. | **88** | **-** | **88** | **559** | **27,954** | **(iv)** | **28,513** | **-** | **811** |
| Taurus Holdings, Inc. | **9,230** | **-** | **9,230** | **76,440** | **-** | **(v)** | **76,440** | **244,367** | **-** |
| Taurus Investimentos Imobiliários Ltda. | **354** | **-** | **354** | **1,299** | **-** | | **1,299** | **-** | **-** |
| Taurus Máquinas-Ferramenta Ltda. | **-** | **13,368** | **13,368** | **-** | **34,433** | | **34,433** | **954** | **-** |
| Taurus Plásticos Ltda. | **21** | **-** | **21** | **-** | **-** | | **-** | **-** | **-** |
| Polimetal Metalurgia e Plásticos Ltda. | **13,576** | **-** | **13,576** | **54,636** | **-** | | **54,636** | **497** | **391** |
| | **23,336** | **13,368** | **36,704** | **133,871** | **83,478** | | **217,349** | **245,810** | **2,237** |

(i) Refers to amounts recorded under Suppliers - R$ 38,775, advance from client, R$ 39,568 and financial loans, R$ 29,408 (2016). And for 2017, amounts recorded under AL - R$ 45,400, suppliers - R$ 53,693 and financial loans, R$ 34,000.

(ii) Refers to amounts recorded under Trade accounts receivable, R$ 560 and financial loans, R$ 8,828 (2016). And for 2017, amounts recorded under Trade accounts receivable - R$ 9,705 and financial loans, R$ 14,000.

(iii) Represent loan agreements with the parent company Forjas Taurus S.A., and are restated to 100% of the CDI (Interbank Deposit Certificate).

(iv) Represent loan agreements with subsidiary Taurus Blindagens Ltda. and Taurus Blindagens Nordeste Ltda. are restated to 100% of the CDI (Interbank Deposit Certificate) in the amount of R$ 40,741 (2016) and in 2017 totals R$ 49,044.

(v) Refers to advances received from clients

## 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.

With the capital increases, approved by the Board of Directors at the meetings held on 01.06.2016, 06.02.2016 and 06.27.2016, CBC Participações S.A., parent company of the Company, held on December 31, 2016, 91.91% of common shares and 2.51% of preferred shares, totaling 70.99% of the total capital of Taurus.

On June 30, 2017, operations involving Forjas Taurus S.A. and CBC refer mainly to sales of firearms for trading, and purchase of ammunition. The amount of these operations is shown below:

| Companhia Brasileira de Cartuchos | **Current assets** | **Current liabilities** | **Income** | **Expense** |
|---|---|---|---|---|
| December 31, 2016 | - | 25,023 | 61,769 | 25,071 |
| June 30, 2017 | 16,050 | 41,444 | 23,048 | 17,511 |

### Directors' fees and Board Members

As of June 30, 2017 and 2016, the Directors' fees include salaries, fees and benefits:

| | **Consolidated** | | **Parent company** | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| Salaries and benefits of statutory directors | **1,474** | 1,477 | **1,474** | 1,477 |
| Remuneration and benefits of the Board of Directors | **178** | 150 | **178** | 150 |
| Remuneration and benefits of the Tax Council | **211** | 227 | **211** | 227 |
| Total | **1,863** | 1,854 | **1,863** | 1,854 |

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.

# Notes to the financial statements

### 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:

| | 2017 | 2016 |
|---|---|---|
| Polimetal Metalurgia e Plásticos Ltda. | - | 42,023 |
| Forjas Taurus S.A. | **126,920** | 95,934 |
| Taurus Blindagens Ltda | **516,239** | 494,807 |
| | **643,159** | 632,764 |

## 26 Shareholders' equity / Unsecured liability (parent company)

a) Capital

In the first semester of 2017, there were new exercises of subscription bonus, resulting in a capital increase in the amount of R$ 10,511,814.52 (ten million, five hundred and eleven thousand, eight hundred fourteen reais and fifty-two centavos), upon issuance of 6,409,643 (six million, four hundred and nine thousand, six hundred and forty-three) new shares, of which 1,802,855 (one million, eight hundred and two thousand, eight hundred and fifty-five) common shares and 4,606,788 (four million, six hundred and six thousand, seven hundred and eighty-eight) preferred shares, all at issue price of R$1.64 (one real and sixty-four centavos) per share, as result of the exercise of 1,802,855 (one million, eight hundred and two thousand, eight hundred and fifty-five) subscription bonus class 1 and 4,606,788 (four million, six hundred and six thousand, seven hundred and eighty-eight) subscription bonus class 2, all issued in the context of the capital increase of the Company homologated on September 29, 2015.

As of June 30, 2017, the Company’s capital amounted to R$ 404,488,840.61 (four hundred four million, four hundred eighty-eight thousand, eight hundred forty and sixty-one centavos), represented by 64,688,212 (sixty-four million, six hundred eighty-eight thousand and two hundred twelve) shares, of which 46,445,314 (forty-six million, four hundred forty-five thousand and three hundred fourteen) are common shares and 18,242,898 (eighteen million, two hundred forty-two thousand and eight hundred ninety-eight) are preferred shares, all nominative, book-entry and with no par value.

***Subscription bonus***

Subscription bonus issued in the context of the capital increase homologated at Special Shareholders’ Meeting held on September 29, 2015 had their maturity on 01.30.2017. Accordingly, the 8,618 subscription bonus class 1 and 55,628 subscription bonus class 2 issued and not exercised were canceled.

***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:

## Notes to the financial statements

(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)

| | **06/30/2017** | **06/30/2016** |
|---|---|---|
| Common shares | **51,851** | 51,851 |
| Preferred shares | **103,702** | 103,702 |
| | **155,553** | 155,553 |

Shares issued and fully paid-in

| | **Common** | | **Preferred** | |
|---|---|---|---|---|
| | **Amount in thousands** | **Amount in R$ thousand** | **Amount in thousands** | **Amount in R$ thousand** |
| June 30, 2016<br>Com.share R$1.78 - Pref.share R$1.77* | 44,642 | 70,928 | 13,636 | 21,272 |
| **June 30, 2017<br>Com.share R$1.68 - Pref.share R$1.72*** | **46,445** | **78,028** | **18,243** | **31,378** |

*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.

# Notes to the financial statements

***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 quarterly information of foreign operations.

c) Earnings per share

| **Basic earnings per share** | **06/30/2017** | 06/30/2016 |
|---|---|---|
| Loss attributable to shareholders (in thousands of R$) | **(31,905)** | 11,291 |
| Balance of shares at the end of the year | **64,688,212** | 58,278,566 |
| Total shares | **64,688,212** | 58,278,566 |
| Earnings per share - Basic (in R$) | **(0.49321)** | 0.19374 |

| **Diluted earnings per share** | **06/30/2017** | 06/30/2016 |
|---|---|---|
| Loss attributable to shareholders (in thousands of R$) | **(31,905)** | 11,291 |
| Balance of shares at the end of the year | **64,688,212** | 58,278,566 |
| Bonus effect on share subscription* | **-** | - |
| Total shares considered | **64,688,212** | 58,278,566 |
| Earnings per share considering the bonus and diluted effect in R$ | **(0.49321)** | 0.19374 |

*Refers to the effect of share subscription bonds, as described in item "a" of this note.

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.

# 27 Net operating income

### Sale of assets

Operating income is recognized when:

(i) There is convincing evidence that the most significant risks and rewards of ownership of the goods have been transferred to the buyer, and there is no continuing involvement with the goods sold;

(ii) It is probable that the financial economic benefits will flow to the entity, and;

(iii) The related costs and potential return of goods can be reliably estimated, there is no continued involvement with the goods sold, and the amount of operating revenue can be reliably measured.

# Notes to the financial statements

### Sales taxes

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

| | Rates |
|---|---|
| ICMS - Value-Added Tax on Sales and Services | 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 | |
|---|---|---|---|---|
| | **06/30/2017** | 06/30/2016 | **06/30/2017** | 06/30/2016 |
| Sales of goods | **453,228** | 442,381 | **312,862** | 201,755 |
| Rendering of services | **-** | - | **-** | - |
| Adjustment to present value | **-** | - | **-** | - |
| Total gross revenue | **453,228** | 442,381 | **312,862** | 201,755 |
| Sales tax | **(51,616)** | (50,649) | **(16,772)** | (12,067) |
| Refunds and rebates | **(7,677)** | (7,898) | **(5,877)** | (1,909) |
| Total net operating revenue | **393,935** | 383,834 | **290,213** | 187,779 |

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.

## 28 Expenses per type

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | **06/30/2017** | **06/30/2016** | **06/30/2017** | **06/30/2016** |
| **Expenses according to the role** | | | | |
| Cost of products sold | **(288,570)** | (273,286) | **(226,853)** | (143,544) |
| Sales expenses | **(55,657)** | (53,875) | **(19,704)** | (13,224) |
| General and administrative expenses | **(68,276)** | (74,034) | **(37,953)** | (37,448) |
| Other operating expenses | **(7,446)** | (24,417) | **(2,985)** | (4,124) |
| | **(419,949)** | (425,612) | **(287,495)** | (198,340) |
| **Expenses per type** | | | | |
| Depreciation and amortization | **(17,730)** | (15,675) | **(3,761)** | (3,482) |
| Personnel expenses | **(135,220)** | (144,017) | **(40,925)** | (40,380) |
| Raw materials and use and consumption materials | **(129,768)** | (123,820) | **(195,371)** | (110,882) |
| Freight and insurance | **(18,788)** | (10,356) | **(8,937)** | (6,553) |
| Third party services | **(19,609)** | (11,826) | **(8,898)** | (11,229) |
| Advertising and publicity | **(9,257)** | (9,429) | **(1,659)** | (74) |
| Allowance for doubtful accounts | **-** | - | **-** | (1,093) |
| Expenses with product warranty | **(4,260)** | (2,759) | **(3,565)** | (1,500) |
| Water and electricity | **(8,687)** | (8,024) | **(1,937)** | (2,349) |
| Rents | **(706)** | (5,588) | **(413)** | (1,145) |
| Travel and accommodation | **(3,042)** | (3,218) | **(1,874)** | (1,797) |
| Commission expenses | **(8,737)** | (17,716) | **490** | (1,911) |
| Cost of write-off property, plant and equipment | **(102)** | (4,123) | **(35)** | (1,537) |
| Investment losses | **-** | (5,150) | **-** | (2,514) |
| Provision for contingencies | **(17,585)** | (19,698) | **(13,576)** | (5,416) |
| Auxiliary, conservation and maintenance materials | **(26,696)** | (15,227) | **(2,278)** | (854) |
| Other expenses | **(19,762)** | (28,986) | **(4,756)** | (5,624) |
| | **(419,949)** | (425,612) | **(287,495)** | (198,340) |

## Notes to the financial statements

# 29 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 | |
|---|---|---|---|---|
| | **06/30/2017** | **06/30/2016** | **06/30/2017** | **06/30/2016** |
| **Financial expenses** | | | | |
| Interest | **(44,606)** | (37,753) | **(44,017)** | (35,353) |
| Exchange rate change | **(30,379)** | (352) | **(29,130)** | - |
| IOF | **(1,042)** | (554) | **(726)** | (281) |
| Swap on financial operations | **-** | (9,893) | **-** | (9,893) |
| Deductible fines | **(8,805)** | - | **(8,523)** | - |
| Other expenses | **(4,741)** | (3,439) | **(2,971)** | (2,809) |
| | **(89,573)** | (51,991) | **(85,367)** | (48,336) |
| **Financial income** | | | | |
| Interest | **871** | 565 | **1,134** | 1,835 |
| Exchange rate change | **18,686** | 98,877 | **17,470** | 91,034 |
| Swap on financial operations | **-** | 836 | **-** | 836 |
| Yield of interest earning bank deposit | **1,045** | - | **196** | - |
| Other income | **154** | 1,447 | **80** | 737 |
| | **20,756** | 101,725 | **18,880** | 94,442 |
| **Net financial income (loss)** | **(68,817)** | 49,734 | **(66,487)** | 46,106 |

# 30 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 2017, insurance coverage for the Company was as follows:

| | 06/30/2017 | |
|---|---|---|
| | **Consolidated** | **Parent company** |
| Material damages | **405,792** | **80,000** |
| Civil liability | **197,021** | **15,000** |
| Loss of profit | **233,521** | **233,521** |

# 31 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 June 30, 2017 and December 31, 2016, the balances are shown as follow:

| | Consolidated | | Parent company | |
|---|---|---|---|---|
| | **06/30/2017** | **12/31/2016** | **06/30/2017** | **12/31/2016** |
| Domestic market | 8,232 | 6,590 | 6,764 | 5,122 |
| Foreign market | 10,086 | 9,936 | - | - |
| Total | 18,318 | 16,526 | 6,764 | 5,122 |
| Current liabilities | 12,801 | 11,092 | 6,764 | 5,122 |
| Non-current liabilities | 5,517 | 5,435 | - | - |

# 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 June 30, 2017, which comprises the balance sheet as of June 30, 2017 and related statements of income, of comprehensive income for the 3 and 6-months period then ended, of changes in shareholders' equity and of cash flows for the quarter then ended, including the explanatory notes.

Company’s Management is responsible for the preparation of the interim accounting information in accordance with CPC 21 (R1) - Interim Statement 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 these 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 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 accounting 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 June 30, 2017, 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 aforementioned statements of added value were not prepared, in all material respects, in accordance with individual and consolidated interim financial information taken as a whole.

Porto Alegre, August 10, 2017.

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 second quarter of 2017. Based on this review and on information contained in the Quarterly Information Review Report, issued without qualifications by KPMG Auditores Independentes and dated August 10, 2017, in addition to information and explanations received from the Company's management, it represents that the mentioned documents are appropriate for disclosure.

São Leopoldo, August 10, 2017.

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 FIRST SEMESTER OF 2017

Messrs. Marco Aurélio Salvany, Salésio Nuhs, and Thiago Piovesan, Directors of Forjas Taurus S.A., headquartered at Av. São Borja, 2181/Prédio A, CEP: 93.032-000, São Leopoldo, RS, enrolled in the CNPJ (Corporate Taxpayer's Registry) No. 92.781.335/0001-02, as provided in sections V and VI, article 25, CVM Instruction no. 480, dated December 7, 2009, hereby represent that they reviewed, discussed and agreed with the Financial Statements of Forjas Taurus S.A. and consolidated companies, for the period from January 1, 2017 to June 30, 2017.

São Leopoldo, August 10, 2017.

Marco Aurélio Salvany

CEO

Thiago Piovesan

Administrative and Financial Director Vice-President

Investor Relations Director

Salésio Nuhs

Director Vice-President of Sales and Marketing

# Opinions and Statements / Statement of the Executive Officers on the Independent auditors' report

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

Messrs. Marco Aurélio Salvany, Salésio Nuhs, and Thiago Piovesan, Directors of Forjas Taurus S.A., headquartered at Av. São Borja, 2181/Prédio A, CEP: 93.032-000, São Leopoldo, RS, enrolled in the CNPJ (Corporate Taxpayer's Registry) No. 92.781.335/0001-02, as provided in sections V and VI, article 25, CVM Instruction no. 480, dated December 7, 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 1, 2017 to June 30, 2017, issued on August 10, 2017.

São Leopoldo, August 10, 2017.

Marco Aurélio Salvany

CEO

Thiago Piovesan

Administrative and Financial Director Vice-President

Investor Relations Director

Salésio Nuhs

Director Vice-President of Sales and Marketing