Contents

Company information / Breakdown of capital

Quantity of shares (Thousand)	Current quarter 12/31/2017
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 thousands of reais)

Code of account	Account description	Last year 12/31/2017	Penultimate year 12/31/2016	Antepenultimate year 12/31/2015
1	Assets Total	702,900	809,940	888,338
1.01	Current assets	219,153	212,008	244,727
1.01.01	Cash and cash equivalents	2,543	1,313	15,822
1.01.01.01	Cash and banks	2,199	611	15,822
1.01.01.02	Interbank funds applied	344	702	0
1.01.02	Interest earning bank deposits	1,777	2,552	3,495
1.01.03	Accounts receivable	69,008	45,701	71,152
1.01.03.01	Trade accounts receivable	69,008	45,701	71,152
1.01.04	Inventories	95,155	125,925	106,345
1.01.06	Recoverable taxes	25,693	7,269	16,031
1.01.06.01	Current taxes recoverable	25,693	7,269	16,031
1.01.07	Prepaid expenses	2,224	1,951	13,191
1.01.08	Other Current assets	22,753	27,297	18,691
1.01.08.03	Other	22,753	27,297	18,691
1.01.08.03.01	Financial instruments	0	0	6,920
1.01.08.03.03	Related parties - Financial loan	19,367	8,150	81
1.01.08.03.04	Other accounts receivable	3,386	19,147	11,690
1.02	Non-current assets	483,747	597,932	643,611
1.02.01	Long term assets	24,411	31,860	86,204
1.02.01.01	Interest earning bank deposits measured at fair value	753	430	12,586
1.02.01.01.01	Trading securities	753	430	12,586
1.02.01.06	Deferred taxes	0	8,404	9,149
1.02.01.06.01	Deferred income and social contribution taxes	0	8,404	9,149
1.02.01.08	Related party credits	14,044	16,941	62,602
1.02.01.08.04	Other related party credits	14,044	16,941	62,602
1.02.01.09	Other non-current assets	9,614	6,085	1,867
1.02.01.09.01	Non-current assets held for sale	0	0	293
1.02.01.09.03	Recoverable taxes	195	195	0
1.02.01.09.04	Other	9,419	5,890	1,574

Individual financial statements / Balance sheet – Assets

(In thousands of reais)

Code of account	Account description	Last year 12/31/2017	Penultimate year 12/31/2016	Antepenultimate year 12/31/2015
1.02.02	Investments	417,623	521,752	518,257
1.02.02.01	Ownership interest	417,623	521,752	518,257
1.02.02.01.02	Interest in subsidiaries	417,433	521,562	518,067
1.02.02.01.04	Other ownership interest	190	190	190
1.02.03	Property, plant and equipment	36,172	38,398	34,338
1.02.03.01	Fixed assets in operation	33,105	29,670	26,753
1.02.03.03	Construction in progress	3,067	8,728	7,585
1.02.04	Intangible assets	5,541	5,922	4,812
1.02.04.01	Intangible assets	5,541	5,922	4,812

Individual financial statements - Balance sheet - Liabilities

(In thousands of reais)

Code of account	Account description	Last year 12/31/2017	Penultimate year 12/31/2016	Antepenultimate year 12/31/2015
2	Total liabilities	702,900	809,940	888,338
2.01	Current liabilities	968,986	354,038	720,243
2.01.01	Social and labor obligations	17,418	14,849	19,532
2.01.01.01	Social charges	8,443	4,451	3,844
2.01.01.02	Labor obligations	8,975	10,398	15,688
2.01.02	Suppliers	134,832	125,076	119,075
2.01.02.01	Domestic suppliers	123,097	117,529	112,017
2.01.02.02	Foreign suppliers	11,735	7,547	7,058
2.01.03	Tax liabilities	17,944	16,241	1,673
2.01.03.01	Federal tax liabilities	8,669	13,669	919
2.01.03.01.01	Income and social contribution tax payable	0	1,943	728
2.01.03.01.02	Other Taxes	8,669	11,726	191
2.01.03.02	State tax liabilities	9,255	2,531	745
2.01.03.03	Municipal tax liabilities	20	41	9
2.01.04	Loans and financing	529,187	20,799	288,058
2.01.04.01	Loans and financing	453,416	20,366	193,168
2.01.04.01.01	In domestic currency	3,264	3,638	13,537
2.01.04.01.02	In foreign currency	450,152	16,728	179,631
2.01.04.02	Debentures	75,771	433	94,890
2.01.05	Other liabilities	223,652	155,035	271,528
2.01.05.02	Other	223,652	155,035	271,528
2.01.05.02.01	Dividends and interest on own capital	3	3	4
2.01.05.02.04	Financial loan	38,097	28,835	25,120
2.01.05.02.05	Foreign exchange withdrawals	24,193	28,065	191,948
2.01.05.02.07	Advance from receivables	1,535	6,136	969
2.01.05.02.08	Advance from clients	79,467	65,769	39,610
2.01.05.02.09	Other liabilities	80,357	26,227	13,877
2.01.06	Provisions	45,953	22,038	20,377
2.01.06.01	Tax, Social Security, Labor and Civil Provisions	39,189	16,916	13,314

Individual financial statements - Balance sheet - Liabilities

(In thousands of reais)

Code of account	Account description	Last year 12/31/2017	Penultimate year 12/31/2016	Antepenultimate year 12/31/2015
2.01.06.01.01	Tax provisions	27,689	0	0
2.01.06.01.02	Social Security and Labor Provisions	11,500	15,776	12,589
2.01.06.01.03	Provisions to employee benefits	0	1,140	0
2.01.06.01.04	Civil provisions	0	0	725
2.01.06.02	Other Provisions	6,764	5,122	7,063
2.01.06.02.01	Provision for guarantees	6,764	5,122	7,063
2.02	Non-current liabilities	179,147	627,803	228,211
2.02.01	Loans and financing	47,103	546,076	125,508
2.02.01.01	Loans and financing	47,103	478,065	92,535
2.02.01.01.01	In domestic currency	4,147	6,428	21,300
2.02.01.01.02	In foreign currency	42,956	471,637	71,235
2.02.01.02	Debentures	0	68,011	32,973
2.02.02	Other liabilities	92,992	79,887	99,910
2.02.02.01	Liabilities from Related parties	52,418	39,158	47,487
2.02.02.01.02	Debits with subsidiaries	5,329	5,250	6,290
2.02.02.01.04	Debts with other related parties	47,089	33,908	41,197
2.02.02.02	Other	40,574	40,729	52,423
2.02.02.02.03	Taxes payable	2,986	944	1,610
2.02.02.02.04	Provision for unsecured liability	34,722	36,709	46,704
2.02.02.02.05	Other liabilities	2,866	3,076	4,109
2.02.03	Deferred taxes	6,079	0	0
2.02.03.01	Deferred income and social contribution taxes	6,079	0	0
2.02.04	Provisions	32,973	1,840	2,793
2.02.04.01	Tax, Social Security, Labor and Civil Provisions	32,973	1,840	2,793
2.02.04.01.02	Social Security and Labor Provisions	31,810	1,840	2,793
2.02.04.01.04	Civil provisions	1,163	0	0
2.03	Shareholders' equity	-445,233	-171,901	-60,116
2.03.01	Realized capital	404,489	393,977	364,735
2.03.02	Capital reserves	-40,996	-40,832	-29,295

Individual financial statements - Balance sheet - Liabilities

(In thousands of reais)

Code of account	Account description	Last year 12/31/2017	Penultimate year 12/31/2016	Antepenultimate year 12/31/2015
2.03.02.06	Advance for future capital increase	0	164	11,701
2.03.02.09	Capital transactions	-40,996	-40,996	-40,996
2.03.05	Retained Earnings/Losses	-952,635	-668,102	-566,155
2.03.06	Equity valuation adjustments	48,240	49,736	31,739
2.03.07	Accumulated translation adjustments	95,669	93,320	138,860

Individual financial statements / Statement of income

(In thousands of reais)

Code of account	Account description	Last year 01/01/2017–12/31/2017	Penultimate year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015
3.01	Revenue from sales of goods and/or services	556,383	492,256	451,801
3.02	Cost of goods and/or services sold	-496,590	-447,231	-331,956
3.03	Gross income	59,793	45,025	119,845
3.04	Operating expenses/revenue	-256,390	-146,653	-177,620
3.04.01	Sales expenses	-41,880	-47,300	-38,820
3.04.02	General and administrative expenses	-84,283	-66,110	-49,218
3.04.04	Other operating income	6,900	10,434	14,521
3.04.05	Other operating expenses	-32,637	-11,402	-19,331
3.04.06	Equity in net income of subsidiaries	-104,490	-32,275	-84,772
3.05	Income (loss) before financial income and taxes	-196,597	-101,628	-57,775
3.06	Financial income (loss)	-107,830	-654	-200,437
3.06.01	Financial income	3,346	93,795	122,788
3.06.02	Financial expenses	-111,176	-94,449	-323,225
3.07	Income (loss) before income tax	-304,427	-102,282	-258,212
3.08	Income and social contribution taxes	18,399	-745	4,402
3.08.02	Deferred assets	18,399	-745	4,402
3.09	Net income (loss) from continued operations	-286,028	-103,027	-253,810
3.11	Income/loss for the period	-286,028	-103,027	-253,810
3.99	Earnings per share - (Reais / Share)			
3.99.01	Basic earnings per share			
3.99.01.01	Common shares	-4.43179	-1.90822	-6.27493
3.99.01.02	Preferred shares	-4.43179	-1.90822	-6.27493
3.99.02	Diluted earning per share			
3.99.02.01	Common shares	-4.43179	-1.90702	-6.15650
3.99.02.02	Preferred shares	-4.43179	-1.90702	-6.15650

Individual financial statements / Statement of comprehensive income

(In thousands of reais)

Code of account	Account description	Last year 01/01/2017–12/31/2017	Penultimate year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015
4.01	Net income for the period	-286,028	-103,027	-253,805
4.02	Other comprehensive income	2,349	-45,540	90,021
4.02.01	Translation adjustments in the period	2,349	-45,540	90,021
4.03	Comprehensive income for the period	-283,679	-148,567	-163,784

Individual financial statements or Statement of cash flows – Indirect method

(In thousands of reais)

Code of account	Account description	Last year 01/01/2017–12/31/2017	Penultimate year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015
6.01	Net cash from operating activities	49,710	10,416	99,606
6.01.01	Cash generated in operations	-14,995	-43,053	38,546
6.01.01.01	Net income before income and social contribution taxes	-304,427	-102,282	-258,212
6.01.01.02	Depreciation and amortization	8,019	6,891	9,655
6.01.01.03	Cost of permanent assets written-off	215	2,361	11,733
6.01.01.04	Allowance for Doubtful Accounts	1,380	1,441	4,484
6.01.01.05	Equity in net income of subsidiaries	104,490	32,275	84,772
6.01.01.07	Provision for Derivative financial instruments	0	177	-16,945
6.01.01.08	Provision for interest on loans	70,075	63,292	57,087
6.01.01.09	Change in % Interest of Subsidiaries	0	0	66
6.01.01.10	Provision for inventory loss	45,481	2,288	0
6.01.01.11	Provision for contingencies	58,059	6,804	11,225
6.01.01.12	Provision for guarantees	1,642	-1,941	2,996
6.01.01.13	Exchange rate change on loans and financing and other	71	-56,574	131,685
6.01.01.14	Write-off of goodwill on investment	0	2,215	0
6.01.02	Changes in assets and liabilities	64,705	53,469	61,060
6.01.02.01	(Increase) decrease in trade accounts receivable	-26,084	25,993	-24,760
6.01.02.02	(Increase) decrease in inventories	-14,711	-21,868	-39,291
6.01.02.03	(Increase) decrease in other accounts receivable	-18,073	440	13,753
6.01.02.04	Increase (decrease) in suppliers	10,136	4,992	78,087
6.01.02.05	Increase (Decrease) in accounts payable and provisions	113,437	43,912	33,271
6.02	Net cash used in investment activities	-2,278	-29,854	-87,187
6.02.01	Receivables with related companies	2,897	-28,530	-55,183
6.02.03	In investments	0	0	-40,784
6.02.04	In property, plant and equipment	-5,432	-12,773	-7,126
6.02.05	In intangible assets	-195	-1,650	-1,952
6.02.06	Interest earning bank deposits	452	13,099	17,858
6.03	Net cash from financing activities	-46,202	4,929	-21,758
6.03.01	Payment of Interest on Own Capital and Dividends	0	0	-2

Individual financial statements or Statement of cash flows – Indirect method

(In thousands of reais)

Code of account	Account description	Last year 01/01/2017–12/31/2017	Penultimate year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015
6.03.02	Loans	-2,458	658,452	227,934
6.03.03	Payment of loans	-31,919	-602,852	-306,315
6.03.05	Capital increase	10,512	17,541	39,859
6.03.06	Advance for future capital increase	-164	164	11,701
6.03.07	Payment of interest on loans	-35,353	-61,088	-36,132
6.03.10	Debts with related companies	13,180	-7,288	41,197
6.05	Increase (decrease) in cash and cash equivalents	1,230	-14,509	-9,339
6.05.01	Opening balance of cash and cash equivalents	1,313	15,822	25,161
6.05.02	Closing balance of cash and cash equivalents	2,543	1,313	15,822

Individual financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2017–12/31/2017

(In thousands of reais)

Code of account	Account description	Paid-up capital	Capital reserves, options granted and treasury shares	Profit reserves	Retained earnings (losses)	Other comprehensive income	Shareholders' equity
5.01	Opening balances	394,141	-40,996	0	-668,102	143,056	-171,901
5.03	Adjusted opening balances	394,141	-40,996	0	-668,102	143,056	-171,901
5.04	Capital transactions with partners	10,348	0	0	0	0	10,348
5.04.01	Capital increases	10,348	0	0	0	0	10,348
5.05	Total comprehensive income	0	0	0	-284,533	853	-283,680
5.05.01	Net income for the period	0	0	0	-286,028	0	-286,028
5.05.02	Other comprehensive income	0	0	0	1,495	853	2,348
5.05.02.04	Translation adjustments in the period	0	0	0	0	2,348	2,348
5.05.02.06	Realization of equity valuation adjustments	0	0	0	1,495	-1,495	0
5.07	Closing balances	404,489	-40,996	0	-952,635	143,909	-445,233

Individual financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2016–12/31/2016

(In thousands of reais)

Code of account	Account description	Paid-up capital	Capital reserves, options granted and treasury shares	Profit reserves	Retained earnings (losses)	Other comprehensive income	Shareholders' equity
5.01	Opening balances	376,436	-40,996	0	-566,155	170,599	-60,116
5.03	Adjusted opening balances	376,436	-40,996	0	-566,155	170,599	-60,116
5.04	Capital transactions with partners	17,541	164	0	0	0	17,705
5.04.01	Capital increases	17,541	0	0	0	0	17,541
5.04.08	Advance for future capital increase	0	164	0	0	0	164
5.05	Total comprehensive income	0	0	0	-101,947	-27,543	-129,490
5.05.01	Net income for the period	0	0	0	-103,027	0	-103,027
5.05.02	Other comprehensive income	0	0	0	1,080	-27,543	-26,463
5.05.02.05	Taxes on translation adjustments in the period	0	0	0	0	-45,540	-45,540
5.05.02.06	Realization of equity valuation adjustments	0	0	0	1,080	17,997	19,077
5.07	Closing balances	393,977	-40,832	0	-668,102	143,056	-171,901

Individual financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2015–12/31/2015

(In thousands of reais)

Code of account	Account description	Paid-up capital	Capital reserves, options granted and treasury shares	Profit reserves	Retained earnings (losses)	Other comprehensive income	Shareholders' equity
5.01	Opening balances	324,876	-40,996	0	-317,290	85,524	52,114
5.03	Adjusted opening balances	324,876	-40,996	0	-317,290	85,524	52,114
5.04	Capital transactions with partners	39,859	11,701	0	0	0	51,560
5.04.01	Capital increases	39,859	0	0	0	0	39,859
5.04.08	Advance for future capital increase	0	11,701	0	0	0	11,701
5.05	Total comprehensive income	0	0	0	-248,865	85,075	-163,790
5.05.01	Net income for the period	0	0	0	-253,810	0	-253,810
5.05.02	Other comprehensive income	0	0	0	4,945	85,075	90,020
5.05.02.05	Taxes on translation adjustments in the period	0	0	0	0	90,020	90,020
5.05.02.06	Realization of equity valuation adjustments	0	0	0	4,945	-4,945	0
5.07	Closing balances	364,735	-29,295	0	-566,155	170,599	-60,116

Individual financial statements/ Statement of added value

(In thousands of reais)

Code of account		Last year 01/01/2017–12/31/2017	Penultimate year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015
7.01	Income	661,680	581,403	542,713
7.01.01	Sale of merchandise, products and services	656,160	572,410	543,998
7.01.02	Other income	6,900	10,434	3,199
7.01.04	Formation/reversal of allowance for doubtful accounts	-1,380	-1,441	-4,484
7.02	Inputs acquired from third parties	-573,257	-469,947	-370,077
7.02.01	Cost of products, goods and services sold	-471,855	-374,005	-217,545
7.02.02	Materials, Energy, Third-party services and other	-101,402	-95,942	-152,532
7.03	Gross added value	88,423	111,456	172,636
7.04	Retentions	-8,019	-6,891	-9,655
7.04.01	Depreciation, amortization and depletion	-8,019	-6,891	-9,655
7.05	Net added value produced	80,404	104,565	162,981
7.06	Added value received as transfer	-101,144	61,520	38,017
7.06.01	Equity in net income of subsidiaries	-104,490	-32,275	-84,772
7.06.02	Financial income	3,346	93,795	122,789
7.07	Total added value payable	-20,740	166,085	200,998
7.08	Distribution of added value	-20,740	166,085	200,998
7.08.01	Personnel	69,365	67,638	83,952
7.08.01.01	Direct remuneration	57,552	57,311	73,661
7.08.01.02	Benefits	6,530	6,477	4,405
7.08.01.03	Severance Pay Fund (FGTS)	5,283	3,850	5,886
7.08.02	Taxes, duties and contributions	94,537	104,780	46,967
7.08.02.01	Federal	64,975	71,545	45,220
7.08.02.02	State	29,484	33,027	1,369
7.08.02.03	Municipal	78	208	378
7.08.03	Third-party capital remuneration	101,386	96,694	323,889
7.08.03.01	Interest	101,062	94,449	323,225
7.08.03.02	Rentals	324	2,245	664
7.08.04	Remuneration of own capital	-286,028	-103,027	-253,810
7.08.04.03	Retained earnings / Loss for the period	-286,028	-103,027	-253,810

Consolidated financial statements or Balance sheet – Assets

(In thousands of reais)

Code of account	Account description	Last year 12/31/2017	Penultimate year 12/31/2016	Antepenultimate year 12/31/2015
1	Assets Total	768,958	893,057	1,022,340
1.01	Current assets	451,459	472,452	591,905
1.01.01	Cash and cash equivalents	6,679	26,708	60,312
1.01.01.01	Cash and banks	6,294	25,890	60,312
1.01.01.02	Interbank funds applied	385	818	0
1.01.02	Interest earning bank deposits	1,777	2,552	22,040
1.01.03	Accounts receivable	122,611	150,197	192,076
1.01.03.01	Trade accounts receivable	122,611	150,197	192,076
1.01.04	Inventories	211,885	244,197	221,861
1.01.06	Recoverable taxes	44,458	20,497	36,546
1.01.06.01	Current taxes recoverable	44,458	20,497	36,546
1.01.07	Prepaid expenses	6,674	5,957	19,239
1.01.08	Other Current assets	57,375	22,344	39,831
1.01.08.01	Non-current assets held for sale	51,390	0	4,286
1.01.08.03	Other	5,985	22,344	35,545
1.01.08.03.01	Derivative financial instruments	0	0	6,920
1.01.08.03.02	Other accounts receivable	5,985	22,344	28,625
1.02	Non-current assets	317,499	420,605	430,435
1.02.01	Long term assets	21,455	57,284	63,796
1.02.01.01	Interest earning bank deposits measured at fair value	1,008	634	12,586
1.02.01.01.01	Trading securities	1,008	634	12,586
1.02.01.06	Deferred taxes	3,465	44,536	45,830
1.02.01.06.01	Deferred income and social contribution taxes	3,465	44,536	45,830
1.02.01.09	Other non-current assets	16,982	12,114	5,380
1.02.01.09.03	Recoverable taxes	493	707	870
1.02.01.09.04	Other	16,489	11,407	4,510
1.02.02	Investments	349	50,457	12,004
1.02.02.01	Ownership interest	349	349	12,004
1.02.02.01.01	Interest in associated companies	0	0	11,655

Consolidated financial statements or Balance sheet – Assets

(In thousands of reais)

Code of account	Account description	Last year 12/31/2017	Penultimate year 12/31/2016	Antepenultimate year 12/31/2015
1.02.02.01.04	Other ownership interest	349	349	349
1.02.02.02	Investment property	0	50,108	0
1.02.03	Property, plant and equipment	222,686	238,650	273,189
1.02.03.01	Fixed assets in operation	218,440	220,428	251,655
1.02.03.03	Construction in progress	4,246	18,222	21,534
1.02.04	Intangible assets	73,009	74,214	81,446
1.02.04.01	Intangible assets	73,009	74,214	81,446

Consolidated financial statements or Balance sheet – Liabilities

(In thousands of reais)

Code of account	Account description	Last year 12/31/2017	Penultimate year 12/31/2016	Antepenultimate year 12/31/2015
2	Total liabilities	768,958	893,057	1,022,340
2.01	Current liabilities	965,691	385,897	802,939
2.01.01	Social and labor obligations	41,926	34,645	33,075
2.01.01.01	Social charges	20,458	10,806	10,266
2.01.01.02	Labor obligations	21,468	23,839	22,809
2.01.02	Suppliers	99,954	128,712	81,224
2.01.02.01	Domestic suppliers	60,366	111,341	65,571
2.01.02.02	Foreign suppliers	39,588	17,371	15,653
2.01.03	Tax liabilities	40,031	39,170	26,562
2.01.03.01	Federal tax liabilities	26,211	35,097	22,564
2.01.03.01.01	Income and social contribution tax payable	3,836	20,343	19,763
2.01.03.01.02	Other Taxes	22,375	14,754	2,801
2.01.03.02	State tax liabilities	13,798	4,029	3,947
2.01.03.03	Municipal tax liabilities	22	44	51
2.01.04	Loans and financing	534,713	26,989	307,546
2.01.04.01	Loans and financing	458,942	26,556	212,656
2.01.04.01.01	In domestic currency	7,644	8,746	27,118
2.01.04.01.02	In foreign currency	451,298	17,810	185,538
2.01.04.02	Debentures	75,771	433	94,890
2.01.05	Other liabilities	181,795	105,199	311,103
2.01.05.02	Other	181,795	105,199	311,103
2.01.05.02.01	Dividends and interest on own capital	3	3	4
2.01.05.02.04	Derivative financial instruments	242	543	956
2.01.05.02.05	Foreign exchange withdrawals	24,193	28,065	191,948
2.01.05.02.08	Advance from receivables	15,422	6,136	54,589
2.01.05.02.09	Advance from clients	49,983	26,282	16,442
2.01.05.02.10	Other liabilities	91,952	44,170	47,164
2.01.06	Provisions	67,272	51,182	43,429
2.01.06.01	Tax, Social Security, Labor and Civil Provisions	55,298	40,090	30,516

Consolidated financial statements or Balance sheet – Liabilities

(In thousands of reais)

Code of account	Account description	Last year 12/31/2017	Penultimate year 12/31/2016	Antepenultimate year 12/31/2015
2.01.06.01.01	Tax provisions	28,008	318	318
2.01.06.01.02	Social Security and Labor Provisions	21,486	33,235	29,262
2.01.06.01.04	Civil provisions	5,804	6,537	936
2.01.06.02	Other Provisions	11,974	11,092	12,913
2.01.06.02.01	Provision for guarantees	11,974	11,092	12,913
2.02	Non-current liabilities	248,500	679,061	279,517
2.02.01	Loans and financing	157,970	641,123	232,159
2.02.01.01	Loans and financing	157,970	573,112	199,186
2.02.01.01.01	In domestic currency	8,420	15,045	39,065
2.02.01.01.02	In foreign currency	149,550	558,067	160,121
2.02.01.02	Debentures	0	68,011	32,973
2.02.02	Other liabilities	7,614	5,572	5,719
2.02.02.02	Other	7,614	5,572	5,719
2.02.02.02.04	Taxes payable	4,748	2,496	1,610
2.02.02.02.05	Other liabilities	2,866	3,076	4,109
2.02.03	Deferred taxes	30,937	15,190	717
2.02.03.01	Deferred income and social contribution taxes	30,937	15,190	717
2.02.04	Provisions	51,979	17,176	40,922
2.02.04.01	Tax, Social Security, Labor and Civil Provisions	47,233	11,741	35,702
2.02.04.01.01	Tax provisions	0	6,732	6,133
2.02.04.01.02	Social Security and Labor Provisions	43,175	2,114	3,245
2.02.04.01.04	Civil provisions	4,058	2,895	26,324
2.02.04.02	Other Provisions	4,746	5,435	5,220
2.02.04.02.01	Provision for guarantees	4,746	5,435	5,220
2.03	Consolidated shareholders' equity	-445,233	-171,901	-60,116
2.03.01	Realized capital	404,489	393,977	364,735
2.03.02	Capital reserves	-40,996	-40,832	-29,295
2.03.02.06	Advance for future capital increase	0	164	11,701
2.03.02.09	Capital transactions	-40,996	-40,996	-40,996

Consolidated financial statements or Balance sheet – Liabilities

(In thousands of reais)

Code of account	Account description	Last year 12/1/2017	Penultimate year 12/31/2016	Antepenultimate year 12/31/2015
2.03.05	Retained Earnings/Losses	-952,635	-668,102	-566,155
2.03.06	Equity valuation adjustments	48,240	49,736	31,739
2.03.07	Accumulated translation adjustments	95,669	93,320	138,860

Consolidated financial statements / Statement of income

(In thousands of reais)

Code of account	Account description	Last year 01/01/2017–12/31/2017	Penultimate year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015
3.01	Revenue from sales of goods and/or services	784,876	830,273	823,809
3.02	Cost of goods and/or services sold	-668,147	-637,072	-581,736
3.03	Gross income	116,729	193,201	242,073
3.04	Operating expenses/revenue	-279,584	-291,441	-303,000
3.04.01	Sales expenses	-109,474	-130,732	-108,839
3.04.02	General and administrative expenses	-148,804	-131,981	-122,235
3.04.04	Other operating income	20,066	14,317	17,413
3.04.05	Other operating expenses	-41,372	-41,241	-87,941
3.04.06	Equity in net income of subsidiaries	0	-1,804	-1,398
3.05	Income (loss) before financial income and taxes	-162,855	-98,240	-60,927
3.06	Financial income (loss)	-114,139	-2,709	-218,575
3.06.01	Financial income	6,687	101,909	140,750
3.06.02	Financial expenses	-120,826	-104,618	-359,325
3.07	Income (loss) before income tax	-276,994	-100,949	-279,502
3.08	Income and social contribution taxes	-9,034	-2,078	25,692
3.08.01	Current	13,175	3,980	5,889
3.08.02	Deferred assets	-22,209	-6,058	19,803
3.09	Net income (loss) from continued operations	-286,028	-103,027	-253,810
3.11	Income/loss for the period	-286,028	-103,027	-253,810
3.11.01	Attributed to the Parent company's partners	-286,028	-103,027	-253,810
3.99	Earnings per share - (Reais / Share)			
3.99.01	Basic earnings per share			
3.99.01.01	Common shares	-4.42164	-1.76784	-6.27493
3.99.01.02	Preferred shares	-4.42164	-1.76784	-6.27493
3.99.02	Diluted earnings per share			
3.99.02.01	Common shares	-4.42164	-1.76585	-6.15650
3.99.02.02	Preferred shares	-4.42164	-1.76585	-6.15650

Consolidated financial statements / Statement of comprehensive income

(In thousands of reais)

Code of account	Account description	Last year 01/01/2017–12/31/2017	Penultimate year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015
4.01	Consolidated net income for the period	-286,028	-103,027	-253,805
4.02	Other comprehensive income	2,349	-45,540	90,021
4.02.01	Translation adjustments in the period	2,349	-45,540	90,021
4.03	Consolidated comprehensive income for the period	-283,679	-148,567	-163,784
4.03.01	Attributed to the Parent company's partners	-283,679	-148,567	-163,784

Consolidated financial statements or Statement of cash flows – Indirect method

(In thousands of reais)

Code of account	Account description	Last year 01/01/2017–12/31/2017	Penultimate year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015
6.01	Net cash from operating activities	33,823	36,276	79,189
6.01.01	Cash generated in operations	-56,776	753	67,272
6.01.01.01	Net income before income and social contribution taxes	-276,994	-100,949	-279,502
6.01.01.02	Depreciation and amortization	37,052	34,241	35,300
6.01.01.03	Cost of permanent assets written-off	2,685	18,417	17,999
6.01.01.04	Provision for impairment of assets held for sale	-1,282	4,286	0
6.01.01.05	Equity in net income of subsidiaries	0	1,804	1,398
6.01.01.06	Provision for Derivative financial instruments	0	7,941	-15,683
6.01.01.07	Allowance for doubtful accounts	1,508	4,060	3,585
6.01.01.10	Provision for interest on loans	71,619	67,669	159,831
6.01.01.12	Exchange rate changes on loans and financing	863	-63,115	67,724
6.01.01.15	Write-off of assets held for sale	0	0	131
6.01.01.16	Provision for inventory loss	47,600	2,288	9,339
6.01.01.17	Write-off of investments	0	2,636	0
6.01.01.18	Write-off of goodwill on investment	0	2,215	0
6.01.01.19	Provision for contingencies	59,979	20,867	60,045
6.01.01.20	Provision for guarantees	194	-1,607	7,105
6.01.02	Changes in assets and liabilities	91,261	36,484	14,527
6.01.02.01	(Increase) decrease in trade accounts receivable	24,642	39,968	-52,821
6.01.02.02	(Increase) decrease in inventories	-15,288	-24,624	-30,676
6.01.02.03	Decrease (increase) in other accounts receivable	-12,834	316	5,974
6.01.02.04	(Decrease) increase in suppliers	-28,213	46,266	44,519
6.01.02.05	Increase (Decrease) in accounts payable and provisions	122,954	-25,442	47,531
6.01.03	Other	-662	-961	-2,610
6.01.03.02	Payment of income and social contribution taxes	-662	-961	-2,610
6.02	Net cash used in investment activities	-20,776	-12,253	-25,623
6.02.03	In investments	0	5,000	0
6.02.04	In property, plant and equipment	-20,482	-47,016	-39,717
6.02.05	In intangible assets	-695	-1,677	-6,504

Consolidated financial statements or Statement of cash flows – Indirect method

(In thousands of reais)

Code of account	Account description	Last year 01/01/2017–12/31/2017	Penultimate year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015
6.02.06	Interest earning bank deposits	401	31,440	20,598
6.03	Net cash from financing activities	-33,076	-57,627	-97,790
6.03.01	Payment of Interest on Own Capital and Dividends	0	0	-2
6.03.02	Loans obtained	100,213	721,553	379,362
6.03.03	Payments of loans	-95,548	-731,815	-486,028
6.03.05	Capital increase	10,512	17,541	39,859
6.03.06	Advance for future capital increase	-164	164	11,701
6.03.10	Payment of Interest on loans	-48,089	-65,070	-42,682
6.05	Increase (decrease) in cash and cash equivalents	-20,029	-33,604	-44,224
6.05.01	Opening balance of cash and cash equivalents	26,708	60,312	104,536
6.05.02	Closing balance of cash and cash equivalents	6,679	26,708	60,312

Consolidated financial statements / Statement of changes in shareholders' equity / DMPL – 01/01/2017–12/31/2017

(In thousands 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	Non-controlling interest	Consolidated shareholders' equity
5.01	Opening balances	394,141	-40,996	0	-668,102	143,056	-171,901	0	-171,901
5.03	Adjusted opening balances	394,141	-40,996	0	-668,102	143,056	-171,901	0	-171,901
5.04	Capital transactions with partners	10,348	0	0	0	0	10,348	0	10,348
5.04.01	Capital increases	10,348	0	0	0	0	10,348	0	10,348
5.05	Total comprehensive income	0	0	0	-284,533	853	-283,680	0	-283,680
5.05.01	Net income for the period	0	0	0	-286,028	0	-286,028	0	-286,028
5.05.02	Other comprehensive income	0	0	0	1,495	853	2,348	0	2,348
5.05.02.04	Translation adjustments in the period	0	0	0	0	2,348	2,348	0	2,348
5.05.02.06	Realization of equity valuation adjustments	0	0	0	1,495	-1,495	0	0	0
5.07	Closing balances	404,489	-40,996	0	-952,635	143,909	-445,233	0	-445,233

Consolidated financial statements / Statement of changes in shareholders' equity / DMPL - 01/01/2016–12/31/2016

(In thousands 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	Non-controlling interest	Consolidated shareholders' equity
5.01	Opening balances	376,436	-40,996	0	-566,155	170,599	-60,116	0	-60,116
5.03	Adjusted opening balances	376,436	-40,996	0	-566,155	170,599	-60,116	0	-60,116
5.04	Capital transactions with partners	17,541	164	0	0	0	17,705	0	17,705
5.04.01	Capital increases	17,541	0	0	0	0	17,541	0	17,541
5.04.08	Advance for future capital increase	0	164	0	0	0	164	0	164
5.05	Total comprehensive income	0	0	0	-101,947	-27,543	-129,490	0	-129,490
5.05.01	Net income for the period	0	0	0	-103,027	0	-103,027	0	-103,027
5.05.02	Other comprehensive income	0	0	0	1,080	-27,543	-26,463	0	-26,463
5.05.02.05	Taxes on translation adjustments in the period	0	0	0	0	-45,540	-45,540	0	-45,540
5.05.02.06	Realization of equity valuation adjustments	0	0	0	1,080	17,997	19,077	0	19,077
5.07	Closing balances	393,977	-40,832	0	-668,102	143,056	-171,901	0	-171,901

Consolidated financial statements / Statement of changes in shareholders' equity / DMPL – From 01/01/2015 to 12/31/2015

(In thousands 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	Non-controlling interest	Consolidated shareholders' equity
5.01	Opening balances	324,876	-40,996	0	-317,290	85,524	52,114	0	52,114
5.03	Adjusted opening balances	324,876	-40,996	0	-317,290	85,524	52,114	0	52,114
5.04	Capital transactions with partners	39,859	11,701	0	0	0	51,560	0	51,560
5.04.01	Capital increases	39,859	0	0	0	0	39,859	0	39,859
5.04.08	Advance for future capital increase	0	11,701	0	0	0	11,701	0	11,701
5.05	Total comprehensive income	0	0	0	-248,865	85,075	-163,790	0	-163,790
5.05.01	Net income for the period	0	0	0	-253,810	0	-253,810	0	-253,810
5.05.02	Other comprehensive income	0	0	0	4,945	85,075	90,020	0	90,020
5.05.02.04	Translation adjustments in the period	0	0	0	0	90,020	90,020	0	90,020
5.05.02.06	Realization of equity valuation adjustments	0	0	0	4,945	-4,945	0	0	0
5.07	Closing balances	364,735	-29,295	0	-566,155	170,599	-60,116	0	-60,116

Consolidated financial statements/ Statement of added value

(In thousands of reais)

Code of account	Account description	Last year 01/01/2017–12/31/2017	Penultimate year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015
7.01	Income	956,852	993,110	979,683
7.01.01	Sale of merchandise, products and services	938,293	982,853	978,185
7.01.02	Other income	20,067	14,317	5,083
7.01.04	Formation/reversal of allowance for doubtful accounts	-1,508	-4,060	-3,585
7.02	Inputs acquired from third parties	-743,771	-653,847	-657,703
7.02.01	Cost of products, goods and services sold	-505,186	-398,236	-410,954
7.02.02	Materials, Energy, Third-party services and other	-238,585	-255,611	-246,749
7.03	Gross added value	213,081	339,263	321,980
7.04	Retentions	-37,052	-34,241	-35,300
7.04.01	Depreciation, amortization and depletion	-37,052	-34,241	-35,300
7.05	Net added value produced	176,029	305,022	286,680
7.06	Added value received as transfer	6,685	100,105	139,352
7.06.01	Equity in net income of subsidiaries	0	-1,804	-1,398
7.06.02	Financial income	6,687	101,909	140,750
7.06.03	Other	-2	0	0
7.07	Total added value payable	182,714	405,127	426,032
7.08	Distribution of added value	182,714	405,127	426,032
7.08.01	Personnel	176,979	174,220	204,984
7.08.01.01	Direct remuneration	140,611	142,452	181,206
7.08.01.02	Benefits	23,384	22,189	13,969
7.08.01.03	Severance Pay Fund (FGTS)	12,984	9,579	9,809
7.08.02	Taxes, duties and contributions	180,694	220,800	114,474
7.08.02.01	Federal	139,799	175,714	105,384
7.08.02.02	State	40,489	44,734	8,257
7.08.02.03	Municipal	406	352	833
7.08.03	Third-party capital remuneration	111,069	113,134	360,384
7.08.03.01	Interest	109,975	104,618	359,325
7.08.03.02	Rentals	1,094	8,516	1,059
7.08.04	Remuneration of own capital	-286,028	-103,027	-253,810

Consolidated financial statements/ Statement of added value

(In thousands of reais)

Code of account	Account description	Last year 01/01/2017–12/31/2017	Penultimate year 01/01/2016–12/31/2016	Antepenultimate year 01/01/2015–12/31/2015
7.08.04.03	Retained earnings / Loss for the period	-286,028	-103,027	-253,810

Management report

MANAGEMENT REPORT 2017

MESSAGE FROM THE BOARD

Dear Shareholders,

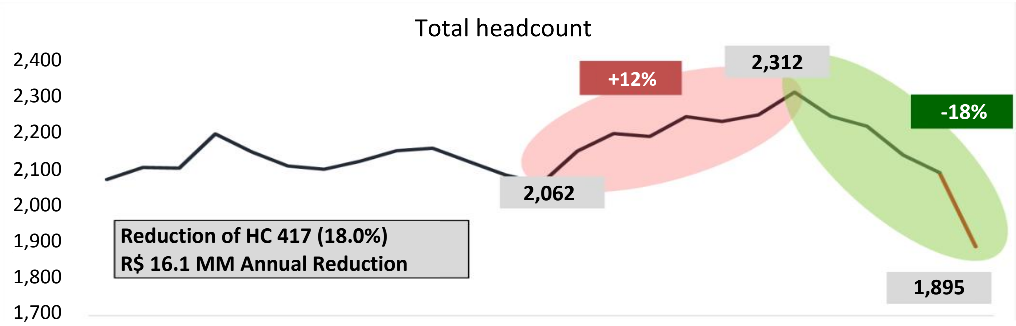
Resilience was the great virtue of Taurus in 2017, proving that the efforts of the past years in the Company's restructuring process were extremely important to form a solid base for the recovery of Taurus' profitability and perpetuity. In 2017, Taurus managed to conclude the unification of its plants in São Leopoldo and stabilize its production as well as conclude the development of its local suppliers and all its operating and industrial logistics. This type of change unfortunately took longer than expected due to the obstacles imposed by the unification of the plants as well as the development of suppliers and service providers to such a specialized segment as the Firearms industry. At all events, this process is 100% concluded and the production and productivity rates are already aligned with the best international indicators. Taurus is ready to cover the demand of its OTIF clients (on time in full). The year 2017 was still very challenging mainly in the U.S. market, the largest market of the Company, but it finally experienced a movement of normalization of demand, after the adjustments made as result of the presidential elections at the end of 2016. The entire Firearms industry in the EUA had to adjust its production and inventory levels during 2017, which caused distortions of prices and volumes in the U.S. market all over the year.

Despite this adverse market environment, the Company was responsive in resizing its structure of expenses, mix of products, costs, personnel and production which in the second half of 2017 was adjusted to the new levels of demand.

Maintaining around 1,900 jobs for 2018.

In view of the magnitude of these actions and initiatives, a significant part of the gains of efficiency will have a good portion of its materiality in 2018, strengthening the commitment of the new management and controlling shareholder to preserve the maximum possible number of jobs of almost 1,900 families where Taurus, in its unit in São Leopoldo, is the source of income (see graph 1).

Management report



Graph 1. Source: Human Resources report – Taurus

We highlight that this responsiveness was possible due to the restructuring performed in the past years, which included, mainly, the unification of the firearm production plants in São Leopoldo, with the establishment of the new production model Lean and the implementation of ERP SAP system, which produced more solid and efficient processes.

As to Taurus' finance, the Company's consolidated net revenue, in 2017, was R$ 787.8 million, 5.5% lower than in 2016. The consolidated gross margin, affected by the higher competition in the U.S. market, retreated to 14.9% in 2017, 8.4 p.p. lower than in 2016. Cash generation, always treated on a very transparent manner, recorded again negative balance in 2017. In the domestic market, the helmet segment presented net revenue of R$ 89.6 million in 2017, 10.8% lower than in 2016, however, it has already started to show an important sales resumption in the second semester of the year, mainly in the fourth quarter of 2017, generating good outlook for 2018, also strengthened by the outlook of improvement of the local economy, which is a very important factor to the segment.

In view of this scenario, cash preservation actions have been taken, which caused delays in payments to suppliers which are already negotiated, thus ensuring the supply of raw material for the continuity of the operations. As to bank indebtedness, despite the ongoing efforts made during the year, the schedule agreed for payment of interest to the bank syndicate was not complied with. Accordingly, the debt with the syndicate, which had been extended in 2016, became short term again on December 31, 2017. It is important to point out that a new round of negotiation with the banks is already in progress, so as to meet the needs and interests of the Company and of the financial institutions. This new renegotiation is being conducted by an external consulting firm and it already has a temporary grace period for the execution of the amounts involved. These renegotiations, with suppliers as well as with financial institutions, strengthen the trust of these agents in the potential and in the strategy adopted by the Company.

For the economic/financial balance of the operation, the Company also has the possibility of divesting non-core assets, which already have agents contracted to perform the intermediation of the respective transactions. These divestitures will be fully reversed for amortization of the debt with the bank syndicate. Accordingly, management continues to carry out the business aiming at higher operating and financial efficiency, so as to meet the increasing demand for its products, the improvement of its margins and the recovery of profitability, as well as to seek the balance of its cash flow.

The year 2017 is also marked, in Brazil, by the first shipments of the Pistol Hammer and the Rifle T4 to the Middle East and Asia. These two new products will significantly contribute to the development of new markets and to the recomposition of the Company`s operating margins in the domestic market. In the USA, the highlight is the beginning of shipments of the Pistol Spectrum, the first Taurus pistol developed and produced in that country.

Management report

Creating opportunities and implementing solutions for results in 2018, key word: Stability.

In 2018, the Company already with the new management in office, has worked in important business pillars, creating strategies for each front:

Administrative Strategies

Structure

- New management: CEO, CFO (March/18) and 2 directors; Prompt decision making, analysis and implementation in line with the need to stabilize the Company with its clients, suppliers, creditors and shareholders
- Discontinuance of 3 non-statutory executive boards;
- New organization chart with clear definition of purposes and responsibilities;
- Reduction around 400 employees in Brazil;

Creditors

- Restructuring of debt with banks in progress; focused on extension of maturity of debt with the main creditors, which form the Bank syndicate, totaling around 70% of the Company’s consolidated debt;
- Other creditor banks are being negotiated under the same conditions that the payments are possible within the projected cash flow.
- The current balance of strategic suppliers is on time and their past balance has been renegotiated in up to 24 months without interest;

Costs of MP and components

- Strong work in purchases, to identify opportunities with suppliers
- Detailed analyses of inventory turnovers to solve purchases in excess (generation of KG for Taurus)

Sale of assets

- Focus on sales of assets to reduce bank debt, and the Company specialized in this type of operation has already been contracted.

Differences of inventory and scraps in 2017

- Processes defined that must be complied with
- Inventory control; review, processes, management changed and increase of inspection frequency;
- Audits
- Rotating inventories implemented in 2018

Management

- Daily meetings of Cash Flow/Billing/Production

Management report

Commercial strategies

Export Market for 2018:

Status of market distribution in 2017:

Market	2017 REAL
Domestic market	24.80%
Exports	7.00%
Taurus USA	68.20%

Strong dependence on the U.S. market

The strategy for 2018 is to serve well our major client, the U.S. market, and to continue seeking opportunities in the domestic market and exports to different countries:

With emphasis to the export area (internally known as ROW ('*Rest of World*'), based on the following actions:

- Participation in international fairs;
- Visit to embassies;
- Prospection of new markets;
- Show case of new products – TSeries;
- Development of new Agents;
- Important projects (Angola, Tunisia, Oman, Bangladesh and Costa Rica);

Actions in the domestic market for 2018:

- Visits with opinion makers;
- Visits and monitoring with government bodies from the defense sector
- Participation in business fair of the sector in Brazil;
- New products (TH40 and G2C) launching in February;
- Show case TSeries;
- Individual sales

Highlights in 2018

- Management confident in the results in the first months of 2018, where January is the positive highlight in individual sales;
- Strong demand from Distributors;
- High sales to government bodies;

Management report

Top Line

- 17 new items in the portfolio in 2018, with positive impact on the Company's image. New products ought to represent 30% of billing in 2018. The process is being closely monitored;

Description of New Products	Family
PISTOLA TH9 9MM 17T 2C CATX N3SPS12	TH Full Size 9mm, .40
PT111 G2 A 9MM 12T1C CAFO PRETO	New Mill. Compact, all models
PISTOLA 1911 COMMANDER 8T CAL.45 CAFO	1911 Commander.45
PISTOLA TH9C 13T CTX N3CH9420	TH Compact 9mm, .40
RT444H .44MAG 212MM CAFO PCCHOOO	Large
RT444H .44MAG 212MM INFO PCCHOOO	Large
RT856077ALOF MPCH185 (USA)	Small
RT856077ALAN MPCH185 (USA)	Small
RT856077AOFMPCH192 (USA)	Small NEW86Steel/ UL/Colors
RT856077CAFO MPCH185 (USA)	Small NEW86Steel/ UL/Colors
RT856077INFO MPCH185 (USA)	Small NEW86Steel/ UL/Colors
RT692 .3579MM CAFO	Compact
RT692 .3579MM INFO	Compact
PTG2S071CAFO MRSP840 PRETO-9MM (USA)	Millennium G2, all models
RT 692 .3579MM CAFO	Compact
PISTOLA 1911 OFFICER 6T CAL.45 CAFO	1911 Officer .45
RT692 .3579MM INFO	Compact
	TOTAL

. Source: Report on Products Engineering – Taurus

- Spectrum began production/sale;
- Model of control over planning and production reviewed, aimed at 100% of the level of service to the clients;
- Rifle T4 delivered to different countries
- Purchase routines reviewed for volumes of warranty and quality.
- Aligned delivery schedule to ensure billing;
- Review of cost / process;
- Engineering area concluding the strategic planning for the next 36 months to ensure the development and launching of new products.

Contribution margin

- SKUs with negative margins were eliminated and those with low margin had price adjustment;
- Millennium (low margin) had components redesigned, which increased the margin;

Gross margin of the final product

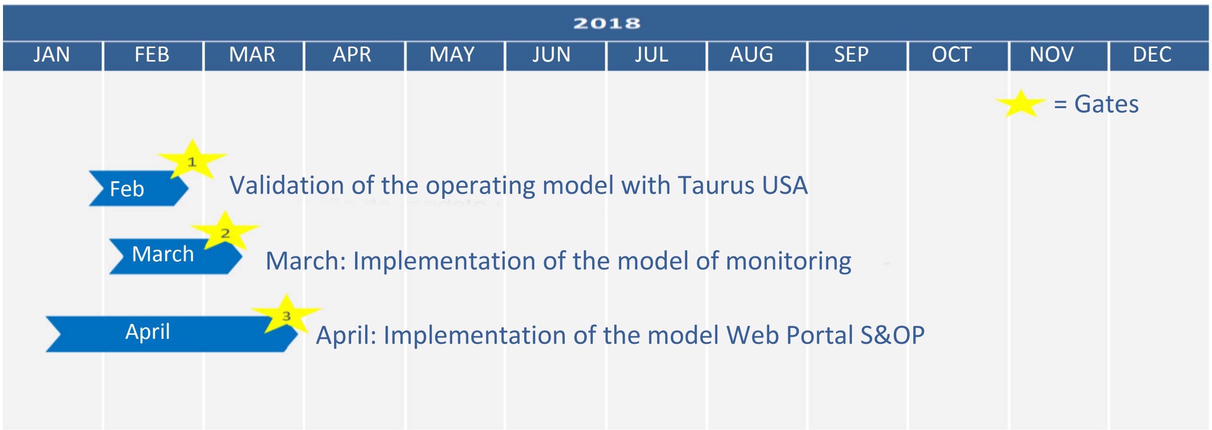
- Ensure that new Firearms are always launched with good margin;

Industrial Strategies – Supply Chain

Servicing our principal client, Taurus USA

- Weekly formal meetings, discussing volumes, prices and terms;
- S&OP process between Brazil / USA aligned with the optimization process (Schedule below), aiming at prompt decision making by both units and strengthening an important forum of improvement of results for the business

Management report



Source: Planning team – Taurus

- Volume 100% delivered and 90% SLA (demand) in January. A few problems in a few items (identified and subject to recovery plans in the following months)

With the stabilization of production and conclusion of the operating restructuring, the development of new products is the next step in the Company's process of evolution. Corroborating this idea, besides pistol Striker, which has a strong portfolio of orders for 2018, the Company presented, in the last Shot Show in Las Vegas, the biggest firearms fair in the world, more than 20 new products of the brands Taurus, Rossi and Heritage, among which we highlight the gun models Ranging Hunter and 692, and the pistols models 1911 Commander and 1911 Officer.

This is only the beginning of what is in the pipeline of launchings for the coming years. Innovation, development of new products, quality and security will continue to be the guiding principles of the Company. In 2018 the new products will begin to have greater share in the Company's net revenue. For the following years, in view of the renewal of the portfolio of products in course, the share of new products in the Company's revenue will gradually increase, where innovation will have an increasingly important role in Taurus' profitability.

The year 2017 was the year of operating consolidation and 2018 will be a year to profit with a consistent cash generation. Despite the optimism and assurance of this cash generation in line with the budget presented, we believe that Taurus' capital structure problem deserves attention. We would like to thank our Financial Creditors for the support received during 2017 and in the beginning of 2018 so that we may seek a restructuring adequate to the reality of the company as well as to the interests of the creditors.

We are sure that Taurus, in turn, is ready for the challenges that lie ahead. With an Executive Board totally renewed and extremely qualified to conduct the business, we are certain that we have adopted the correct strategy to position Taurus among the largest and best manufacturers of light Firearms in the world.

Finally, we appreciate the support and confidence of our clients, suppliers, financial institutions, employees and shareholders. Through an efficient business and management model, with quality and confidence differentials, we began 2018 with invigorated convictions to recover the Company's profitability!

Management report

Taurus profile

Forjas Taurus S.A. ("Company") is one of the largest manufacturers of small firearms in the world. 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 codes are symbols are **FJTA3, FJTA4).**

Founded in 1939, the Company started-up its operations as forging company, having started to produce revolvers in the 1940s. In the 1980s, its presence was consolidated in the US, with the creation of *Taurus International Manufacturing Inc*. (TIMI), in Miami, Florida. Meanwhile, Taurus started to produce and sell helmets for motorcycle riders, rapidly assuming the leadership in this market, which it holds up to these days.

The Company operates in the segments of Firearms and Accessories, Helmets and Accessories and M.I.M. (Metal Injection Molding), having four industrial plants, three of them in Brazil and one in Miami, in USA. The Brazilian units are located in Rio Grande do Sul, Paraná and Bahia.

In Brazil, Taurus is accredited as EED – Strategic Defense Company – and, accordingly, is able to provide products to the Armed Forces of Brazil. Abroad, besides distributing products of the TAURUS and ROSSI trademarks produced in Brazil, the unit manufactures models of TAURUS pistols and HERITAGE revolvers.

With exports to over 70 countries, Taurus has already received dozens of awards recognizing its high quality and innovation standard, like *"Handgun of the Year"*, considered one of the most important in the US Arm Industry.

Management report

Management Discussion and Analysis - MD&A

1. Considerations on financial statements

- **Standards and criteria adopted in the preparation of information**

The consolidated financial statements of the Company were prepared according to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), implemented in Brazil by means of the Accounting Pronouncement Committee (CPC) and its technical interpretations (ICPC) and guidance (OCPC), approved by the Brazilian Securities and Exchange Commission (CVM). The amounts included in this report are presented in millions of reais (R$), unless otherwise indicated, and, therefore, may be rounded.

The following companies were considered direct and indirect subsidiaries totaling an ownership interest of 100% for consolidation purposes: Taurus Blindagens Ltda. (BR); Taurus Blindagens Nordeste Ltda. (BR); Taurus Holdings, Inc. (USA); T. Investments Co, Inc. (PA); Taurus Máquinas-Ferramenta Ltda. (BR); Taurus Investimentos Imobiliários Ltda. (BR); Polimetal Metalurgia e Plásticos Ltda. (BR) and Taurus Plásticos Ltda. (BR).

Management report

2. Economic and financial performance - consolidated

Net income

In 2017, the Company’s consolidated net revenue reached R$ 784.8 million, a reduction of 5.5% in relation to 2016 and of 4.7% compared to 2015. This reduction is originated mainly from the firearms segment, in the foreign market, with the movement of normalization of the demand for firearms in the USA with the election of Donald Trump, as well as in the domestic market, with more stringent government budgets in 2017. The Company’s exports recorded 589.4 million in 2017, a decrease of 4.7% against R$618.6 million in 2016, and virtually stable when compared to 2015. Sales in the domestic market reached R$ 195.4 million, 7.7% lower than in 2016 and 16.4% lower than in 2015.

The positive highlight was exports of firearms to other countries, which recorded R$ 43.8 million in 2017, 18.1% higher than in 2016 and 4.5% higher than in 2015. The first shipments of the new pistol Hammer to Asia, and of the new Rifle T4 to the Middle East in the second half of 2017 were important for this movement. These two new products will have significant contribution to the development of new markets.

The helmet segment, despite having presented a significant recovery in the last quarter of 2017, closed the year with retraction of 10.8% in its sales, totaling R$ 89.6 million. In the comparison with 2015, sales of helmets in 2017 recorded reduction of 18.9%.

Despite the retraction in the U.S. market, the firearms segment increased its share in the Company’s net revenue, from 85% in 2016 to 86% in 2017. The helmet segment, despite the improvement in the end of the year, presented sales retraction in 2017, with reduction of its share from 12% to 11%, in the same period. The “other” segment, with lower share in revenue, maintained its share stable in 2017 when compared to 2016.

Management report

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.

In the Brazilian market, the highlight was the growth of individual sales, which include policemen in general, magistrates and CAC's (hunters, shooters and collectors) who acquire firearms for private use. This growth offset the decrease of government sales, due to the stringent budgets of public bodies in the past years. Accordingly, net sales of firearms in 2017 recorded R$ 91.5 million, which represents a small drop of 1.7% when compared to 2016.

In the USA, the year 2017 was very competitive, when the Company's sales recorded R$ 541.3 million, a retraction of 6.2% in relation to 2016. This performance is affected by the election of Donald Trump, which led to a process of normalization of demand in the USA. The demand for firearms in the USA, during Obama government, presented unusually higher levels due to concerns regarding possible controls over acquisitions of firearms. With Trump, these concerns vanished, and the demand was regularized at lower levels when compared to the former government. In addition, manufacturers and distributors, which had high inventory levels, in the expectation of a possible victory of Hillary Clinton, experienced a process of reduction of inventories, which led to higher competition and intensification of the promotional environment in that country.

This scenario of lower demand is evidenced in the analysis of the *Adjusted NICS* (*National Instant Background Check System*) market indicator, which allows to determine firearm purchase intentions in the USA. In 2017 this indicator presented a reduction of 11% compared to 2016.

The positive highlight was exports to other countries, which increased 18.1% in relation to 2016, totaling R$ 43.8 million. We highlight the shipments of the Pistol Hammer and Rifle T4 to the Middle East and Asia. In 2018, these two new products will significantly contribute to the development of new markets and to the recomposition of the Company's operating margins.

Net revenue of firearms recorded R$ 676.6 million, 4.3% lower than in 2016, and 1.1% lower than in 2015.

The gross margin of firearms, in 2017, recorded 12.4%, a drop of 8.5p.p. compared to 2016. This performance is affected by higher competition in the USA, which reduced the price levels in that market throughout the year. Also the lower demand in that market led to adjustment of the Company's production level, which despite the promptness to resize itself, suffered pressure on its operating margins.

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.

In 2017, sales of helmets reduced 10.8% in relation to 2016, totaling R$ 89.6 million. Since this segment has strong correlation with the economic performance, this growth is already result of the adverse period experienced by the Brazilian economy in the past years. However, it is yet possible to notice a sales recovery in this segment in the fourth quarter of the year, in view of the improvement of the unemployment rate, interest rate and GDP throughout 2017.

Comparing the evolution of the Company's physical sales of helmets with the physical sales of motorcycles in Brazil, we notice a retraction of 12.0% in the Company's physical sales of helmets in 2017, in relation to 2016, against a decrease of 14.7% in sales of motorcycles in the period. Accordingly, we notice a recovery of the Company's market share in the year, movement observed since 2015.

The gross margin of this segment was 23.8%, in 2017, a retraction of 6.2 p.p. against 30.0% recorded in 2016.

Management report

III. Other

In addition to firearms and helmets, Taurus also operates the M.I.M. - Metal Injection Molding segment. The plastics operation was discontinued by the Company in January/2018.

This segment presented net sales of R$ 18.6 million, which is 17.3% lower than in 2016. This segment has little representation in the Company's revenue, and presents specific demands.

Operating expenses

Operating expenses in 2017 recorded R$ 279.6 million, 4.0% lower than in 2016. In relation to net revenue, operating expenses in the year represented 35.6%, virtually stable when compared to 2016.

EBITDA

For the calendar year of 2017, Company's consolidated EBITDA records a negative balance of R$ 125.7 million, with an income (loss) of R$ 63.9 million in the prior year. Cash generation, measured by this indicator was the principal challenge of the Company in 2017. In addition to lower operating margins generated by the normalization of performance in the U.S. market, the Company's EBITDA was also affected by factors such as increase of provisions for labor and civil contingencies over the year and impairment of inventories.

Financial income (loss)

In the year, the Company's financial result recorded negative balance of R$ 114.1 million, against a negative result of R$ 2.7 million in 2016. Such change is mainly related to the caption Changes in Exchange Rate, which is very sensitive to exchange rate volatility. The caption exchange-rate change recorded negative balance of R$ 13.0 million in 2017 against a positive result of R$ 92.7 million in 2016. The closing rate of the dollar in 2017 appreciated 1.5% against the closing rate of the dollar in 2016. At the end of 2016 the closing rate of the dollar had depreciated 16.5% in relation to 2015.

Income (loss) Consolidated

In 2017, the Company accumulates a loss of R$ 286.0 million against a negative balance of R$ 103.0 million in 2016. In 2015, Taurus had recorded loss of R$ 218.6 million.

Financial position

In Dec/17, the Company presented gross indebtedness of R$ 732.5 million. We point out that the maturities that had been extended upon renegotiation with the bank syndicate, in 2016, returned to short term since the agreements

Management report

provided for financial indexes (covenants) that had not been complied with. Thus, in Dec/17, the short-term maturities of Taurus totaled R$ 574.5 million. The Company recorded long-term maturities in the amount of R$ 158.0 million.

The Company’s cash and cash investments in Dec/17 amounted to R$ 9.5 million, a decrease of 68.2% compared to Dec/16, also derived from the new scenario of demand in the USA which required higher consumption of cash by Taurus.

Accordingly, the Company’s net indebtedness increased 7.4% in Dec/17 compared to Dec/16, totaling R$ 723.0 million. We point out that a new renegotiation of the Company’s debt is already in course according to Note 1 – Operating Context.

Working Capital

In 2017, the Need of Investment in Working Capital (NIG) decreased R$ 38.4 million in relation to the previous year. In relation to net revenue, NIG, in 2017, recorded 25%, a retraction of 3p.p. compared to 2016. It should be pointed out that NIG continues affecting payment reschedules to suppliers due to cash restrictions faced throughout the year, mainly as a result of the adverse scenario in the American market. This positive effect in NIG should be reduced with the regularization of these payments, which are fully renegotiated so as to ensure the supply of raw material for the continuity of the Company’s operations.

The Company’s financial cycle, in 2017, presented a retraction of 13 days in relation to 2016, recording 117 days of cycle. We point out that the reduction of days of suppliers derived from the transfer of overdue commitments with the controlling shareholder to a loan account. Inventory days were affected by the impairment of inventories.

Cash flow

In 2017, the Company had an operating cash flow of R$ 33.9 million, a decrease of 6.6% compared to operating cash flow in 2016. Investment activities recorded disbursement of R$ 20.8 million in 2017. Finally, financing activities also recorded cash consumption, in the amount of R$ 33.1 million in 2017.

Therefore, Company's the cash and cash equivalents decreased by R$ 20.0 million in 2017, with the closing balance at R$ 6.9 million in 2017, 74.3% lower than the balance of 2016.

Management report

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 2017, Company's preferred shares appreciated by 7.8% as compared to 2016. As for common shares, 33.5% had an appreciation over the same period. Accordingly, the Company's market value recorded increase of 40.3%, in 2017, compared to the previous year, totaling R$ 135.2 million.

3. Estimates (Guidance)

In previous years, the Company had already opted not to provide estimates of revenue and EBITDA. In line with former decisions, Management opted again not to provide estimates of results for 2018 until the stabilization of the levels of cash generation of the Company so as to provide higher precision to the disclosure of guidance.

Management report

4. Outlook

As to the firearms segment, for 2018, in the U.S. market, the principal market of the Company, the demand is expected to be maintained at regular levels. However, as the new products begin to be traded, the Company's income in this market will increase, since they are not affected by the price war of the traditional products, reaching another gap in the market. Thus, the launching of new products will be important for the recovery of Taurus' profitability, in special in the USA.

In Brazil, despite the economic projections for 2018 indicate improvement of the economic indicators, the government budgets still tend to remain stringent, which shall maintain government sales of firearms stable. However, it is possible to foresee an expansion of individual sales, which include policemen in general, magistrates and CAC's (hunters, shooters and collectors) who acquire firearms for private use. This expansion is sustained by the launching of new products and the release of the use of caliber 9mm by the military police.

The improvement of the Brazilian economic scenario, in turn, shall benefit the helmet segment. Thus, in 2018, it will be possible to notice a recovery of sales of the segment, as well as a recovery of its operating margins.

On the financial side, the launching of new products, contributing to additional cash flows, aligned to the renegotiation of bank debt in course, as well as to the renegotiation of overdue debts with suppliers already concluded, should benefit the management of cash in 2018.

Accordingly, 2018 will be the year when it will be already possible to notice the recovery, on a significant basis, of the Company's profitability. Finally, Management highlights its confidence in the path that will be covered in 2018, under the management of a new Executive Board, fully renewed and qualified to carry out the business in this new year.

The Management

São Leopoldo, April 03, 2018.

Notes to the financial statements

Forjas Taurus S.A.

Balance sheets
December 31, 2017 and 2016
(In thousands of reais)

	Note	Consolidated 2017	Consolidated 2016	Parent company 2017	Parent company 2016
Assets					
Current assets					
Cash and cash equivalents	7	6,679	26,708	2,543	1,313
Financial investments and linked accounts	8	1,777	2,552	1,777	2,552
Trade accounts receivable	9	122,611	150,197	69,008	45,701
Inventories	10	211,885	244,197	95,155	125,925
Recoverable taxes	11	44,458	20,497	25,693	7,269
Prepayments		6,674	5,957	2,224	1,951
Other accounts receivable	12	5,985	22,344	22,753	27,297
Non-current assets held for sale	14	51,390	-	-	-
		451,459	472,452	219,153	212,008
Non-current assets					
Financial investments and linked accounts	8	1,008	634	753	430
Recoverable taxes	11	493	707	195	195
Deferred income and social contribution taxes	13	3,465	44,536	-	8,404
Credit with related parties	25	-	-	14,044	16,941
Other accounts receivable	12	16,489	11,407	9,419	5,890
		21,455	57,284	24,411	31,860
Investment property	14	-	50,108	-	-
Investments	15				
Subsidiaries		-	-	417,433	521,562
Other investments		349	349	190	190
Property, plant and equipment	16	222,686	238,650	36,172	38,398
Intangible assets	17	73,009	74,214	5,541	5,922
		296,044	363,321	459,336	566,072
Total assets		768,958	893,057	702,900	809,940

See the accompanying notes to the financial statements

Notes to the financial statements

Forjas Taurus S.A.

Balance sheets
December 31, 2017 and 2016
(In thousands of reais)

	Note	Consolidated 2017	Consolidated 2016	Parent company 2017	Parent company 2016
Liabilities					
Current liabilities					
Suppliers		99,954	128,712	134,832	125,076
Loans and financing	18	458,942	26,556	453,416	20,366
Advance from receivables	18	15,422	6,136	1,535	6,136
Foreign exchange advances	18	24,193	28,065	24,193	28,065
Debentures	19	75,771	433	75,771	433
Salaries and social security charges	21	41,926	34,645	17,418	14,849
Taxes, duties and contributions	22	40,031	39,170	17,944	16,241
Advances from clients		49,983	26,282	79,467	65,769
Derivative financial instruments	24	242	543	-	-
Commissions payable		3,540	8,918	2,491	7,816
Dividends payable		3	3	3	3
Provisions for civil, labor and tax risks	23	55,298	40,090	39,189	16,916
Related parties	25	-	-	38,097	28,835
Provision for product warranty	31	11,974	11,091	6,764	5,122
Other accounts payable	20	88,412	35,253	77,866	18,411
		965,691	385,897	968,986	354,038
Non-current liabilities					
Loans and financing	18	157,970	573,112	47,103	478,065
Debentures	19	-	68,011	-	68,011
Taxes, duties and contributions	22	4,748	2,496	2,986	944
Deferred income and social contribution taxes	13	30,937	15,190	6,079	-
Provisions for civil, labor and tax risks	23	47,233	11,741	32,973	1,840
Advances from clients		-	-	-	5,250
Related parties	25	-	-	52,418	33,908
Provision for product warranty	31	4,746	5,435	-	-
Other accounts payable	20	2,866	3,076	37,588	39,785
		248,500	679,061	179,147	627,803
Total liabilities		1,214,191	1,064,958	1,148,133	981,841
Unsecured liability	26				
Capital		404,489	393,977	404,489	393,977
Advance for future capital increase		-	164	-	164
Capital transactions		(40,996)	(40,996)	(40,996)	(40,996)
Accumulated loss		(952,634)	(668,102)	(952,634)	(668,102)
Equity valuation adjustments		48,240	49,736	48,240	49,736
Accumulated translation adjustments		95,668	93,320	95,668	93,320
Total unsecured liability		(445,233)	(171,901)	(445,233)	(171,901)
Total liabilities and shareholders' deficit		768,958	893,057	702,900	809,940

See the accompanying notes to the financial statements

Notes to the financial statements

Forjas Taurus S.A.

Statements of income
Years ended December 31, 2017 and 2016
(In thousands of reais)

	Note	Consolidated 2017	Consolidated 2016	Parent company 2017	Parent company 2016
Net operating income	27	784,876	830,273	556,383	492,256
Cost of goods sold	28	(668,147)	(637,072)	(496,590)	(447,231)
Gross income		116,729	193,201	59,793	45,025
Operating (expenses) income					
Sales expenses	28	(109,474)	(130,732)	(41,880)	(47,300)
Administrative and general expenses	28	(148,804)	(131,981)	(84,283)	(66,110)
Equity in net income of subsidiaries	15	-	(1,804)	(104,490)	(32,275)
Other operating income		20,066	14,317	6,900	10,434
Other operating expenses	28	(41,372)	(41,241)	(32,637)	(11,402)
		(279,584)	(291,441)	(256,390)	(146,653)
Income (loss) before financial income (loss) and taxes		(162,855)	(98,240)	(196,597)	(101,628)
Financial income		6,687	101,909	3,346	93,795
Financial expenses		(120,826)	(104,618)	(111,176)	(94,449)
Net financial income (loss)	29	(114,139)	(2,709)	(107,830)	(654)
Operating income before taxes		(276,994)	(100,949)	(304,427)	(102,282)
Current income and social contribution taxes	13	13,175	3,980	-	-
Deferred income and social contribution taxes	13	(22,209)	(6,058)	18,399	(745)
Loss for the year		(286,028)	(103,027)	(286,028)	(103,027)
Loss per common share - basic - R$	26.c	(4.42)	(1.77)		
Loss per preferred share - diluted -R$	26.c	(4.42)	(1.77)		

See the accompanying notes to the financial statements

Notes to the financial statements

Forjas Taurus S.A.

Statements of comprehensive income
Years ended December 31, 2017 and 2016
(In thousands of reais)

	Consolidated		Parent company	
	2017	2016	2017	2016
Loss for the year	(286,028)	(103,027)	(286,028)	(103,027)
Other comprehensive income that can be reclassified to the income (loss) for the year in subsequent periods:				
Accumulated translation adjustment	2,348	(45,540)	2,348	(45,540)
Total comprehensive income	(283,680)	(148,567)	(283,680)	(148,567)

See the accompanying notes to the financial statements

Notes to the financial statements

Forjas Taurus S.A.

Statements of changes in shareholders' equity
Years ended December 31, 2017 and 2016
(In thousands of reais)

	Capital	Advances for future capital increase	Capital transactions	Equity valuation adjustments	Accumulated translation adjustments	Accumulated loss	Total shareholders' equity
Balance at December 31, 2015	364,735	11,701	(40,996)	31,739	138,860	(566,155)	(60,116)
Capital increase social	29,242	(11,537)	-	-	-	-	17,705
Accumulated translation adjustment	-	-	-	-	(45,540)	-	(45,540)
Realization of equity valuation adjustment of goodwill in assets, net of tax effects	-	-	-	(334)	-	334	-
Realization of equity valuation adjustment of goodwill in assets in subsidiaries, net of tax effects	-	-	-	(746)	-	746	-
Adjustment of equity valuation on investment property	-	-	-	19,077	-		19,077
Loss for the year	-	-	-	-	-	(103,027)	(103,027)
Balance at December 31, 2016	393,977	164	(40,996)	49,736	93,320	(668,102)	(171,901)
					-	-	
Capital increase social	10,512	(164)	-	-	-	-	10,348
Accumulated translation adjustment	-	-	-	-	2,348	-	2,348
Realization of equity valuation adjustment of goodwill in assets, net of tax effects	-	-	-	(295)	-	295	-
Realization of equity valuation adjustment of goodwill in assets in subsidiaries, net of tax effects	-	-	-	(1,201)	-	1,201	-
Loss for the year	-	-	-	-	-	(286,028)	(286,028)
Balance at December 31, 2017	404,489	-	(40,996)	48,240	95,668	(952,634)	(445,233)

See the accompanying notes to the financial statements

Notes to the financial statements

Forjas Taurus S.A.

Statements of cash flows
Years ended December 31, 2017 and 2016
(In thousands of reais)

	Consolidated		Parent company	
	2017	**2016**	**2017**	**2016**
Cash flow from operating activities				
Income (loss) before income and social contribution taxes	(276,994)	(100,949)	(304,427)	(102,282)
Adjustments for:				
Depreciation and amortization	37,052	34,241	8,019	6,891
Cost of the of written-off fixed assets	2,685	16,758	215	2,339
Cost of the written-off intangible assets		1,659	_	22
Provision for impairment of assets held for sale	-	4,286	-	-
Allowance for doubtful accounts	1,508	4,060	1,380	1,441
Provision for legal risks	59,979	20,867	58,059	6,804
Provision for guarantees	194	(1,607)	1,642	(1,941)
Provision for inventory loss	47,600	2,288	45,481	2,288
Equity in net income of subsidiaries	-	1,804	104,490	32,275
Exchange rate on loans and financing	1,790	(76,266)	594	(63,210)
Foreign exchange rate on accounts payable and receivable	(927)	13,151	(523)	6,636
Provision of interest on loans and financing	71,619	67,669	70,075	63,292
Write-off of investments	-	2,636	-	-
Write-off of goodwill on investments	-	2,215	-	2,215
Derivative financial instruments	-	7,941	-	177
Remeasurement of investment property at fair value	(1,282)	-	-	-
Adjusted income (loss)	(56,776)	753	(14,995)	(43,053)
Changes in assets and liabilities				
(Increase) in inventories	(15,288)	(24,624)	(14,711)	(21,868)
Decrease / (increase) in trade accounts receivable	24,642	39,968	(26,084)	25,993
(Increase) decrease in other accounts receivable	(12,834)	316	(18,073)	440
(Decrease) increase in suppliers	(28,213)	46,266	10,136	4,992
Increase (decrease) in accounts payable	122,954	(25,442)	113,437	43,912
Payment of income and social contribution taxes	(662)	(961)	-	-
	90,599	35,523	64,705	53,469
Net cash flow generated by operating activities	33,823	36,276	49,710	10,416
Cash flow from investment activities				
Credit from or to related companies	-	-	2,897	(28,530)
Investments	-	5,000	-	-
Property, plant and equipment	(20,482)	(47,016)	(5,432)	(12,773)
Intangible assets	(695)	(1,677)	(195)	(1,650)
Interest earnings bank deposits	401	31,440	452	13,099
Cash flow invested in investment activities	(20,776)	(12,253)	(2,278)	(29,854)
Cash flow from financing activities				
Capital increase	10,348	17,541	10,348	17,541
Advance for capital increase	-	164	-	164
Loans obtained	100,213	723,707	9,744	660,606
Payment of loans and financing	(95,548)	(731,815)	(31,919)	(602,852)
Interest paid	(48,089)	(67,224)	(47,555)	(63,242)
Financial loans	-	-	13,180	(7,288)
Net cash flow (invested in) generated by financing activities	(33,076)	(57,627)	(46,202)	4,929
(Decrease) increase in cash and cash equivalents	(20,029)	(33,604)	1,230	(14,509)
Statement of changes in cash and cash equivalents				
At the beginning of the year	26,708	60,312	1,313	15,822
At the end of the year	6,679	26,708	2,543	1,313
(Decrease) increase in cash and cash equivalents	(20,029)	(33,604)	1,230	(14,509)

See the accompanying notes to the financial statements

Notes to the financial statements

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Statement of added-value
Years ended December 31, 2017 and 2016
(In thousands of reais)

	Consolidated		Parent company	
	2017	**2016**	**2017**	**2016**
Income				
Sale of merchandise, products and services	**938,293**	982,853	**656,160**	572,410
Other income	**20,067**	14,317	**6,900**	10,434
Allowance for doubtful accounts	**(1,508)**	(4,060)	**(1,380)**	(1,441)
	956,852	993,110	**661,680**	581,403
Inputs acquired from third-parties, including tax amounts - ICMS, IPI, PIS and COFINS				
Cost of products, goods and services sold	**505,186**	398,236	**471,855**	374,005
Materials, energy, outsourced services and other	**238,585**	255,611	**101,402**	95,942
	743,771	653,847	**573,257**	469,947
Gross added value	**213,081**	339,263	**88,423**	111,456
Depreciation and amortization	**37,052**	(34,241)	**8,019**	(6,891)
Net value added produced by the Company	**176,029**	305,022	**80,404**	104,565
Added value received as transfer				
Equity in net income of subsidiaries	-	(1,804)	**(104,490)**	(32,275)
Financial income	**6,687**	101,909	**3,346**	93,795
Other	**(2)**	-	-	-
	6,685	100,105	**(101,144)**	61,520
Total added value payable	**182,714**	405,127	**(20,740)**	166,085
Distribution of added value				
Employees				
Direct remuneration	**140,611**	142,452	**57,552**	57,311
Benefits	**23,384**	22,189	**6,530**	6,477
FGTS	**12,984**	9,579	**5,283**	3,850
	176,979	174,220	**69,365**	67,638
Governments				
Federal	**139,799**	175,714	**64,975**	71,545
State	**40,489**	44,734	**29,484**	33,027
Municipal	**406**	352	**78**	208
	180,694	220,800	**94,537**	104,780
Financing entities				
Interest	**109,975**	104,618	**101,062**	94,449
Rentals	**1,094**	8,516	**324**	2,245
	111,069	113,134	**101,386**	96,694
Remuneration of own capital				
Retained losses, net of realization of equity valuation adjustments	**(286,028)**	(103,027)	**(286,028)**	(103,027)
	182,714	405,127	**(20,740)**	166,085

See the accompanying notes to the financial statements.

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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 the segments of Firearms and Accessories, Helmets and Accessories and M.I.M. (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. Sales to the United States cover, mainly, the U.S. civil market and government bodies in the other regions.

Uncertainty related to the Company's going concern
In 2017, the Company endeavored to improve its operations and the integration with its suppliers in order to improve the cash generation and the recovery of its operating margins. This period was also used to enhance the ERP system, so as to improve the integration between the Company and its suppliers.

In 2017, the Company's operations were affected by the reduction of sales to the U.S. market. These changes in the North American market had a negative impact on the sales and operating margins, as well as cash generation of the operation.

In view of this new scenario, the Company took actions in order to adjust its production and reorganize its structure of costs and expenses. In 2017, assisted by its external advisers, the Company has been adjusting its internal controls and production environment.

On the financial side, on the other hand, the Company adopted actions of cash preservation, such as the installment payment of suppliers in delay up to 24 months.

The principal Management's action regarding the financial and economic rebalance of the Company, is the renegotiation of debts with the Bank syndicate, which is already in progress and being conducted by external advisory contracted. In conjunction with its external advisers, the Company presented to the Bank syndicate proposal to reschedule the current debt. The negotiations are in course, and there has already been a round with the Bank syndicate, and the Company expects to be able to reschedule the debt, adjusting it to the cash flows projected by Management, with the assistance of its advisers.

The resumption of positive results is expected for 2018 with the adjustment and renewal of its mix of products to cover the current market scenario.

Therefore, it is important to point out the beginning of sales in the fourth quarter of 2017 of the Pistol "Spectrum", the first Taurus pistol developed and produced in the USA. The development of new products is the next step in the process of evolution of the Company, and the share of launchings is expected to become increasingly expressive. In the same line, Taurus participated in the last "Shot Show" in Las Vegas, the biggest firearms fair in the world, presenting new products to the firearms market, with highlight

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to the guns models Ranging Hunter and 692, in addition to the pistols models 1911 Comander and 1911 Officer.

The launching of new products is crucial to increase the operating margins, mainly in the USA, since launchings are not affected by the price war of the traditional products, reaching another gap in the market.

Also in respect to new products, we point out that, in the second half of 2017, the Company made the first shipments of the new pistol Hammer to Asia, and of the new Rifle T4 to the Middle East. For 2018, the Company expects that these two new products may have important contribution to the recovery of the Company's operating margins in the domestic market.

As additional option to assist in the economic and financial rebalance, the Company has: (a) divestitures of non-core assets, namely: the helmets operation (historically advantageous and profitable), whose decision of sale and authorization for selling efforts were made by the Board of Directors in March 2018, in addition to a large land in an affluent residential region of Porto Alegre, where the former facilities of the Company were located and; (b) strong restructuring plan, already in course and conducted by specialized consulting firm already contracted. The restructuring plan is divided into 4 areas: i) Renegotiation of Debt; ii) Operating Efficiency, iii) Commercial Efficiency, and (iv) Evaluation of Results. The overview of the actions is as follows:

I – Renegotiation of Debt:

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

- Preparation, analysis and validation of operating and financial projections;
- Preparation of negotiation strategies in different scenarios;
- Negotiation with committee of creditors through meetings and presentations;
- Proper formalizations of the process;

II - Operating Efficiency

On macro basis, revaluation of the Organizational Structure of the Company through analysis of activities and processes, Span of Control and average remuneration. Accordingly, a few actions have already been implemented and other ones are in progress:

- Realignment of the structure with the strategic purposes;
- Streamlining of the hierarchical levels for gain of promptness in decision making;
- Normalization of the areas so as to prevent conflicts and redundancies;
- Review of responsibilities and functions of each position;
- Clear definition of the metrics;
- Redesign of the relationship with other units of the company;
- Revaluation of outsourcing of non-core activities;
- Revaluation of service levels;
- Revaluation of the centralization of activities;
- Elimination of activities that do not aggregate value;
- Analyses of gains of efficiency in the processes;
- Intelligent and long-lasting reduction of costs;
- Development of a participatory environment proper to changes;

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

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CGS - Cost of goods sold

- Analyze the evolution of Variable Costs and general manufacturing costs (GGF) to identify the main deviations and opportunities

Operating Master Planning:

- Review the S&OP model;
- Improve methodology of demand forecast;
- Review the logical process and model of production and inventory planning;

Efficiency of the Operating Management:

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

Losses of Materials (yield and scrap):

- Identify critical points of improvement and implement applicable corrective actions.

Research and Development:

- Identification of Capex needs;
- Integration with all the industrial units
- Schedule of actions.

Tools used:

- Explosion of Ideas
- Data analysis
- Simulations of scenarios
- Analyses of Cause/Effect
- Compensation Matrix

III – Commercial Efficiency

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

Market analysis

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

Portfolio of products

- Performance analysis of the categories of products
- Analysis for streamlining of SKU’s
- Definition of strategies for low-margin items
- Definition of the positioning of each category

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Commercial Performance

- Assess the management model of sales routine
- Revaluation and design of a variable remuneration program to the sales team
- Restructuring of the monitoring model for attainment of goals.

IV – Evaluation of Results

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

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

2. Presentation of financial statements

2.1. Preparation basis

The individual and consolidated financial statements were 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 individual and consolidated financial statements of the company were drawn up and presented in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and also in accordance with accounting practices adopted in Brazil (BR GAAP), considering Pronouncements, guidelines and interpretations issued by the Accounting Pronouncement Committee (CPC), approved by the Securities Commission (CVM) and the provisions of Corporation Law.

b) Statement of the Board of Directors

The Company management states it has utilized all of the relevant information for its financial statements and correspond to those of its management.
The issue of individual and consolidated financial statements was authorized by the Board of Directors on April 3, 2018.

2.2. Basis of consolidation

		Equity interest	
	Country	**2017**	**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 04/24/2015, T.Investments Co. Inc., was established in Panama, with the aim of managing the international investments

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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 financial statements are 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 subsidiary are reported in other comprehensive income, and presented as shareholders' equity.

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

3. Significant accounting judgments and sources of uncertainties about estimates

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

Information regarding critical judgments referring to the accounting policies adopted which impact the amounts recognized in the individual and consolidated financial statements 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 - Non-current assets held for sale/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

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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 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 financial statements, are presented in this section.

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

a) <u>Financial instruments</u>

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

These assets are classified as loans and receivables.

Loans and receivables are initially recognized at fair value plus any attributable transaction costs. 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 attributable transaction costs. 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 value reported in the balance sheet only when there is a legally enforceable right to set off and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(iv) *Impairment*
The Company and its subsidiaries assess at the balance sheet dates, whether there is any evidence that determines that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is considered impaired if, and only if, there is objective evidence of impairment as a result

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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.

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

c) New standards, interpretations and non-standard revisions
Several new standards or amendments to standards and interpretations will become effective for the years started after January 1, 2018.

Estimated impact of adopting CPC 48/ IFRS 9 and CPC 47/ IFRS 15
The Company is required to adopt CPC 48/ IFRS 9 - Financial Instruments and CPC 47 / IFRS 15 - Income from Contracts with Clients as of January 1, 2018. The Company evaluated the possible impacts derived from the adoption of these standards and concluded that there are no material impacts from the adoption.

***(i)* CPC 48 / IFRS 9 – Financial Instruments**

CPC 48 / IFRS 9 replaces guidelines of IAS 39 (CPC 38) Financial Instruments: Recognition and measurement. CPC 48 / 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.

At the beginning of 2018 the Company does not expect material impacts on its financial statements, considering the instruments currently held.

Classification - Financial assets
CPC 48 / 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.

CPC 48 / 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. Considering the financial instruments currently held, the Company does not expect material changes of classification.

Impairment - Financial and contractual assets
CPC 48 / 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 CPC 48 / 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

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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 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 value may become more volatile for assets under the model of CPC 48 / IFRS 9, however, in its initial evaluation, it does not expect material impact on its financial statements derived from the adoption of this standard.

Classification - Financial liabilities
CPC 48 / IFRS 9 retains a large part of the requirements of CPC 38 / IAS 39 for the classification of financial liabilities.

However, according to CPC 38 / IAS 39, all changes in fair value of the liabilities designated as FVTPL are recognized in statement of income, whereas, according to CPC 48 / 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).

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 sale such as VJORA.

(ii) **<u>CPC 47 / IFRS 15 – Revenue from contract with customers</u>**

CPC 47 / IFRS 15 introduces a comprehensive framework for determining whether and when income is recognized, and how income is measured. CPC 47 / IFRS 15 replaces current income recognition standards, including CPC 30 (IAS 18) Income, CPC 17 (IAS 11) Construction Contracts, and (IFRIC 13) Client Loyalty Programs.

CPC 47 / IFRS 15 establishes a five-phase model for accounting revenues arising from agreements with customers, so that a revenue is recognized at an amount that reflects the consideration the entity expects to be entitled to in exchange for the transfer of goods or services to the client.

The five steps are: 1) Identify contracts with client; 2) Identify performance obligations of the contract; 3) Determine transaction price; 4) allocate the transaction price to contractual performance obligations; and 5) recognize revenue when (or to the extent) the entity meets the performance obligations.

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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 CPC 47 / 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.

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

Transition
The Company will adopt CPC 47 / IFRS 15 in its financial statements for the year ended December 31, 2018 and intends to use the retrospective approach.

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 evaluated the possible impacts derived from the adoption of CPC 47 / IFRS 15 and concluded that there are no material impacts from the adoption of these standards.

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

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

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

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

According to Management's preliminary evaluation, this standard will not bring material impact. Nevertheless, the Company cannot provide a reasonable estimate of that effect until carrying out a detailed review at the time of actual adoption.

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5. Financial risk management

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

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

5.1 Credit risk

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

Trade accounts receivable and other credits

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

Credit approvals are analyzed individually before the terms and the standard terms of payment and delivery of the Company are offered. This analysis includes external evaluations and, in some cases, bank references. Purchase limits are established for each client and represent the maximum outstanding amount for which credit approval is not required; these limits are 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 transactions between related parties and, since these transactions are excluded, the Company has no customers that individually represent more than 5% of sales.

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

Credit risk exposure

The maximum credit risk exposure on financial statement date was:

	Consolidated		Parent company	
	Book value		Book value	
	2017	2016	2017	2016
Financial assets held to maturity				
Trade accounts receivable	**122,611**	150,197	**69,008**	45,701
Cash and cash equivalents	**6,679**	26,708	**2,543**	1,313
Interest earnings bank deposits	**2,785**	3,186	**2,530**	2,982
Total	**132,075**	180,091	**74,081**	49,996

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

	Consolidated		Parent company	
	Book value		Book value	
	2017	**2016**	**2017**	**2016**
Domestic - trade accounts receivable	**59,734**	56,631	**32,654**	36,093
United States clients - trade accounts receivable	**59,239**	101,178	-	-
Other	**34,825**	24,258	**50,784**	22,577
Total	**153,798**	182,067	**83,438**	58,670

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

	Book value		Book value	
	2017	**2016**	**2017**	**2016**
Clients - public agencies	**16,377**	19,511	**15,009**	17,228
Clients - distributors	**119,776**	149,996	**50,784**	32,032
End clients	**17,645**	12,560	**17,645**	9,410
Total	**153,798**	182,067	**83,438**	58,670

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***
	2017	**2016**	**2017**	**2016**
Not overdue	**98,314**	103,739	**-**	-
Overdue - in days:				
0–30	**8,628**	32,981	**-**	-
31–360 (1)	**16,086**	25,322	**(2,696)**	(8,846)
>360	**30,770**	23,025	**(28,491)**	(23,024)
Total	**153,798**	185,067	**(31,187)**	(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***
	2017	**2016**	**2017**	**2016**
Not overdue	**16,452**	19,195	**-**	-
Overdue - in days:				
0–30	**24,421**	8,680	**-**	-
31–360 (1)	**24,970**	24,324	**(1,514)**	(6,498)
>360	**17,595**	6,471	**(12,916)**	(6,471)
Total	**83,438**	58,670	**(14,430)**	(12,969)

(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.*

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5.2 Liquidity risk

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

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

We present below the contractual maturities of financial liabilities including payment of estimated interest and excluding, the impact of the negotiation agreements of currencies by the net position. The contractual cash flows do not consider the effects of the contractual clauses (*covenants*) which may change the term of payment by certain financial institutions.

						Consolidated
						2017
	Book value	Contractual cash flow	Up to 1 year	1–2 years	2–5 years	>5 years
Non-derivative financial liabilities						
Suppliers	99,954	99,954	99,954	-	-	-
Loans and financing	616,912	626,382	458,942	150,346	5,022	12,072
Debentures	75,771	93,714	23,012	53,693	17,009	-
Foreign exchange advances	24,193	24,193	24,193	-	-	-
Advance from receivables	15,422	15,422	15,422	-	-	-
Derivative financial instruments						
Derivative instruments (liabilities)	242	242	242	-	-	-
	832,494	**859,907**	**621,765**	**204,039**	**22,031**	**12,072**

						Consolidated
						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	119,807	-
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	712,284	17,835

						Parent company
						2017
	Book value	Contractual cash flow	Up to 1 year	1–2 years	2–5 years	>5 years
Non-derivative financial liabilities						
Suppliers	134,832	134,832	134,832	-	-	-
Loans and financing	500,519	561,254	134,670	342,887	83,697	-
Debentures	75,771	93,713	23,012	53,693	17,008	-
Foreign exchange advances	24,193	24,193	24,193	-	-	-
Advance from receivables	1,535	1,535	1,535	-	-	-
	736,850	**815,527**	**318,242**	**396,580**	**100,705**	**-**

						Parent company
						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	**-**	**-**	**-**

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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 earnings of the Company and its subsidiaries, or in the value of its holdings of financial instruments. The objective of market risk management is to manage and control exposures to risks, within acceptable parameters, and at the same time to optimize the return.

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

(i) Currency risk (foreign exchange)

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

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

Sensitivity analysis

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

The sensitivity analysis also considered variations of 25% and 50% on foreign exchange variations considered in the probable scenario.

Currencies and ratios	**Rate 2018**	**Probable scenario**	**Possible scenario ∆ 25%**	**Remote scenario ∆ 50%**
US dollar - Write-off	**3.3080**	3.3400	2.5050	1.6700
US dollar - Increase	**3.3080**	3.3400	4.1750	5.0100

Awareness of the changes in the foreign currency:

					Consolidated
		Balance at 2017	**Probable scenario**	**Possible (25%)**	**Remote scenario (50%)**
Assets - Depreciation of Dollar					
Accounts receivable	Dollar – USD	**34,995**	339	(8,495)	(17,328)
Liabilities - Increase in Dollar					
Loans and financing	Dollar – USD	**(181,635)**	(1,757)	(47,605)	(93,453)
Suppliers	Dollar – USD	**(11,967)**	(116)	(3,137)	(6,157)
Foreign exchange advances	Dollar – USD	**(7,313)**	(71)	(1,917)	(3,763)
Advance from clients	Dollar – USD	**(29,142)**	(282)	(7,638)	(14,994)
Other	Dollar – USD	**2,545**	25	667	1,310

Parent company

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		Balance at 2017	Probable scenario	Possible (25%)	Remote scenario (50%)
Assets - Depreciation of Dollar					
Accounts receivable	Dollar – USD	**15,352**	149	(3,727)	(7,602)
Liabilities - Increase in Dollar					
Loans and financing	Dollar – USD	**(149,065)**	(1,442)	(39,069)	(76,695)
Suppliers	Dollar – USD	**(3,547)**	(34)	(930)	(1,825)
Foreign exchange advances	Dollar – USD	**(7,313)**	(71)	(1,917)	(3,763)
Advance from clients	Dollar – USD	**(29,052)**	(281)	(7,614)	(14,948)
Other	Dollar – USD	**2,216**	21	581	1,140

(ii) Interest rate risk

The balances of instruments exposed to changes in interest rates are summarized below.

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

On December 31, 2017, the Management considered CDI rate at 8.75% and TJLP of 7.00% as the probable scenario in 2018. The probable rate was then adjusted at 25% and 50%, as parameter for possible and remote scenarios, respectively. The scenarios below were estimated for the period of 1 year:

Currency	2017	Probable scenario	Possible scenario Δ 25%	Remote scenario Δ 50%
CDI - write-off	6.89%	10.14%	7.61%	5.07%
Rise in the CDI rate	6.89%	10.14%	12.68%	15.21%
TJLP	7.00%	7.00%	8.75%	10.50%
SELIC	6.90%	8.75%	10.94%	13.13%
LIBOR 30 days	1.57%	1.57%	1.96%	2.35%
LIBOR 3 months	1.69%	1.69%	2.12%	2.54%
LIBOR 6 months	1.84%	1.84%	2.30%	2.76%

					Consolidated Gain (Loss)
	Index	Balance in 2017	Probable scenario	Possible scenario	Remote scenario
Liabilities					
Interest earnings bank deposits	CDI - write-off	3,170	103	23	(58)
Loans	Rise in the CDI rate	(129,980)	(4,224)	(7,519)	(10,814)
Loans	TJLP	(5,846)	-	(102)	(205)
LIBOR 30 days	LIBOR 30 days	(89,127)	-	(350)	(699)
LIBOR 3 months	LIBOR 3 months	(439,582)	-	(1,861)	(3,722)
Taxes in installments	SELIC	(8,296)	(153)	(335)	(516)

					Parent company Gain (Loss)
	Index	Balance in 2017	Probable scenario	Possible scenario	Remote scenario
Liabilities					
Interest earnings bank deposits	CDI - write-off	2,874	93	21	(52)
Loan	CDI - write-off	(33,081)	(1,075)	(237)	602
Loans	Rise in the CDI rate	(129,980)	(4,224)	(7,519)	(10,814)
Loans	TJLP	(5,672)	-	(99)	(199)
LIBOR 3 months	LIBOR 3 months	(439,582)	-	(1,861)	(3,722)
Taxes in installments	SELIC	(6,653)	(123)	(269)	(414)

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.

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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.

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

	Firearms		Helmets		Other		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
External income	**676,646**	707,276	**89,618**	100,489	**18,612**	22,508	**784,876**	830,273
Inter-segment income	**599,823**	532,769	**12,043**	4,949	**4,443**	5,972	**616,309**	543,690
Cost of sales	**(592,523)**	(559,159)	**(68,267)**	(70,293)	**(7,357)**	(7,620)	**(668,147)**	(637,072)
Gross income (loss)	**683,946**	680,886	**33,394**	35,145	**15,698**	20,860	**733,038**	736,891
Sales expenses	**(91,120)**	(110,764)	**(16,957)**	(18,602)	**(1,397)**	(1,366)	**(109,474)**	(130,732)
General and administrative expenses	**(133,423)**	(105,395)	**(8,551)**	(10,714)	**(3,315)**	(7,103)	**(145,289)**	(123,212)
Depreciation and amortization	**(1,351)**	(8,458)	**(576)**	(307)	**(1,588)**	(4)	**(3,515)**	(8,769)
Other operating income (expenses), net	**(25,605)**	(26,432)	**1,013**	389	**3,286**	(881)	**(21,306)**	(29,924)
Equity in net income of subsidiaries	**-**	-	**743**	1,039	**(743)**	(2,843)	**-**	(1,804)
	(251,499)	(251,049)	**(24,328)**	(28,195)	**(3,757)**	(12,197)	**(279,584)**	(291,441)
Operating income (loss)	**432,447**	429,837	**9,066**	6,950	**11,941**	8,663	**453,454**	445,450
Financial income	**1,434**	93,934	**7,546**	7,904	**(2,293)**	71	**6,687**	101,909
Financial expenses	**(114,940)**	(97,809)	**(5,615)**	(3,973)	**(271)**	(2,836)	**(120,826)**	(104,618)
Net financial income (loss)	**(113,506)**	(3,875)	**1,931**	3,931	**(2,564)**	(2,765)	**(114,139)**	(2,709)
Result per segment to be disclosed prior to Income tax and social contribution	**318,941**	425,961	**10,997**	10,881	**9,377**	5,899	**339,315**	442,741
Elimination of inter-segment income	**(599,823)**	(532,769)	**(12,043)**	(4,949)	**(4,443)**	(5,972)	**(616,309)**	(543,690)
Income before income and social contribution taxes	**(280,882)**	(106,808)	**(1,046)**	5,932	**4,934**	(73)	**(276,994)**	(100,949)
Income and social contribution taxes	**(14,928)**	486	**601**	(1,969)	**5,293**	(595)	**(9,034)**	(2,078)
Net income for the year	**(295,810)**	(106,322)	**(445)**	3,963	**10,227**	(668)	**(286,028)**	(103,027)
Assets of segments for disclosure	**585,914**	542,532	**81,536**	161,265	**101,508**	189,260	**768,958**	893,057
Liabilities of reportable segments	**1,145,919**	954,886	**46,432**	35,983	**21,840**	74,089	**1,214,191**	1,064,958

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Geographical information

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

	Firearms		Helmets	
	2017	**2016**	**2017**	**2016**
Domestic market				
Southeastern region	**61,626**	43,210	**26,670**	28,218
South region	**14,145**	22,393	**4,530**	6,631
Northeastern region	**7,584**	9,657	**30,536**	31,834
Mid-west region	**4,659**	16,841	**13,691**	16,007
North region	**3,524**	978	**13,521**	17,799
	91,538	93,079	**88,948**	100,489
Foreign market				
United States	**541,270**	577,064	**670**	-
Bangladesh	**11,764**	14,895	**-**	-
Peru	**1,604**	1,177	**-**	-
Burquina	**2,182**	-	**-**	-
Honduras	**1,654**	-	**-**	-
Oman	**2,844**	-	**-**	-
Bosnia	**142**	1,340	**-**	-
Jordan	**26**	3,332	**-**	-
Pakistan	**-**	441	**-**	-
Argentina	**5,429**	4,913	**-**	-
France	**3,925**	2,534	**-**	-
Chile	**3,113**	279	**-**	-
South Africa	**2,085**	1,951	**-**	-
Lebanon	**-**	79	**-**	-
Thailand	**217**	100	**-**	-
Nicaragua	**381**	1,352	**-**	-
Germany	**2,441**	885	**-**	-
United Kingdom	**178**	-	**-**	-
Italy	**1,067**	378		
Philippines	**1,297**	-	**-**	-
Australia	**-**	275	**-**	-
El Salvador	**182**	301	**-**	-
Other countries	**3,307**	2,901	**-**	-
	585,108	614,197	**670**	-
	676,646	707,276	**89,618**	100,489

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.

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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	
	2017	**2016**	**2017**	**2016**
Cash balance	**37**	13	**19**	7
Demand deposits	**6,257**	25,877	**2,180**	604
Interest earnings bank deposits	**385**	818	**344**	702
Cash and cash equivalents	**6,679**	26,708	**2,543**	1,313

The investments classified as cash and cash equivalents are remunerated at variable average rates from 86% to 100.00% of the CDI at 12/31/2017 (82.52% to 101.00% of CDI at 12/31/2016) with counterparty financial institutions considered by management as the first line.

8. Financial investments and linked accounts

	Consolidated		Parent company	
	2017	**2016**	**2017**	**2016**
Interest earning bank deposits - CDB (Bank Deposit Certificates)	**2,785**	3,186	**2,530**	2,982
Total	**2,785**	3,186	**2,530**	2,982
Current	**1,777**	2,552	**1,777**	2,552
Non-current	**1,008**	634	**753**	430

Financial investments are paid by the average variable rate of 98.79% of CDI at 12/31/2017, being held as guarantees for short-term financing, and their redemption scheduled takes place in conjunction with amortization, presented in current and non-current assets based on their redemption provisions.

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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	
	2017	**2016**	**2017**	**2016**
Domestic clients	**65,021**	71,035	**32,654**	36,093
Foreign clients	**88,777**	111,032	**50,784**	22,577
	153,798	182,067	**83,438**	58,670
Allowance for doubtful accounts - domestic	**(22,596)**	(21,245)	**(8,981)**	(7,601)
Allowance for doubtful accounts - abroad	**(8,591)**	(10,625)	**(5,449)**	(5,368)
	(31,187)	(31,870)	**(14,430)**	(12,969)
Total	**122,611**	150,197	**69,008**	45,701

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	**(4,145)**	**(2,960)**
Reversal of allowance for doubtful accounts	**2,637**	**1,580**
Realization of allowance for doubtful accounts	**2,144**	**-**
Exchange-rate change	**47**	**(81)**
Balance at December 31, 2017	**(31,187)**	**(14,430)**

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	
	2017	**2016**	**2017**	**2016**
Finished goods	**127,427**	98,788	**32,399**	18,639
Raw material	**134,346**	147,697	**110,525**	109,574
Provision for loss	**(49,888)**	(2,288)	**(47,769)**	(2,288)
	211,885	244,197	**95,155**	125,925

11. Recoverable taxes

	Consolidated		Parent company	
	2017	**2016**	**2017**	**2016**
ICMS	**14,837**	8,740	**5,591**	920
IPI	**4,099**	842	**3,153**	5

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PIS	**3,482**	932	**3,387**	617
COFINS	**12,511**	4,084	**12,010**	2,655
Income and social contribution taxes	**10,002**	6,566	**1,747**	3,267
INSS	**20**	40	**-**	-
Total	**44,951**	21,204	**25,888**	7,464
Current	**44,458**	20,497	**25,693**	7,269
Non-current	**493**	707	**195**	195
Total	**44,951**	21,204	**25,888**	7,464

12. Other accounts receivable

		Consolidated		Parent company
	2017	**2016**	**2017**	**2016**
Advances to suppliers	**3,384**	17,478	**1,946**	15,508
Advances to employees	**1,788**	1,726	**796**	794
Judicial deposits (Note 23)	**16,489**	11,407	**9,419**	5,890
Receivables from insurance	**82**	2,339	**-**	-
Related party loans	**-**	-	**19,367**	8,150
Other receivables	**731**	801	**644**	2,845
	22,474	33,751	**32,172**	33,187
Current assets	**5,985**	22,344	**22,753**	27,297
Non-current assets	**16,489**	11,407	**9,419**	5,890

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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.

a. Breakdown of assets and deferred tax liabilities

	Consolidated		Parent company	
	12/31/2017	**12/31/2016**	**12/31/2017**	**12/31/2016**
On temporary differences of assets, tax loss and negative basis				
Provision for sales commissions	**-**	1,616	**-**	993
Provision of labor proceedings	**1,292-**	3,946	**-**	1,826
Allowance for doubtful accounts	**-**	5,494	**-**	2,474
Provision for product warranty	**-**	7,297	**-**	2,190
Provision for legal risks	**980**	2,961	**-**	-
Provision for inventory loss	**1,625**	2,131	**-**	-
Derivative financial instruments		189	**-**	-
Tax loss and negative basis of social contribution on net income		34,912	**-**	7,000
Inventories - unrealized profits		2,858	**-**	-
Other items		1,432	**-**	-
	3,897	62,836	**-**	14,483
On temporary liability differences				
Equity valuation adjustment	**(13,080)**	(12,183)	**(2,356)**	(2,356)
Difference for depreciation base	**(5,405)**	(7,484)	**-**	-
Goodwill allocation	**(9,019)**	(9,899)	**-**	-
Financial charges	**(1,499)**	(1,499)	**(1,370)**	(1,370)
Derivative financial instruments	**(2,353)**	(2,353)	**(2,353)**	(2,353)
Other items	**(13)**	(72)	**-**	-
	(31,369)	(33,490)	**(6,079)**	(6,079)
Total assets and liabilities, net	**(27,472)**	29,346	**(6,079)**	8,404
Classified as non-current assets	**3,465**	44,536	**-**	8,404
Classified in the non-current liabilities	**(30,937)**	(15,190)	**(6,079)**	-

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

Deferred taxes are recognized in relation to the temporary differences between the 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.

Changes in deferred taxes:	**Consolidated**	**Parent company**

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Opening balance of deferred taxes, net	**29,346**	**8,404**
Allocated in income (loss)	**27,172**	**(10,567)**
Allocated to shareholders' equity	**(34,912)**	**-**
Offsetting of the Tax Regularization Program	**(49,078)**	**(3,916)**
Effect of exchange rate changes	**-**	**-**
Closing balance of deferred taxes, net	**(27,472)**	**(6,079)**

In 2017, the Company does not recognize deferred taxes since it does not expect future taxable income.

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Reconciliation of effective rate for income and social contribution taxes

	Consolidated		Parent company	
	12/31/2017	12/31/2016	**12/31/2017**	12/31/2016
Accounting loss before income tax and social contribution	**(276,994)**	(100,949)	(304,427)	(102,282)
Combined statutory rate:	**34%**	34%	**34%**	34%
Income and social contribution taxes at the combined statutory rates	**94,178**	34,323	103,505	34,776
Permanent additions:				
Non-deductible expenses	**(7,468)**	(304)	**(402)**	(151)
Transfer pricing	**(4,081)**	(16,342)	**(4,081)**	(16,342)
Equity in net income of subsidiaries	**-**	(613)	**(35,527)**	(10,973)
Permanent exclusions:				
Reintegra	**2,985**		**2,985**	
Tax incentives of subsidiaries	**1,588**	-	**-**	-
Dividends received	**-**	-	**-**	-
Effects of differentiated rate of deemed profit subsidiaries	**262**	533	**-**	-
Offset of tax loss and negative basis in PRT (Tax Regularization Program) and PERT (Special Program for Tax Regularization)	**40,741**	-	**32,882**	-
Deferred taxes not formed on tax loss and negative basis of CSLL	**(43,105)**	(61,966)	**(26,248)**	(42,105)
Deferred charges not recorded on unrealized exchange-rate change	**(2,729)**	-	**(2,761)**	-
Deferred not recognized on provisions for inventories and other	**(39,723)**	42,291	**(37,471)**	34,050
Derecognition of deferred due to the non-existence of expectation of future realization	**(51,682)**	-	**(14,483)**	-
Income and social contribution taxes in income (loss) for the year	**(9,034)**	(2,078)	**18,399**	(745)
Current	**13,175**	3,980	**-**	-
Deferred assets	**(22,209)**	(6,058)	**18,399**	(745)
	(9,034)	(2,078)	**18,399**	(745)
Effective rate	**3.26%**	2.06%	**-6.04%**	0.73%

In 2017, the amount of R$ 13,175 related to current income and social contribution taxes is positive due to the use of the North American tax benefit in the company Taurus Holdings. The US Federal Law allows current losses to be offset by taxes paid within the previous two years.

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.

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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
				12/31/2017				12/31/2016
	Base	25%	9%	Total	Base	25%	9%	Total
Provision for sales commissions	(4,045)	(1,011)	(364)	**(1,375)**	(8,919)	(2,230)	(803)	**(3,033)**
Provision of labor proceedings	(64,661)	(16,165)	(5,819)	**(21,984)**	(35,349)	(8,837)	(3,181)	**(12,018)**
Allowance for doubtful accounts	(31,187)	(7,797)	(2,807)	**(10,604)**	(27,259)	(6,815)	(2,453)	**(9,268)**
Provision for product warranty	(16,720)	(4,180)	(1,505)	**(5,685)**	(6,589)	(1,647)	(593)	**(2,240)**
Provision for legal risks	(37,870)	(9,468)	(3,408)	**(12,876)**	(28,022)	(7,006)	(2,522)	**(9,528)**
Provision for inventory loss	(49,888)	(12,472)	(4,490)	**(16,962)**	(1,381)	(345)	(124)	**(469)**
Tax loss and negative basis of social contribution on net income	(584,965)	(146,242)	(52,647)	**(198,889)**	(649,739)	(162,435)	(58,477)	**(220,912)**
Fair value of investment property AAP	34,255	8,564	3,083	**11,647**	28,904	7,226	2,601	**9,827**
Restated cost of property, plant and equipment	28,354	7,089	2,552	**9,641**	1,538	385	138	**523**
Allocation of Heritage goodwill	16,514	(4,129)	(1,486)	**5,615**	17,197	4,299	1,548	**5,847**
Unshipped notes	(3,091)	(773)	(278)	**(1,051)**	-	-	-	**-**
Difference for depreciation base	(6,163)	(1,541)	(555)	**(2,096)**	(2,425)	(606)	(218)	**(824)**
Provision for tax expenses	(6,351)	(1,588)	(572)	**(2,159)**	-	-	-	**-**
Recognition base difference Exchange rate change	(18,702)	(4,676)	(1,683)	**(6,359)**	(10,276)	(2,569)	(925)	**(3,494)**
Provision for profit sharing	(2,155)	(539)	(194)	**(733)**	(1,349)	(337)	(121)	**(458)**
Provision for other items	182	46	16	**62**	-	-	-	**-**
	(746,493)	**(194,882)**	**(64,338)**	**(253,808)**	**(723,669)**	**(180,917)**	**(65,130)**	**(246,047)**

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								Parent company
				12/31/2017				**12/31/2016**
	Base	**25%**	**9%**	**Total**	**Base**	**25%**	**9%**	**Total**
Provision for sales commissions	(2,842)	(710)	(256)	**(966)**	(7,799)	(1,950)	(702)	**(2,652)**
Provision of labor proceedings	(43,310)	(10,828)	(3,898)	**(14,725)**	(17,616)	(4,404)	(1,585)	**(5,989)**
Allowance for doubtful accounts	(14,430)	(3,608)	(1,299)	**(4,907)**	(12,334)	(3,084)	(1,110)	**(4,194)**
Provision for product warranty	(6,764)	(1,691)	(609)	**(2,300)**	(5,122)	(1,281)	(461)	**(1,742)**
Provision for legal risks	(28,852)	(7,213)	(2,597)	**(9,810)**	(1,903)	(476)	(171)	**(647)**
Provision for inventory loss	(47,769)	(11,942)	(4,299)	**(16,241)**	(1,381)	(345)	(124)	**(469)**
Tax loss and negative basis of social contribution on net income	(200,950)	(50,237)	(18,085)	**(68,322)**	(123,839)	(30,960)	(11,146)	**(42,106)**
Restated cost of property, plant and equipment	1,244	311	112	**423**	1,538	385	138	**523**
Unshipped notes	(2,538)	(635)	(228)	**(863)**	-	-	-	**-**
Difference for depreciation base	(1,635)	(409)	(147)	**(556)**	(224)	(56)	(20)	**(76)**
Provision for tax expenses	(4,176)	(1,044)	(376)	**(1,420)**	-	-	-	**-**
Recognition base difference Exchange rate change	(18,463)	(4,616)	(1,662)	**(6,278)**	(10,342)	(2,586)	(931)	**(3,517)**
Provision for profit sharing	(690)	(173)	(62)	**(235)**	(853)	(213)	(77)	**(290)**
	(371,175)	**(92,795)**	**(33,406)**	**(126,200)**	**(179,875)**	**(44,970)**	**(16,189)**	**(61,159)**

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14. Non-current assets held for sale / Investment property

Assets held for sale
Non-current assets held for sale are classified as “held for sale” if it is highly probable that they will be primarily recovered through sales instead of the continuous use.

Assets held for sale are generally stated at the lowest value between their book value and the fair value less selling expenses

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 disposal 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
In thousands of reais	Investment property - 2016	Assets held for sale - 2017
Balance on January 1	-	-
Reclassification of property, plant and equipment	21,204	-
Fair value	28,904	-
Balance at December 31, 2016	50,108	-
Update of fair value in 2017	**1,282**	**-**
Transfer to Asset held for sale	**(51,390)**	**51,390**
Balance at December 31, 2017	**-**	**51,390**

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.

In June 2017, Management committed to a plan to sell this property, which has already been made available for intermediation by market experts. Accordingly, these properties were reclassified to “Non-current Assets held for sale”.

b. Measurement of fair value

(i) Fair value hierarchy
The fair value of assets 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.

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The measurement of the fair value of assets held for sale was classified as Level 3 based on the inputs used (Note 3).

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

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

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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 (Appraisal 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 m²;
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.
e) Unit value of the Land: dependent variable expressed in reais by square meter.

Determination of asset values

	Consolidated
	2017
Buildings	12,318
Land	38,649
Improvements	423
Total	51,390

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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.(1)	Parent company 12/31/2017	Parent company 12/31/2016
Current assets	38,805	22,233	3,853	209,107	33,976	61,220	94,722	358		
Non-current assets	101,568	62,153	2,045	120,504	-	42,230	206,466	2,592		
Current liabilities	26,902	32,350	2,178	59,016	-	1,592	74,243	39,942		
Non-current liabilities	7,741	1,526	27	125,198	-	19,647	45,068	18,118		
Capital	73,855	9,400	6,355	1,008	36,388	53,292	304,780	293,639		
Shareholders' equity	105,730	50,511	3,693	145,397	33,976	82,211	181,877	(55,110)		
Net income	28,407	73,253	7,700	541,270	-	3,918	188,415	-		
Net income (loss) for the year	(451)	4,329	(1,972)	(68,888)	-	2,968	(29,085)	3,154		
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)	-	3	-	(81,106)	-	2,842	(28,217)	1,988	(104,490)	(32,275)
Exchange rate change over investments	-	-	-	1,847	502	-	-	-	2,349	(45,540)
Equity valuation adjustment	-	-	-	-	-	-	-	-	-	19,077
Write-off Goodwill Famastil	-	-	-	-	-	-	-	-	-	(2,215)
Reclassified for provision for unsecured liability (1)	-	-	-	-	-	-	-	(1,988)	(1,988)	(9,749)
Closing balances (2)	1	50	1	131,345	33,975	70,910	181,151	-	417,433	521,562

(1) The unsecured liability of the subsidiary Taurus Máquinas-Ferramenta Ltda., in the amount of R$ 34,722, 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.

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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 book balances of the subsidiary are shown below:

Taurus Holdings, Inc.

		Consolidated
	2017	**2016**
Assets	**339,379**	360,271
Liabilities	**170,357**	146,961
Net income	**541,270**	575,098
Loss for the year	**(46,262)**	(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.

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

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

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

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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.

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Cost or deemed cost	**Land**	**Buildings**	**Machinery and facilities**	**Furniture and computers**	**Vehicles**	**Other**	**Property, plant and equipment in progress**	**Advances to suppliers**	**Total**
Balance at December 31, 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)	-
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		1,662	13,053	924	-		4,730	113	20,482
Disposals	(2,386)	(1)	(4,955)	(555)	(113)	(40)	(153)	-	(8,203)
Transfers	(370)	11,409	6,931	916	18		(18,904)	-	-
Effect of exchange rate changes	137	658	724	125	3	-	-	-	1,647
Balance at December 31, 2017	**15,598**	**141,285**	**257,707**	**24,653**	**928**	-	**3,895**	**409**	**444,475**
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	-	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	-	(7,469)	(24,992)	(2,158)	(57)	-	-	-	(34,676)
Disposals	194	-	4,663	555	106	-	-	-	5,518
Effect of exchange rate changes		(179)	(446)	(104)	(3)	-	-	-	(732)
Balance at December 31, 2017	-	**(34,560)**	**(170,324)**	**(16,106)**	**(799)**	-	-	-	**(221,789)**
Book value									
December 31, 2016	18,023	100,645	92,405	8,844	175	40	18,222	296	238,650
December 31, 2017	**15,598**	**106,725**	**87,383**	**8,547**	**129**	-	**3,895**	**409**	**222,686**

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							Parent company
Cost or deemed cost	**Buildings**	**Machinery and facilities**	**Furniture and computers**	**Vehicles**	**Property, plant and equipment in progress**	**Advances to suppliers**	**Total**
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	606	1,520	551	-	2,753	2	5,432
Disposals	-	(643)	-	(9)	(83)	-	(735)
Transfers	6,363	1,419	549		(8,331)	-	
Balance at December 31, 2017	**17,079**	**62,810**	**7,078**	**125**	**3,067**	**2**	**90,161**
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
Balance at **December** 31, 2016	(1,796)	(41,421)	(3,779)	(70)	-	-	(47,066)
Depreciation for the year	(1,517)	(5,266)	(642)	(18)	-	-	(7,443)
Disposals	-	518	-	2	-	-	520
Balance at **December** 31, 2017	**(3,313)**	**(46,169)**	**(4,421)**	**(86)**	-	-	**(53,989)**
Book value							
December 31, 2016	8,314	19,093	2,199	64	8,728	-	38,398
December 31, 2017	**13,766**	**16,641**	**2,657**	**39**	**3,067**	**2**	**36,172**

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Property, plant and equipment in progress
The balance of construction in progress of R$ 3,067 in the parent company and R$ 3,895 – Consolidated in December 2017 (R$ 8,728 and R$ 18,222 in 2016, respectively) refers to machinery and equipment still in the phase of being implemented and construction in progress. These assets should come into operation during 2018.

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

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.

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						Consolidated
	Software	**Trademarks and patents**	**Client Relationship**	**Goodwill**	**Product development**	**Total**
Cost						
Balance at December 31, 2016	6,097	21,043	13,796	43,905	5,119	89,960
Acquisitions	118	-	-	-	577	695
Effect of exchange rate changes	132	703	750	(1,074)	60	571
Balance at December 31, 2017	**6,347**	**21,746**	**14,546**	**42,831**	**5,756**	**91,226**
Amortization						
Balance at December 31, 2016	(1,633)	(6,840)	(6,438)	(835)	-	(15,746)
Amortization for the year	(820)	(91)	(1,463)	-	(2)	(2,376)
Effect of exchange rate changes	(137)	(457)	(336)	835	-	(95)
Balance at December 31, 2017	**(2,590)**	**(7,388)**	**(8,237)**	**-**	**(2)**	**(18,217)**
Book value						
December 31, 2016	4,464	14,203	7,358	43,070	5,119	74,214
December 31, 2017	**3,757**	**14,358**	**6,309**	**42,831**	**5,754**	**73,009**

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Impairment test for cash generating units containing goodwill

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

Cash-generating unit	2017	2016
Firearms	**42,831**	43,070

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

Main assumptions used for forecasting the discounted cash flows

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

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

Discount rate

The discount rate for CGU is represented by a post-tax rate based on US Treasury Bonds for 20 years, adjusted for a risk premium that reflects the risks of investments in equity securities and the systematic risk of the unit in question. The weighted-average cost of capital of the industry in which this UGC operates was estimated based on Management’s experience with the assets of this UGC.

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).

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18. Loans and financing

The terms and conditions of outstanding loans were as follows:

							Consolidated
					2017		2016
	Currency	Nominal interest rate	Year of maturity	Contracted value	Book value	Contracted value	Book value
Loans and financing							
Working capital	R$	CDI + 6.15%	2018	**2,500**	**993**	2,500	1,253
FINAME	R$	2.50–8.70% p.a.	2021	**7,681**	**1,014**	8,515	2,284
FINEP	R$	4–5.25% p.a.	2020	**14,095**	**5,564**	14,095	8,348
BNDES	R$	3.50% p.a.	2020	**9,995**	**5,672**	9,995	7,675
FNE	R$	9.50% p.a.	2019	**9,806**	**2,821**	9,806	4,232
Advance from receivables	R$	23.9% p.a.	2017	**6,136**	**15,422**	6,136	6,136
Foreign exchange advance	USD	9.80% p.a.	2017	**28,065**	**24,193**	28,065	28,065
Working capital	USD	Libor + 1.55–5.6% p.a	2021	**499,162**	**528,709**	499,162	490,990
Working capital	USD	80–100% of CDI p.a.	2019	**65,072**	**53,526**	65,072	65,466
Investments	USD	5.33% p.a.	2021	**6,035**	**15,028**	6,035	15,652
Investments	USD	Libor + 2.25% p.a.	2021	**1,731**	**3,585**	1,731	3,768
				Total	**656,527**		**633,869**
				Current liabilities	**498,557**		**60,757**
				Non-current liabilities	**157,970**		**573,112**

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							Parent company
					2017	2016	
	Currency	Nominal interest rate	Year of maturity	Contracted value	Book value	Contracted value	Book value
Loans and financing							
Working capital	R$	CDI + 6.15%	2018	**2,500**	**993**	2,500	1,253
FINAME	R$	2.50–5.50%	2021	**2,304**	**746**	2,304	1,139
BNDES	R$	3.50%	2020	**9,995**	**5,672**	9,995	7,675
Advance from receivables	R$	24.60%	2017	**6,136**	**1,535**	6,136	6,136
Foreign exchange advances	USD	9.80%	2017	**28,065**	**24,193**	27,931	28,065
Working capital	USD	Libor + 3.41–5.60%	2021	**424,162**	**439,582**	424,162	422,898
Working capital	USD	85–100% of CDI	2019	**65,072**	**53,526**	65,072	65,466
				Total	**526,247**		**532,632**
					479,144		**54,567**
				Current liabilities Non-current liabilities	**47,103**		**478,065**

Schedule of maturities of non-current liabilities:

	Consolidated		Parent company	
Year of maturity	**2017**	**2016**	**2017**	**2016**
2018	**50,673**	124,786	**45,227**	119,314
2019	**92,259**	167,547	**1,861**	162,119
2020	**1,320**	201,081	**15**	131,652
>2021	**13,718**	79,698	**-**	64,980
	157,970	573,112	**47,103**	478,065

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

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

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

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

Covenants

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.

These indexes are monitored by management, and the PPE agreements and Debentures require that the indexes be determined on annual basis; these indexes were not met in the fiscal year ended December 31, 2017, reason why the loans and financing under these agreements were automatically reclassified to short term. As described in note 1, the Company is in process of renegotiation of debts with the Bank syndicate. This renegotiation is being conducted by external advisory contracted, and the Bank syndicate has already received proposal to reschedule the current debt. The negotiations are in course, and there has already been a round with the Bank syndicate, and the Company expects to be able to reschedule the debt, according to the cash flows projected with the assistance of its advisers.

19. Debentures

The debentures issued by the Company in a single series, not convertible into shares, distributed in the secondary market through the National Debenture System, with restricted placement efforts aimed at 3rd issue aimed at banking institutions. The consolidated and parent company position is as follows:

Debentures	Principal (R$)	Issuing Date	Securities in the market	Financial charges	2017	2016
3rd issuance (a)	100,000	06/13/2014	10,000	DI rate + 10.30% (2016)	**75,771**	68,444
				Grand total	**75,771**	68,444

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Current liabilities Liabilities	**75,771**	433
Non-current	-	68,011
Total	**75,771**	68,444
Incurred cost transactions	**3,584**	3,584
Appropriate cost transactions	**3,544**	2,962
Unearned transaction costs	**40**	622

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.

These indexes are monitored by management, and the PPE agreements and Debentures require that the indexes be determined on annual basis; these indexes were not met in the fiscal year ended December 31, 2017, reason why the loans and financing under these agreements were automatically reclassified to short term. As described in note 1, the Company is in process of renegotiation of debts with the Bank syndicate. This renegotiation is being conducted by external advisory contracted, and the Bank syndicate has already received proposal to reschedule the current debt. The negotiations are in course, and there has already been a round with the Bank syndicate, and the Company expects to be able to reschedule the debt, according to the cash flows projected with the assistance of its advisers.

20. Other accounts payable

	Consolidated		Parent company	
	2017	**2016**	**2017**	**2016**
Performance bonus	**4,463**	191	**-**	-
Accrued interest	**1,036**	8,703	**-**	-
Royalties	**3,730**	3,846	**3,730**	3,846
Insurance and freight	**2,186**	15,749	**1,262**	11,777
FEE Banking Syndicate	**5,602**	-	**5,602**	-
Accounts payable - CBC	**67,740**	-	**67,740**	-
Provision for unsecured liability	**-**		**34,722**	36,709
Other	**6,521**	9,840	**2,398**	5,864
	91,278	**38,329**	**115,454**	**58,196**
Current	**88,412**	35,253	**77,866**	18,411
Non-current	**2,866**	3,076	**37,588**	39,785

21. Salaries and social security charges

	Consolidated		Parent company	
	2017	**2016**	**2017**	**2016**
Salaries	**1,413**	3,296	**883**	2,108
Social security charges	**20,458**	10,806	**8,443**	4,451

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Provisions for vacations	**20,055**	20,543	**8,092**	8,290
	41,926	34,645	**17,418**	14,849

22. Taxes, duties and contributions

	Consolidated		Parent company	
	2017	**2016**	**2017**	**2016**
ICMS	**5,376**	5,732	**2,402**	2,709
IPI	**3,909**	8,761	**3,849**	8,447
PIS	**69**	1,039	**10**	560
COFINS	**325**	4,820	**47**	2,578
IRRF (Withholding income tax)	**1,113**	20,342	**592**	1,943
OTHER	**33,987**	972	**14,030**	948
	44,779	41,666	**20,930**	17,185
Current	**40,031**	39,170	**17,944**	16,241
Non-current	**4,748**	2,496	**2,986**	944

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
			2017	**2016**
	Provision	**Judicial deposit (1)**	**Net**	**Net**
Labor	**64,661**	**15,431**	**49,230**	24,999
Civil	**9,863**	-	**9,863**	9,432
Tax	**28,007**	**1,058**	**26,949**	5,992
	102,531	**16,489**	**86,042**	40,424
Classified in current liabilities	**55,298**			
Classified in the non-current liabilities	**47,233**			

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

				Parent company
			2017	**2016**
	Provision	**Judicial deposit (1)**	**Net**	**Net**
Labor	**43,310**	**8,679**	**34,631**	12,465
Civil	**1,163**	**5 -**	**1,163**	401
Tax	**27,689**	**739**	**26,950**	-
	72,162	**9,418**	**62,744**	12,866
Classified in current liabilities	**39,189**			

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Classified in the non-current liabilities	**32,973**

Changes in provisions are as follows:

	Consolidated		
	Civil and claims	Tax	Total
Balance at December 31, 2016	44,781	7,050	51,831
Provisions formed during the year	**43,156**	**27,903**	**71,059**
Provisions used during the year	**(9,279)**	**-**	**(9,279)**
Reversal of provision	**(4,134)**	**(6,946)**	**(11,080)**
Balance at December 31, 2017	**74,524**	**28,007**	**102,531**

	Parent company		
	Civil and labor	Tax	Total
Balance at December 31, 2016	18,756	-	18,756
Provisions formed during the year	**31,454**	**27,689**	**59,143**
Provisions used during the year	**(4,653)**	**-**	**(4,653)**
Reversal of provision	**(1,084)**	**-**	**(1,084)**
Balance at December 31, 2017	**44,473**	**27,689**	**72,162**

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			
	12/31/2017		12/31/2016		12/31/2017		12/31/2016	
	Possible	Remote	Possible	Remote	Possible	Remote	Possible	Remote
Tax	**12,141**	**418**	25,893	418	**736**	**-**	736	-
Civil	**62,524**	**351**	18,123	357	**55,665**	**200**	11,264	206
Labor	**59,153**	**6,711**	59,823	3,403	**39,904**	**4,547**	38,270	1,703
Other	**8,438**	**712**	8,006	722	**8,160**	**330**	7,728	340
	142,256	**8,192**	111,845	4,900	**104,465**	**5,077**	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.

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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.

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.

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 such amount was deposited in court by Taurus by means of a secured account and judgment of appeals is being awaited.

On June 29, 2017, the Eleventh Circuit Court of Appeals confirmed the approval of the master agreement. After the term for appeal has elapsed, the decision became definitive and the value related to legal fees was released. The agreement is at execution phase.

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.

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Sanctioning Administrative Processes - PMESP
The Company was summoned to present defense in two (02) administrative processes filed by the Military Police of the State of São Paulo (Sanctioning Process CSMAM-002/30/16 and Sanctioning Process 003/30/2016 in addendum to Process CSMAM 01/30/14) which challenges the possibility or not of partial or total 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 (twenty-two million, six hundred and eighty-one thousand reais).

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

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

Also, on December 19, 2017, the Company received service of judicial process where the State of São Paulo requires the rescission of agreements of supply of submachine guns entered into in 2011 with the Military Police of the State of São Paulo and the return of the value paid at the time, of R$ 21,700, plus inflation adjustment and other legal consequences.

In a preliminary analysis performed by the Company's legal advisers, this lawsuit was classified as possible loss. Taurus has always been willing to solve this issue on amicable basis and it will continue to endeavor to reach a mutually-satisfactory solution in the shortest time possible.

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.

Public Civil Action - Attorney General of Sergipe for the Federal Public Ministry
The Company became aware of the filing by the Attorney General of Sergipe for the Federal Public Ministry of a Public Civil Action against Taurus and also against the Federal Government (Brazilian Army), before the Judge of the 2nd Federal Court of the Judiciary Section of Sergipe. The requests are related to alleged defects in a few models of firearms produced by Taurus. In view of the stage of discussion it is not possible to determine if this case will demand any cash outflow.

24. Financial instruments

a) Derivatives
The Company and its subsidiaries carry out operations with derivative financial instruments. The

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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	
	2017	**2016**	**2017**	**2016**
Derivative financial instruments - liabilities	**(242)**	(543)	**-**	-
	(242)	(543)	**-**	-

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

		Consolidated		Consolidated	
		2017		2016	
Instrument	**Contracting currency referring to the notional amount**	**Notional in thousands**	**Fair value**	**Notional in thousands**	**Fair value**
Swap Fixed x Libor (i)	US Dollars - USD	**5,711**	**(242)**	5,711	(543)
		5,711	**(242)**	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.

a) 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			
	2017		2016	
	Book value	**Fair value**	**Book value**	**Fair value**
Assets measured at amortized cost				
Cash and cash equivalents (ii)	**6,679**	**6,679**	26,708	26,708
Interest earning bank deposits (ii)	**2,785**	**2,785**	3,186	3,186
Accounts receivable (iii)	**122,611**	**122,611**	150,197	150,197
	132,075	**132,075**	180,091	180,091
Liabilities measured at fair value				
Forward exchange contracts and interest rate swap used to hedge transactions (i)	**242**	**242**	543	543
Liabilities measured by the amortized cost				
Loans and financing (iv)	**616,912**	**656,443**	599,668	474,255
Debentures (iv)	**75,771**	**75,771**	68,444	74,276

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Foreign exchange advances (iv)	**24,193**	**24,193**	28,065	24,698
Suppliers and advance from receivables (ii)	**115,376**	**115,376**	134,848	134,848
Advance of real estate credits (iv)	**-**	**-**	-	-
	832,252	**871,783**	831,025	708,077

				Parent company
		2017		2016
	Book value	Fair value	Book value	Fair value
Assets measured at amortized cost				
Cash and cash equivalents (ii)	**2,543**	**2,543**	1,313	1,313
Interest earning bank deposits	**2,530**	**2,530**	2,982	2,982
Accounts receivable (iii)	**69,008**	**71,504**	45,701	45,701
	74,081	**74,081**	49,996	49,996
Liabilities measured by the amortized cost				
Loans and financing (iv)	**500,519**	**504,886**	498,431	414,773
Debentures (iv)	**75,771**	**75,771**	68,444	74,276
Foreign exchange advances (iv)	**24,193**	**24,193**	28,065	24,698
Suppliers and advance from receivables (ii)	**136,367**	**136,367**	131,212	131,212
Advance of real estate credits (iv)	**-**	**-**	-	-
	736,850	**741,217**	726,152	644,961

(i) 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.

(ii) 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.

(iii) 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.

(iv) 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 financial statements. For convertible debt securities, the market interest rate is determined by reference to similar liabilities that do not have a 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.

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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.	10	-	10	777	24,056	24,833	281	3,118
Taurus Blindagens do Nordeste Ltda.	26	-	26	182	9,853	10,035	24	1,560
Taurus Holdings, Inc.	13	-	13	69,258	5,250	74,508	359,711	-
Taurus Security Ltda.	50	-	50	916	-	916	-	1,761
Taurus Investimentos Imobiliários Ltda.	-	16,941	16,941	-	36,709	36,709	1,006	-
Taurus Máquinas-Ferramenta Ltda.	17	-	17	-	-	-	-	-
Polimetal Metalurgia e Plásticos Ltda.	9,639	-	9,639	26,903	-	26,903	1,288	173,057
	9,755	16,941	26,696	98,036	75,868	173,904	362,310	179,496
December 31, 2017								
Taurus Blindagens Ltda.	**731**	**-**	**731**	**997**	**19,074(iv)**	**20,071**	**-**	**-**
Taurus Blindagens Nordeste Ltda.	**26**	**-**	**26**	**775**	**28,015(iv)**	**28,790**	**-**	**-**
Taurus Holdings, Inc.	**23,252**	**-**	**23,252**	**63,901**	**5,329(v)**	**69,230**	**420,535**	**-**
Taurus Investimentos Imobiliários Ltda.	**421**	**-**	**421**	**1,681**	**-**	**1,681**	**-**	**-**
Taurus Máquinas-Ferramenta Ltda.	**-**	**14,044**	**14,044**	**-**	**-**	**-**	**-**	**1,523**
Taurus Plásticos Ltda.	**46**	**-**	**46**	**-**	**-**	**-**	**-**	**-**
Polimetal Metalurgia e Plásticos Ltda.	**18,745**	**-**	**18,745**	**68,411**	**-**	**68,411**	**546**	**178,416**
	43,221	**14,044**	**57,265**	**135,765**	**52,418**	**188,183**	**421,080**	**179,939**

(i) Refers to amounts recorded under Suppliers - R$ 105,422, advance from clients, R$ 30,343.
(ii) Refers to values recorded under the captions clients R$ 42,986, and advance to suppliers R$ 235.
(iii) Refers to values recorded under the captions financial loans R$ 14,044 with the parent company Forjas Taurus S.A. which are updated at 100% of CDI (Interbank Deposit Certificate).
(iv) Represent loan agreements totaling R$ 47,089 with subsidiary Taurus Blindagens Ltda. and Taurus Blindagens Nordeste Ltda. are restated to 100% of the CDI (Interbank Deposit Certificate).
(v) Refers to advances received from clients

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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 during Annual Shareholders' Meeting in 2017, CBC Participações S.A., parent company of the Company, held on December 31, 2017, 91.91% of common shares and 3.34% of preferred shares, totaling 66.93% of the total capital of Taurus.

On December 31, 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:

	Current assets	Current liabilities	Income	Expense
Companhia Brasileira de Cartuchos	**333**	**69,338**	**98,168**	**35,165**

Remuneration of Directors and Board Members

The remuneration of directors and board members includes salaries, fees and benefits:

	Consolidated		Parent company	
	2017	**2016**	**2017**	**2016**
Salaries and benefits of statutory directors	**3,429**	6,244	**3,429**	6,244
Remuneration and benefits of the Board of Directors	**417**	361	**417**	361
Remuneration and benefits of the Tax Council	**357**	540	**357**	540
Total	**4,203**	7,145	**4,203**	7,145

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

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

Sureties among related parties
Loans and financing are guaranteed by promissory notes, lien 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.	**113,581**	95,934
Taurus Blindagens Ltda.	**575,690**	494,807

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	689,271	632,764

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

a) Capital

In 2017, there were new exercises of subscription bonus, resulting in capital increase of R$ 10,512, upon issuance of 6,409,643 new shares, of which 1,802,855 common shares and 4,606,788 preferred shares, all at issuance price of R$1.64 (one real and sixty-four cents) per share, derived from the exercise of 1,802,855 subscription bonus class 1 and 4,606,788 subscription bonus class 2, all of them issued in the context of the Company's capital increase homologated on September 29, 2015.

On December 31, 2017, the Company's capital stock was R$ 404,489, represented by 64,688,212 shares, of which 46,445,314 common shares and 18,242,898 preferred shares, all registered, book entry and without par value.

Subscription bonus

Shareholders who participated in the capital increase approved during Special Shareholders' Meeting held on September 29, 2015 was assigned, as an additional advantage, a subscription bonus for each share subscribed, according to the type of share. Subscription bonuses were valid until 01/30/2017 ("Maturity") and had an exercise price of R$ 1.64 for common and preferred shares. The subscription bonus issued and not exercised was 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:

(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)

	2017	2016
Common shares	**51,851**	51,851
Preferred shares	**103,702**	103,702

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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
December 31, 2016				
Com.shares R$1.61 - Pref.shares R$1.80*	44,642	71,874	13,636	24,545
December 31, 2017				
Com.shares R$ 2.15 - Pref.shares - R$ 1.94*	**46,445**	**99,857**	**18,243**	**35,391**

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

b) Equity valuation adjustments

Deemed cost

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

Fair value of property investments

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

Accumulated translation adjustments

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

c) Earnings per share

Basic earnings per share	**2017**	2016
Loss attributable to shareholders (in thousands of R$)	**(286,028)**	(103,027)
Balance of shares at the end of the year	**64,688,212**	58,278,569
Total shares according to CPC 41 – weighted average	**64,540,032**	58,278,569
Earnings per share - Basic (in R$)	**(4.43179)**	(1.76784)

Diluted earnings per share	**2017**	2016
Loss attributable to shareholders (in thousands of R$)	**(286,028)**	(103,027)
Balance of shares at the end of the year	**64,688,212**	58,278,569
Bonus effect on share subscription*	**-**	34,062
Total shares according to CPC 41 – weighted average	**64,540,032**	58,312,631
Earnings per share considering the bonus and diluted effect in R$	**(4.43179)**	(1.76585)

*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

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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.

Sales tax

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

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

		Consolidated		**Parent company**
	2017	**2016**	**2017**	**2016**
Sales of goods	**914,829**	966,119	**616,690**	545,589
Rendering of services	**76**	40	**5**	9
Total gross revenue	**914,905**	966,159	**616,695**	545,598
Sales tax	**(108,325)**	(109,745)	**(42,826)**	(39,836)
Refunds and rebates	**(21,704)**	(26,141)	**(17,486)**	(13,506)
Total net operating revenue	**784,876**	830,273	**556,383**	492,256

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**
	2017	**2016**	**2017**	**2016**
Expenses according to the role				
Cost of products sold	**(668,147)**	(637,072)	**(496,590)**	(447,231)
Sales expenses	**(109,474)**	(130,732)	**(41,880)**	(47,300)
General and administrative expenses	**(148,804)**	(131,981)	**(84,283)**	(66,110)
Other operating expenses	**(41,372)**	(41,241)	**(32,637)**	(11,402)
	(967,797)	(941,026)	**(655,390)**	(572,043)

Expenses per type

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Depreciation and amortization	**(37,052)**	(34,241)	**(8,019)**	(6,891)
Personnel expenses	**(275,188)**	(289,828)	**(88,991)**	(92,281)
Judicial claims	**(45,183)**	(22,542)	**(36,637)**	(9,299)
Tax expenses	**(29,675)**	(8,314)	**(29,910)**	(6,114)
Raw materials and use and consumption materials	**(390,498)**	(341,005)	**(428,625)**	(371,610)
Freight and insurance	**(34,096)**	(28,711)	**(15,351)**	(20,311)
Outsourced services	**(41,154)**	(52,688)	**(16,698)**	(21,079)
Advertising and publicity	**(21,987)**	(21,833)	**(4,339)**	(1,367)
Expenses with product warranty	**(4,521)**	(9,167)	**(6,232)**	(6,781)
Water and electricity	**(17,046)**	(15,796)	**(3,093)**	(2,746)
Travel and accommodation	**(4,492)**	(7,393)	**(3,221)**	(3,563)
Commission expenses	**(19,538)**	(37,964)	**(2,627)**	(9,862)
Cost of write-off property, plant and equipment	**(2,685)**	(10,563)	**(215)**	(2,382)
Losses in the production process	**-**	(5,450)	**-**	(2,514)
Rentals	**(1,407)**	(8,516)	**(855)**	(2,245)
Other expenses	**(43,275)**	(47,015)	**(10,577)**	(12,998)
	(967,797)	(941,026)	**(655,390)**	(572,043)

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. The Company adopts the policy of presenting interest paid as financing activity in the cash flow statements.

		Consolidated		Parent company
	2017	**2016**	**2017**	**2016**
Financial expenses				
Interest	**(83,733)**	(79,614)	**(80,031)**	(74,539)
Exchange-rate changes	**(13,699)**	(3,532)	**(13,001)**	(2,858)
IOF	**(1,776)**	(2,541)	**(1,162)**	(1,592)
Swap on financial operations	-	(9,413)	-	(9,413)
Other expenses	**(21,618)**	(9,518)	**(16,982)**	(6,047)
	(120,826)	(104,618)	**(111,176)**	(94,449)
Financial income				
Interest	**4,754**	3,734	**1,844**	3,321
Exchange-rate changes	**707**	96,217	**372**	88,695
Swap on financial operations	-	836	-	836
Other income	**1,226**	1,122	**1,130**	943
	6,687	101,909	**3,346**	93,795
Net financial income (loss)	**(114,139)**	(2,709)	**(107,830)**	(654)

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 sufficiency of the insurance coverage is determined by the Company's Management.

In 2017, insurance coverage for the Company was as follows:

		2017
	Consolidated	**Parent company**
Material damages	**410,680**	**80,000**
Civil liability	**203,060**	**15,000**
Loss of profits	**161,993**	**161,993**

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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 December 31, 2017 and 2016, the balances are shown as follows:

	Consolidated		Parent company	
	2017	**2016**	**2017**	**2016**
Domestic market	**8,232**	6,590	**6,764**	5,122
Foreign market	**8,488**	9,936	**-**	-
Total	**16,720**	16,526	**6,764**	5,122
Current liabilities	**11,974**	11,091	**6,764**	5,122
Non-current liabilities	**4,746**	5,435	**-**	-

Capital budget proposal

Capital budget proposal - 2018

CAPEX			
Forjas Taurus			**Sources of resources**
Research and development of products	R$	9,288,467.89	Own
Modernization and expansion of capacity	R$	2,301,976.71	Own
Information technology	R$	123,996.71	Own
Occupational Safety and Environment	R$	1,056,153.63	Own
Other	R$	7,860.01	Own
SUBTOTAL	R$	12,778,454.95	
Polimetal			
Modernization and expansion of capacity	R$	3,652,026.41	Own
Information technology	R$	20,800.00	Own
Occupational Safety and Environment	R$	184,969.41	Own
Other	R$	6,000.00	Own
SUBTOTAL	R$	3,863,795.82	
Taurus Blindagens			
Research and development of products	R$	800,000.00	Own
Modernization and expansion of capacity	R$	510,000.00	Own
Information technology	R$	276,500.00	Own
Other	R$	24,000.00	Own
SUBTOTAL	R$	1,610,500.00	
Taurus USA			
Research and development of products	R$	5,350,275.00	Own
Modernization and expansion of capacity	R$	2,075,850.00	Own
Information technology	R$	472,500.00	Own
Other	R$	157,500.00	Own
SUBTOTAL	R$	8,056,125.00	
Consolidated Taurus			
Research and development of products	R$	15,438,742.89	Own
Modernization and expansion of capacity	R$	8,539,853.12	Own
Information technology	R$	893,796.71	Own
Occupational Safety and Environment	R$	1,241,123.04	Own
Other	R$	195,360.01	Own
TOTAL	R$	26,308,875.77	

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Opinions and Statements / Independent Auditor's Report - Unqualified

Independent auditors' report on the individual and consolidated financial statements

To the Shareholders of Forjas Taurus S.A.

São Leopoldo - RS

Opinion

We have examined the individual and consolidated financial statements of Forjas Taurus S.A. ("Company"), identified as Parent Company and Consolidated, respectively, comprising the balance sheet as of December 31, 2017 and the related statements of income, comprehensive income, changes in shareholders' equity and cash flows, for the year then ended, as well as the corresponding notes, comprising the significant accounting policies and other explanatory notes.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the individual and consolidated financial position of Forjas Taurus S.A. as of December 31, 2017, the individual and consolidated performance of its operations and its cash flows for the year then ended, in accordance with the accounting practices adopted in Brazil and in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board - IASB.

Basis for opinion

Our audit was conducted in accordance with Brazilian and international standards on auditing. Our responsibilities, in conformity with these standards, are described in the following section denominated "Auditor's responsibilities for the audit of the individual and consolidated financial statements". We are independent in relation to the Company and its subsidiaries, in accordance with the relevant ethical principles provided for in the Accountant's Code of Professional Ethics and in professional standards issued by the Federal Accounting Council, and we comply with other ethical responsibilities according to these standards. We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.

Material going concern uncertainty

We call the attention to note 1 to the financial statements, which indicates that the Company incurred consolidated loss of R$ 286,028 thousand in the year ended December 31, 2017 and, on this date, the consolidated current liabilities exceeded the consolidated current assets by R$ 514,232 thousand, and it has negative shareholders' equity of R$ 445,233 thousand. As mentioned in note 1, these events or conditions, together with other issues described in that note, indicate the existence of relevant uncertainty that may raise significant doubt as to the Company's ability to continue as a going concern. Our opinion is not qualified in this respect.

Main audit issues

The key audit matters are those who, in our professional judgment, were the most significant in our audit of current year. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and, therefore, we do not express a separate opinion on these matters. In addition to the issue described in the section "Relevant uncertainty related to the Company's going concern", certain issues described below are the main audit issues to be disclosed in our report.

Provisions and contingent liabilities – tax, labor and civil

See Note 23 of individual and consolidated financial statements

Main audit issues

The Company and its subsidiaries are party to tax, labor and civil lawsuits and administrative processes in course before courts and governmental agencies, derived from the normal course of its business.

The measurement, accounting recognition as a provision, and the respective disclosure of contingencies related to these lawsuits and administrative proceedings, require judgment by the Company and its legal advisors. Changes in the assumptions used by the Company to exercise such significant judgment, or changes in external conditions, including the positioning of authorities, can significantly impact the amount of provision recognized in the individual and consolidated financial statements and the investment value recorded under the equity method in parent company's financial statements; thus, we include such issue in our audit.

How our audit conducted this issue

Our audit procedures included, without limitation:

• Evaluation of the design of key internal controls and accounting policies applicable for the recognition, measurement and disclosure of expenses and provisions from administrative disputes, including the assumptions and judgments used by the Company and its subsidiaries to determine the amounts recorded.

• Obtaining of confirmation of amounts under dispute and status with the legal advisors of the Company and its subsidiaries concerning judicial or administrative disputes where they appear as claimants or defendants so as to determine the reasonableness of the value recorded and disclosures made in the notes.

• The involvement of our tax and legal experts to analyze recent decisions, case laws and change of thesis at the courts, so as to evaluate the fairness of the values and disclosures made in the financial statements.

During our audit, we identified adjustments that affected the measurement and disclosure of the provisions and contingent liabilities, which were recorded by management. As result of the evidences obtained through the procedures summarized above, we consider that the accounting treatment adopted for contingencies, as well as the related disclosures are acceptable in the context of the individual and consolidated financial statements for the year ended December 31, 2017 taken as a whole.

Recognition of deferred tax assets

See Note 13 of individual and consolidated financial statements

Main audit issues

The Group has deferred tax assets derived from deductible temporary differences and tax losses and social contribution tax loss carryforwards, which were accounted for considering a study prepared by the Company and its subsidiaries and approved by the Board of Directors, on the probable amount of taxable income that will available in the future for the realization of these assets.

Future taxable income had the assistance of outside experts contracted by the Company and its subsidiaries, and required the use of estimates and significant judgment. Changes in the assumptions used to exercise this significant judgment may materially affect the amount of these taxes recognized in the individual and consolidated financial statements and the value of investment recorded under the equity method in the financial statements of the parent company, and therefore, we considered this subject significant in our audit.

How our audit conducted this issue

Our audit procedures included, without limitation:

• Evaluation of the design of key internal controls related to the process for the determination and approval of assumptions adopted for purposes of preparation of projection of results.

• With the assistance of our corporate finance experts, we analyzed the supporting documentation and the main assumptions used by the Company in the projections of future taxable income, as follows: (a) the financial statements and management reports containing historical data; (b) annual budget prepared by the Board of Directors; (c) projections of macroeconomic indicators of the Central Bank of Brazil - BACEN; and (d) we held discussions with management regarding its vision of the business and outlooks for the Company's operations, as well as compared certain data with external sources and evaluated the consistency of these assumptions with the business plans approved by the Board of Directors.

• We evaluated the criteria to determine the tax base, accounting classification and analysis of realization of the values of deferred taxes with the assistance of our tax experts;

• We also evaluated if the Company's projections indicated, for the portion of unused tax losses and deductible temporary differences recognized as deferred tax assets, the existence of future taxable income, sufficient to permit their realization, as well as we evaluated the fairness of the disclosures included in the notes of the Company.

During our audit, we identified adjustments that affected the measurement and disclosure of deferred taxes, which were recorded by management. Based on the evidences obtained through the procedures summarized above, we consider that the recognition of deferred tax assets, as well as the related disclosures are acceptable in the context of the individual and consolidated financial statements for the year ended December 31, 2017 taken as a whole.

Recognition of deferred tax assets

See Note 13 of individual and consolidated financial statements

Main audit issues

The Group has deferred tax assets derived from deductible temporary differences and tax losses and social contribution tax loss carryforwards, which were accounted for considering a study prepared by the Company and its subsidiaries and approved by the Board of Directors, on the probable amount of taxable income that will available in the future for the realization of these assets.

Future taxable income had the assistance of outside experts contracted by the Company and its subsidiaries, and required the use of estimates and significant judgment. Changes in the assumptions used to exercise this significant judgment may materially affect the amount of these taxes recognized in the individual and consolidated financial statements and the value of investment recorded under the equity method in the financial statements of the parent company, and therefore, we considered this subject significant in our audit.

How our audit conducted this issue

Our audit procedures included, without limitation:

• Evaluation of the design of key internal controls related to the process for the determination and approval of assumptions adopted for purposes of preparation of projection of results.

• With the assistance of our corporate finance experts, we analyzed the supporting documentation and the main assumptions used by the Company in the projections of future taxable income, as follows: (a) the financial statements and management reports containing historical data; (b) annual budget prepared by the Board of Directors; (c) projections of macroeconomic indicators of the Central Bank

of Brazil - BACEN; and (d) we held discussions with management regarding its vision of the business and outlooks for the Company's operations, as well as compared certain data with external sources and evaluated the consistency of these assumptions with the business plans approved by the Board of Directors.

• We evaluated the criteria to determine the tax base, accounting classification and analysis of realization of the values of deferred taxes with the assistance of our tax experts;

• We also evaluated if the Company's projections indicated, for the portion of unused tax losses and deductible temporary differences recognized as deferred tax assets, the existence of future taxable income, sufficient to permit their realization, as well as we evaluated the fairness of the disclosures included in the notes of the Company.

During our audit, we identified adjustments that affected the measurement and disclosure of deferred taxes, which were recorded by management. Based on the evidences obtained through the procedures summarized above, we consider that the recognition of deferred tax assets, as well as the related disclosures are acceptable in the context of the individual and consolidated financial statements for the year ended December 31, 2017 taken as a whole.

Impairment of goodwill and fixed assets

See Notes 16 and 17 to the individual and consolidated financial statements

Main audit issues

The Company has presented recurring losses and cash generation difficulty. With the identification of these indicators ("triggers") the Company evaluated the existence of impairment concerning its cash generating units ("UGCs") and, to calculate the recoverable value, it used discounted cash flow models prepared by expert contracted by the Company and approved by the Board of Directors, which exercised significant judgments and use of market and business assumptions, including (i) growth of income (including market share and growth of volume), (ii) operating margins and (iii) discount rates applied to projected future cash flows. Due to the relevance and high degree of judgment involved in the process of determination of discounted cash flow estimates of the cash generation units for purposes of evaluation of the recoverable value of such assets, which may materially affect the amount of these assets recognized in the individual and consolidated financial statements and the amount of investment recorded under the equity method in the financial statements of the parent company, we consider this issue significant for our audit.

How our audit conducted this issue

- Our audit procedures included, without limitation:

• Evaluation of the design of the relevant internal controls related to the preparation and review of the business plan, budget, technical studies and analyses of the recoverable value of cash generating units.

• Analysis of the model used by the Company and its subsidiaries to determine the cash generating units.

• Analysis of reasonableness of the assumptions used to determine discount rates and recalculation of these fees.

• Analysis, with the assistance of our corporate finance experts, of projected future cash flows used in the models so as to determine if they are reasonable in relation to the current economic scenario, to the markets where the Company and its subsidiaries operate, to the future projections of the performance of such markets and to the projections of operating performance of the Company and its subsidiaries.

• Assisted by our corporate finance experts, we assessed the sensitivity analysis of the main assumptions adopted in the calculations.

• Comparison of projected cash flows, including assumptions related to revenue growth rates and operating margins with the historical performance to evaluate the reasonableness of the Company's projections.

• Evaluation of the fairness of disclosures included in the financial statements.

Based on the evidences obtained through the procedures summarized above, we consider that, with respect to its recoverability, the value of goodwill and of fixed assets, as well as the related disclosures are acceptable in the context of the individual and consolidated financial statements for the year ended December 31, 2017 taken as a whole.

Valuation and existence of inventories

See Note 10 of individual and consolidated financial statements

Main audit issues

In 2017, Forjas Taurus continued to restructure its operations, working on the improvement of its processes and internal controls related to the valuation of inventories and the physical existence of inventories of raw material and scraps, resulting in adjustments of physical inventory determined in counts made during the year. Additionally, the Company has slow-movement inventory items whose realization depends on the future use, based on expectations of future sales that affect the production plans. In view of the risk of material errors associated to changes in internal processes that affect the controls of inventories of raw material and scrap and due to the level of judgment and uncertainty related to the determination of impairment of net realizable value for slow-movement inventory items that may impact the value of these assets in the individual and consolidated financial statements and the value of investment recorded under the equity method in the financial statements of the parent company, we considered these subjects significant to our audit.

How our audit conducted this issue

- Our audit procedures included, without limitation:

• Evaluation of the design of key internal controls related to the valuation and existence of inventories and accounting policies applicable to the recognition and measurement of losses on differences of inventory and slow-moving inventories.

• We monitored the general physical inventories taken by the Company and its subsidiaries at the closing of the year, focusing on the controls adopted in the process so as to conclude on the existence, integrity and accuracy of the counts made.

• Physical counts on sample basis and tracing to the records at the end of the inventory taking procedures in order to evaluate if the launchings of adjustments identified in subsidiary ledgers and accounting records of inventories of the Company and its subsidiaries had been made.

• Procedures, on sample basis, on subsidiary ledgers of inventory movements so as to evaluate the existence of items without movement.

• Evaluation of the plans and projections of the Company and its subsidiaries for the items with evidence of slow movement for us to conclude on the reasonableness of the plans and net impairment loss recognized.

• Evaluation of the fairness of disclosures included in the financial statements.

The weaknesses of which we became aware in the design of internal controls related to the existence of inventories changed our evaluation regarding the nature of our work and extended the scope of our substantive procedures initially planned for us to obtain evidence of sufficient and appropriate audit.

During our audit, we identified adjustments that affected the existence of inventories, which were recorded by management. As result of the evidences obtained through the procedures summarized above, we consider that the balance of inventories concerning their valuation and existence, as well as the related disclosures are acceptable in the context of the individual and consolidated financial statements for the year ended December 31, 2017 taken as a whole.

Other issues

Statements of added value

The individual and consolidated statements of added value (DVA) for the year ended December 31, 2017, prepared under the responsibility of the Company’s management, and presented herein as supplementary information for IFRS purposes, have been subject to audit procedures jointly performed with the audit of the Company's financial statements. In order to form our opinion, we evaluated whether those statements are reconciled with the financial statements and accounting records, as applicable, and whether their format and contents are in accordance with criteria determined in the Technical Pronouncement CPC 09 - Statement of Added Value. In our opinion, these statements of added value were prepared, in all material respects, in accordance with the criteria defined in this Technical Pronouncement and are consistent in relation to the individual and consolidated financial statements taken as a whole.

Other information accompanying individual and consolidated financial statements and the auditors’ report

The Company's management is responsible for such other information that comprise the Management Report.

Our opinion on the individual and consolidated financial statements does not include the Management Report and we do not express any form of audit conclusion on such report.

Regarding the audit of individual and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is, in a material way, inconsistent with the financial statements or with our knowledge gained in the audit or otherwise appears to be materially misstated. If, based on the works performed, we conclude that there is a material misstatement in the Management Report, we are required to disclose this fact. We have nothing to report in this regard.

Responsibilities of management and governance for the individual and consolidated financial statements

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

In the preparation of individual and consolidated financial statements, management is responsible for assessing the ability of the Company to continue as a going concern, disclosing, where applicable, the matters relating to its going concern and the use of this basis of accounting in preparing the financial statements, unless management intends to wind-up the Company and its subsidiaries or cease its operations, or has no realistic alternative to avoid the closure of operations.

Those charged with governance of the Company and its subsidiaries are the people responsible for overseeing the process of preparation of the financial statements.

Auditors’ responsibilities for the audit of the individual and consolidated financial statements

Our goals are to obtain reasonable assurance that the individual and consolidated financial statements, taken as a whole, are free from material misstatement, whether due to fraud or error, and issue the audit report with our opinion. Reasonable assurance means a high level of security, but not a guarantee that an audit conducted in accordance with Brazilian and international auditing standards always detects any existing material misstatements. Misstatements may be due to fraud or error and are considered material when, individually or taken as a whole, can influence, within a reasonable perspective, the economic decisions of users taken based on these financial statements.

As part of the audit conducted in accordance with Brazilian and international auditing standards, we exercise professional judgment and maintain our professional skepticism throughout the audit. In addition:

- We identified and assessed the risks of material misstatement of individual and consolidated financial statements, whether due to fraud or error, planned and performed audit procedures in response to such risks and obtain sufficient and appropriate audit evidence for expressing our opinion. The risk of not detecting material misstatement resulting from fraud is higher than that arising from error, once the fraud may involve the act of dodging the internal controls, collusion, falsification, omission or false intentional representations.

- We obtained an understanding of the internal controls relevant to the audit to plan the audit procedures appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal controls of the Company and its subsidiaries.

- We evaluated the adequacy of the adopted accounting policies and the reasonableness of the accounting estimates and the respective disclosures made by management.

- We concluded on the appropriateness of the use of the going concern accounting basis by management, and based on the audit evidence obtained, whether there is significant uncertainty in relation to events or conditions that may cast significant doubt on the ability of the Company and its subsidiaries to continue as a going concern. If we conclude that there is a material uncertainty, we must highlight the related disclosures in the individual and consolidated financial statements in our report, or include a modification in our opinion if disclosures are inadequate. Our conclusions are based on audit evidence obtained up to the date of our report. However, future events or conditions may lead the Company and its subsidiaries to no longer remain as a going concern.

- We evaluated the overall presentation, structure and content of financial statements, including disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner compatible with the purpose of fair presentation.

- We obtained appropriate and sufficient audit evidence regarding the financial information of the entities or business activities of the group to express an opinion on the individual and consolidated financial statements. We are responsible for the management, oversight and performance of audit of the group, and, consequently, the audit opinion.

We report to those responsible for governance regarding, among other aspects, the planned scope, the audit timing, and the significant audit findings, including the possible any significant deficiencies in internal controls that we identify during our works.

We also provide to those responsible for governance an statement that we fulfilled the material ethical requirements, including the applicable independence requirements, and report all the possible relationships or issues that could considerably affect our independence, including, when applicable, the respective disclaimers.

Out of matters that were communicated to people responsible for governance, we determined those that were considered as the most significant in the audit of financial statements for current year and that, accordingly, comprise the main audit matters. We describe these issues in our audit report, unless a law or regulation has prohibited the public disclosure of the issue, or when, under extremely rare circumstances, we determine that the issue shall not be reported in our report, because the adverse consequences from such report may, from a reasonable perspective, exceed the benefits from the report for public interest.

Porto Alegre, April 3, 2018

KPMG Auditores Independentes

CRC SP014428/F-7

Cristiano Jardim Seguecio

Accountant CRC SP244525/O-9 T-RS

Opinions and Statements / Tax Council opinion or equivalent body

Fiscal council opinion

The Tax Council of Forjas Taurus S.A., in compliance with legal and statutory provisions, examined the Management Report and the Financial Statements for the fiscal year ended December 31, 2017, approved by the Board of Directors in the meeting held on April 03, 2018.

Based on the examinations performed and also considering the Independent auditors’ report of KPMG Auditores Independentes, issued with no qualifications on April 03, 2018; however, emphasizing on Company’s going concern, and information and clarification received from the Company's management during the year, we concluded that such documents may be examined by the Annual Shareholders’ Meeting.

São Leopoldo, April 03, 2018.

Haroldo Zago

President

Amoreti Franco Gibbon

Board Member

Mauro César Medeiros de Mello

Board Member

Opinions and Statements / Summarized Report from Audit Committee (statutory, provided for in specific CVM regulation)

OPINION OF THE AUDIT AND RISK COMMITTEE

OF FORJAS TAURUS S.A.

The members of the Audit and Risk Committee of Forjas Taurus S.A., in the exercise of its legal duties and responsibilities, as provided for in the Internal Rules of the Advisory Committees to the Board of Directors, carried out the examination and analysis of the financial statements, together with the independent auditors' report and the Management Report for the year 2017 ("2017 Annual Financial Statements") and, considering information provided by Company's management and by KPMG Auditores Independentes, unanimously declare that they reflect fairly, in all material respects, the financial position of the Company and its subsidiaries, and recommend the approval of the documents by the Board of Directors and its submission to the Annual Shareholders' Meeting, pursuant to the Corporation Law.

São Leopoldo, April 03, 2018.

Sérgio Laurimar Fioravanti

Bernardo Birmann

Magno Neves Fonseca

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

STATEMENT OF THE EXECUTIVE BOARD OF FORJAS TAURUS S.A. ON THE FINANCIAL STATEMENTS FOR YEAR ENDED DECEMBER 31, 2017

Mr. Salesio Nuhs, Mr. Sergio Castilho Sgrillo Filho, Mr. Eduardo Minghelli and Mr. Ricardo Machado, Executive Officers of Forjas Taurus S.A., company with head office at Av. São Borja, 2181/Prédio A, CEP: 93.032-000, São Leopoldo, RS, enrolled in the EIN 92.781.335/0001-02, in compliance with provisions of items V and VI of article 25 of CVM Instruction 480, of December 07, 2009, state that they have reviewed, discussed and agreed with Financial Statements of Forjas Taurus S.A. and consolidated companies for the period from January 01, 2017 to December 31, 2017.

São Leopoldo, April 03, 2018.

Salesio Nuhs

CEO

Sergio Castilho Sgrillo Filho

CFO & IRO

Eduardo Minghelli

Executive Officer without specific designation

Ricardo Machado

Executive Officer without specific designation

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

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

Mr. Salesio Nuhs, Mr. Sergio Castilho Sgrillo Filho, Mr. Eduardo Minghelli and Mr. Ricardo Machado, Executive Officers of Forjas Taurus S.A., company with head office at Av. São Borja, 2181/Prédio A, CEP: 93.032-000, São Leopoldo, RS, enrolled in the CNPJ [EIN] 92.781.335/0001-02, as provided in sections V and VI, article 25, CVM Instruction 480, dated December 07, 2009, hereby represent that they reviewed, discussed and agreed with the opinions expressed KPMG Auditores Independentes, contained in the Independent Auditors' Review Report with regard to the Financial Statements for the period from January 01, 2017 to December 31, 2017, issued on April 03, 2018.

São Leopoldo, April 03, 2018.

Salesio Nuhs

CEO

Sergio Castilho Sgrillo Filho

CFO & IRO

Eduardo Minghelli

Executive Officer without specific designation

Ricardo Machado

Executive Officer without specific designation