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Company information / Breakdown of capital

Quantity of shares (Units)	Last fiscal year 12/31/2018
Paid-in capital	
Common	46,445,314
Preferred	28,417,312
Total	74,862,626
Treasury	
Common	0
Preferred	0
Total	0

Individual financial statements / Balance sheet – Assets

(In thousands of reais)

Code of account	Account description	Last year 12/31/2018	Penultimate year 12/31/2017	Antepenultimate year 12/31/2016
1	Total assets	826,985	702,900	809,940
1.01	Current assets	274,335	219,153	212,008
1.01.01	Cash and cash equivalents	5,157	2,543	1,313
1.01.01.01	Cash and banks	2,056	2,199	611
1.01.01.02	Interbank funds applied	3,101	344	702
1.01.02	Interest earning bank deposits	1,801	1,777	2,552
1.01.03	Accounts receivable	114,744	69,008	45,701
1.01.03.01	Trade accounts receivable	114,744	69,008	45,701
1.01.04	Inventories	103,818	95,155	125,925
1.01.06	Recoverable taxes	14,991	25,693	7,269
1.01.06.01	Current taxes recoverable	14,991	25,693	7,269
1.01.07	Prepaid expenses	2,366	2,224	1,951
1.01.08	Other current assets	31,458	22,753	27,297
1.01.08.03	Other	31,458	22,753	27,297
1.01.08.03.03	Related parties - Financial loan	24,978	19,367	8,150
1.01.08.03.04	Other accounts receivable	6,480	3,386	19,147
1.02	Non-current assets	552,650	483,747	597,932
1.02.01	Long term assets	69,017	24,411	31,860
1.02.01.01	Interest earning bank deposits measured at fair value through profit or loss	0	0	430
1.02.01.01.01	Fair value securities	0	0	430
1.02.01.03	Interest earning bank deposits measured at amortized cost	746	753	0
1.02.01.07	Deferred taxes	44,653	0	8,404
1.02.01.07.01	Deferred income tax and social contribution	44,653	0	8,404
1.02.01.09	Related party credits	18,164	14,044	16,941
1.02.01.09.04	Other related party credits	18,164	14,044	16,941
1.02.01.10	Other non-current assets	5,454	9,614	6,085
1.02.01.10.03	Recoverable tax	121	195	195
1.02.01.10.04	Other	5,333	9,419	5,890
1.02.02	Investments	444,978	417,623	521,752

Individual financial statements / Balance sheet – Assets

(In thousands of reais)

Code of account	Account description	Last year 12/31/2018	Penultimate year 12/31/2017	Antepenultimate year 12/31/2016
1.02.02.01	Equity interest	444,978	417,623	521,752
1.02.02.01.02	Interest in subsidiaries	444,788	417,433	521,562
1.02.02.01.04	Other investments	190	190	190
1.02.03	Property, plant and equipment	32,599	36,172	38,398
1.02.03.01	Fixed assets in operation	30,201	33,103	29,670
1.02.03.03	Constructions in progress	2,398	3,069	8,728
1.02.04	Intangible assets	6,056	5,541	5,922
1.02.04.01	Intangible assets	6,056	5,541	5,922

Individual financial statements/ Balance sheet – Liabilities

(In thousands of reais)

Code of account	Account description	Last year 12/31/2018	Penultimate year 12/31/2017	Antepenultimate year 12/31/2016
2	Total liabilities	826,985	702,900	809,940
2.01	Current liabilities	546,826	968,986	354,038
2.01.01	Social and labor obligations	14,116	17,418	14,849
2.01.01.01	Social charges	4,905	8,443	4,451
2.01.01.02	Labor obligations	9,211	8,975	10,398
2.01.02	Suppliers	155,932	134,832	125,076
2.01.02.01	Domestic suppliers	129,968	123,097	117,529
2.01.02.02	Foreign suppliers	25,964	11,735	7,547
2.01.03	Tax liabilities	14,903	17,944	16,241
2.01.03.01	Federal tax liabilities	11,157	8,669	13,669
2.01.03.01.01	Income tax and social contribution payable	0	0	1,943
2.01.03.01.02	Other Taxes	11,157	8,669	11,726
2.01.03.02	State tax liabilities	3,744	9,255	2,531
2.01.03.03	Municipal tax liabilities	2	20	41
2.01.04	Loans and financing	113,126	529,187	20,799
2.01.04.01	Loans and financing	103,676	453,416	20,366
2.01.04.01.01	In domestic currency	8,260	3,264	3,638
2.01.04.01.02	In foreign currency	95,416	450,152	16,728
2.01.04.02	Debentures	9,450	75,771	433
2.01.05	Other liabilities	183,594	223,652	155,035
2.01.05.02	Other	183,594	223,652	155,035
2.01.05.02.01	Dividends and interest on own capital	3	3	3
2.01.05.02.04	Financial loan	59,057	38,097	28,835
2.01.05.02.05	Foreign exchange withdrawals	43,795	24,193	28,065
2.01.05.02.07	Advance from receivables	48,455	1,535	6,136
2.01.05.02.08	Advances from clients	27,848	79,467	65,769
2.01.05.02.09	Other liabilities	4,436	80,357	26,227
2.01.06	Provisions	65,155	45,953	22,038
2.01.06.01	Tax, social security, labor and civil provisions	52,501	39,189	16,916

Individual financial statements/ Balance sheet – Liabilities

(In thousands of reais)

Code of account	Account description	Last year 12/31/2018	Penultimate year 12/31/2017	Antepenultimate year 12/31/2016
2.01.06.01.01	Tax provisions	27,689	27,689	0
2.01.06.01.02	Social security and labor provisions	3,162	11,500	15,776
2.01.06.01.03	Provisions to employee benefits	0	0	1,140
2.01.06.01.04	Civil provisions	21,650	0	0
2.01.06.02	Other provisions	12,654	6,764	5,122
2.01.06.02.01	Provision for guarantees	12,654	6,764	5,122
2.02	Non-current liabilities	687,122	179,147	627,803
2.02.01	Loans and financing	576,766	47,103	546,076
2.02.01.01	Loans and financing	501,128	47,103	478,065
2.02.01.01.01	In domestic currency	18,131	4,147	6,428
2.02.01.01.02	In foreign currency	482,997	42,956	471,637
2.02.01.02	Debentures	75,638	0	68,011
2.02.02	Other liabilities	66,257	92,992	79,887
2.02.02.01	Liabilities from Related parties	49,310	55,284	39,158
2.02.02.01.02	Debits with subsidiaries	6,241	5,329	5,250
2.02.02.01.04	Debts with other related parties	43,069	49,955	33,908
2.02.02.02	Other	16,947	37,708	40,729
2.02.02.02.03	Taxes payable	549	2,986	944
2.02.02.02.04	Provision for unsecured liability	16,165	34,722	36,709
2.02.02.02.05	Other liabilities	0	0	3,076
2.02.02.02.06	Suppliers	233	0	0
2.02.03	Deferred taxes	0	6,079	0
2.02.03.01	Deferred income tax and social contribution	0	6,079	0
2.02.04	Provisions	44,099	32,973	1,840
2.02.04.01	Tax, social security, labor and civil provisions	44,099	32,973	1,840
2.02.04.01.02	Social security and labor provisions	32,583	31,810	1,840
2.02.04.01.04	Civil provisions	11,516	1,163	0
2.03	Shareholders' equity	-406,963	-445,233	-171,901
2.03.01	Realized capital	465,218	404,489	393,977

Individual financial statements/ Balance sheet – Liabilities

(In thousands of reais)

Code of account	Account description	Last year 12/31/2018	Penultimate year 12/31/2017	Antepenultimate year 12/31/2016
2.03.02	Capital reserves	-31,170	-40,996	-40,832
2.03.02.06	Advance for future capital increase	0	0	164
2.03.02.09	Capital transactions	-31,170	-40,996	-40,996
2.03.05	Retained Earnings/Losses	-1,012,915	-952,635	-668,102
2.03.06	Equity valuation adjustments	47,023	48,240	49,736
2.03.07	Accumulated translation adjustments	124,881	95,669	93,320

Individual financial statements / Statement of income

(In thousands of reais)

Code of account	Account description	Last year 01/01/2018–12/31/2018	Penultimate year 01/01/2017–12/31/2017	Antepenultimate year 01/01/2016–12/31/2016
3.01	Revenue from sales of goods and/or services	626,631	556,383	492,256
3.02	Cost of goods and/or services sold	-427,021	-496,590	-447,231
3.03	Gross income	199,610	59,793	45,025
3.04	Operating expenses/revenue	-131,217	-256,390	-146,653
3.04.01	Sales expenses	-42,719	-40,500	-47,300
3.04.02	General and administrative expenses	-84,820	-84,283	-66,110
3.04.03	Loss due to the non-recoverability of assets	420	-1,380	0
3.04.04	Other operating revenue	8,722	6,900	10,434
3.04.05	Other operating expenses	-29,520	-32,637	-11,402
3.04.06	Equity in net income of subsidiaries	16,700	-104,490	-32,275
3.05	Income (loss) before financial income and taxes	68,393	-196,597	-101,628
3.06	Financial income (loss)	-175,842	-107,830	-654
3.06.01	Financial revenues	25,278	3,346	93,795
3.06.02	Financial expenses	-201,120	-111,176	-94,449
3.07	Income (loss) before income tax	-107,449	-304,427	-102,282
3.08	Income tax and social contribution	47,587	18,399	-745
3.08.02	Deferred	47,587	18,399	-745
3.09	Net income (loss) from continued operations	-59,862	-286,028	-103,027
3.11	Income/loss for the period	-59,862	-286,028	-103,027
3.99	Earnings per share - (Reais / Share)			
3.99.01	Basic earnings per share			
3.99.01.01	Common shares	-0.92540	-4.43179	-1.90822
3.99.01.02	Preferred shares	-0.92540	-4.43179	-1.90822
3.99.02	Diluted earnings per share			
3.99.02.01	Common shares	-0.92540	-4.43179	-1.90702
3.99.02.02	Preferred shares	-0.92540	-4.43179	-1.90702

Individual financial statements / Statement of comprehensive income

(In thousands of reais)

Code of account	Account description	Last year 01/01/2018–12/31/2018	Penultimate year 01/01/2017–12/31/2017	Antepenultimate year 01/01/2016–12/31/2016
4.01	Net income for the period	-59,862	-286,028	-103,027
4.02	Other comprehensive income	29,212	2,349	-45,540
4.02.01	Translation adjustments in the period	29,212	2,349	-45,540
4.03	Comprehensive income for the period	-30,650	-283,679	-148,567

Individual financial statements / Statement of cash flows - Indirect method

(In thousands of reais)

Code of account	Account description	Last year 01/01/2018–12/31/2018	Penultimate year 01/01/2017–12/31/2017	Antepenultimate year 01/01/2016–12/31/2016
6.01	Net cash from operating activities	-9,294	49,710	10,416
6.01.01	Cash generated in operations	50,130	-14,995	-43,053
6.01.01.01	Net income before income tax and social contribution	-107,449	-304,427	-102,282
6.01.01.02	Depreciation and amortization	8,049	8,019	6,891
6.01.01.03	Cost of permanent assets written-off	-483	215	2,361
6.01.01.04	Allowance for Doubtful Accounts	1,214	1,380	1,441
6.01.01.05	Equity in net income of subsidiaries	-16,700	104,490	32,275
6.01.01.07	Provision for Derivative financial instruments	0	0	177
6.01.01.08	Provision for interest on loans	53,930	70,075	63,292
6.01.01.10	Provision for inventory loss	-25,056	45,481	2,288
6.01.01.11	Provision for contingencies	24,438	58,059	6,804
6.01.01.12	Provision for guarantees	5,890	1,642	-1,941
6.01.01.13	Exchange rate change on loans and financing and other	106,297	71	-56,574
6.01.01.14	Write-off of goodwill on investment	0	0	2,215
6.01.02	Changes in assets and liabilities	-59,424	64,705	53,469
6.01.02.01	(Increase) decrease in trade accounts receivable	-36,271	-26,084	25,993
6.01.02.02	(Increase) decrease in inventories	16,393	-14,711	-21,868
6.01.02.03	(Increase) decrease in other accounts receivable	14,268	-18,073	440
6.01.02.04	Increase (decrease) in suppliers	21,333	10,136	4,992
6.01.02.05	Increase (Decrease) in accounts payable and provisions	-75,147	113,437	43,912
6.02	Net cash used in investment activities	-14,256	-2,278	-29,854
6.02.01	Receivables with related companies	-9,731	2,897	-28,530
6.02.04	In property, plant and equipment	-3,333	-5,432	-12,773
6.02.05	In intangible assets	-1,175	-195	-1,650
6.02.06	Interest earning bank deposits	-17	452	13,099
6.03	Net cash from financing activities	26,164	-46,202	4,929
6.03.02	Borrowings	170,682	9,744	658,452
6.03.03	Payment of loans	-57,903	-31,919	-602,852
6.03.04	Capital increase	729	10,348	17,541

Individual financial statements / Statement of cash flows - Indirect method

(In thousands of reais)

Code of account	Account description	Last year 01/01/2018–12/31/2018	Penultimate year 01/01/2017–12/31/2017	Antepenultimate year 01/01/2016–12/31/2016
6.03.06	Advance for future capital increase	0	0	164
6.03.07	Payment of interest on loans	-105,196	-47,555	-61,088
6.03.10	Debts with related companies	17,852	13,180	-7,288
6.05	Increase (decrease) in cash and cash equivalents	2,614	1,230	-14,509
6.05.01	Opening balance of cash and cash equivalents	2,543	1,313	15,822
6.05.02	Closing balance of cash and cash equivalents	5,157	2,543	1,313

Individual financial statements / Statement of changes in shareholders’ equity / DMPL – 01/01/2018–12/31/2018
(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
5.01	Opening balances	404,489	-40,996	0	-952,635	143,909	-445,233
5.02	Prior-year adjustments	0	0	0	-1,635	0	-1,635
5.02.01	First-time adoption IFRS 9	0	0	0	-1,635	0	-1,635
5.03	Adjusted opening balances	404,489	-40,996	0	-954,270	143,909	-446,868
5.04	Capital transactions with partners	60,729	9,826	0	0	0	70,555
5.04.01	Capital increases	60,729	0	0	0	0	60,729
5.04.02	Expenses with issuance of shares	0	9,826	0	0	0	9,826
5.05	Total comprehensive income	0	0	0	-58,645	27,995	-30,650
5.05.01	Net income for the period	0	0	0	-59,862	0	-59,862
5.05.02	Other comprehensive income	0	0	0	1,217	27,995	29,212
5.05.02.04	Translation adjustments in the period	0	0	0	0	29,212	29,212
5.05.02.06	Realization of equity valuation adjustments	0	0	0	1,217	-1,217	0
5.07	Closing balances	465,218	-31,170	0	-1,012,915	171,904	-406,963

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 (loss)	Other comprehensive income	Shareholders' equity
5.01	Opening balances	394,141	-40,996	0	-668,102	143,056	-171,901
5.03	Adjusted opening balances	394,141	-40,996	0	-668,102	143,056	-171,901
5.04	Capital transactions with partners	10,348	0	0	0	0	10,348
5.04.01	Capital increases	10,348	0	0	0	0	10,348
5.05	Total comprehensive income	0	0	0	-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 evaluation adjustment	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	Description of paid-up capital account	Capital reserves, Options granted and Treasury shares	Profit reserves	Retained earnings (loss)	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 added value

(In thousands of reais)

Code of account	Account description	Last year 01/01/2018–12/31/2018	Penultimate year 01/01/2017–12/31/2017	Antepenultimate year 01/01/2016–12/31/2016
7.01	Revenues	632,344	661,680	581,403
7.01.01	Sale of goods, products and services	623,202	656,160	572,410
7.01.02	Other revenues	8,722	6,900	10,434
7.01.04	Formation/reversal of allowance for doubtful accounts	420	-1,380	-1,441
7.02	Inputs acquired from third parties	-492,165	-573,257	-469,947
7.02.01	Cost of products, merchandise and services sold	-438,725	-471,855	-374,005
7.02.02	Materials, Energy, Third-party services and other	-53,440	-101,402	-95,942
7.03	Gross added value	140,179	88,423	111,456
7.04	Retentions	-7,487	-8,019	-6,891
7.04.01	Depreciation, amortization and depletion	-7,487	-8,019	-6,891
7.05	Net added value produced	132,692	80,404	104,565
7.06	Added value received as transfer	41,978	-101,144	61,520
7.06.01	Equity in net income of subsidiaries	16,700	-104,490	-32,275
7.06.02	Financial revenues	25,278	3,346	93,795
7.07	Total added value payable	174,670	-20,740	166,085
7.08	Distribution of added value	174,670	-20,740	166,085
7.08.01	Personnel	65,774	69,365	67,638
7.08.01.01	Direct remuneration	53,429	57,552	57,311
7.08.01.02	Benefits	10,814	6,530	6,477
7.08.01.03	Severance Pay Fund (FGTS)	1,531	5,283	3,850
7.08.02	Taxes, duties and contributions	-32,681	94,537	104,780
7.08.02.01	Federal	-32,733	64,975	71,545
7.08.02.02	State	0	29,484	33,027
7.08.02.03	Municipal	52	78	208
7.08.03	Third-party capital remuneration	201,439	101,386	96,694
7.08.03.01	Interest	201,270	101,062	94,449
7.08.03.02	Rentals	169	324	2,245
7.08.04	Remuneration of own capital	-59,862	-286,028	-103,027
7.08.04.03	Retained earnings / Loss for the period	-59,862	-286,028	-103,027

Consolidated financial statements or Balance sheet – Assets

(In thousands of reais)

Code of account	Account description	Last year 12/31/2018	Penultimate year 12/31/2017	Antepenultimate year 12/31/2016
1	Total assets	921,156	768,958	893,057
1.01	Current assets	616,217	451,459	472,452
1.01.01	Cash and cash equivalents	26,766	6,679	26,708
1.01.01.01	Cash and banks	23,562	6,294	25,890
1.01.01.02	Marketable securities	3,204	385	818
1.01.02	Interest earning bank deposits	1,801	1,777	2,552
1.01.03	Accounts receivable	140,420	122,611	150,197
1.01.03.01	Trade accounts receivable	140,420	122,611	150,197
1.01.04	Inventories	277,037	211,885	244,197
1.01.06	Recoverable taxes	29,461	44,458	20,497
1.01.06.01	Current taxes recoverable	29,461	44,458	20,497
1.01.07	Prepaid expenses	6,309	6,674	5,957
1.01.08	Other current assets	134,423	57,375	22,344
1.01.08.01	Non-current assets held for sale	122,551	51,390	0
1.01.08.03	Other	11,872	5,985	22,344
1.01.08.03.02	Other accounts receivable	11,872	5,985	22,344
1.02	Non-current assets	304,939	317,499	420,605
1.02.01	Long term assets	84,539	21,455	57,284
1.02.01.01	Interest earning bank deposits measured at fair value through profit or loss	0	0	634
1.02.01.01.01	Fair value securities	0	0	634
1.02.01.03	Interest earning bank deposits measured at amortized cost	1,053	1,008	0
1.02.01.07	Deferred taxes	73,419	3,465	44,536
1.02.01.07.01	Deferred income tax and social contribution	73,419	3,465	44,536
1.02.01.10	Other non-current assets	10,067	16,982	12,114
1.02.01.10.03	Recoverable taxes	246	493	707
1.02.01.10.04	Other	9,821	16,489	11,407
1.02.02	Investments	192	349	50,457
1.02.02.01	Equity interest	192	349	349
1.02.02.01.04	Joint ownership	0	0	349

Consolidated financial statements or Balance sheet – Assets

(In thousands of reais)

Code of account	Account description	Last year 12/31/2018	Penultimate year 12/31/2017	Antepenultimate year 12/31/2016
1.02.02.01.05	Other investments	192	349	0
1.02.02.02	Investment property	0	0	50,108
1.02.03	Property, plant and equipment	144,429	222,686	238,650
1.02.03.01	Fixed assets in operation	140,137	218,440	220,428
1.02.03.03	Constructions in progress	4,292	4,246	18,222
1.02.04	Intangible assets	75,779	73,009	74,214
1.02.04.01	Intangible assets	75,779	73,009	74,214

Consolidated financial statements / Balance sheet - Liabilities

(In thousands of reais)

Code of account	Account description	Last year 12/31/2018	Penultimate year 12/31/2017	Antepenultimate year 12/31/2016
2	Total liabilities	921,156	768,958	893,057
2.01	Current liabilities	535,626	965,691	385,897
2.01.01	Social and labor obligations	31,946	41,926	34,645
2.01.01.01	Social charges	14,695	20,458	10,806
2.01.01.02	Labor obligations	17,251	21,468	23,839
2.01.02	Suppliers	94,707	99,954	128,712
2.01.02.01	Domestic suppliers	55,921	60,366	111,341
2.01.02.02	Foreign suppliers	38,786	39,588	17,371
2.01.03	Tax liabilities	41,902	40,031	39,170
2.01.03.01	Federal tax liabilities	37,729	26,211	35,097
2.01.03.01.01	Income tax and social contribution payable	8,135	3,836	20,343
2.01.03.01.02	Other Taxes	29,594	22,375	14,754
2.01.03.02	State tax liabilities	4,165	13,798	4,029
2.01.03.03	Municipal tax liabilities	8	22	44
2.01.04	Loans and financing	113,126	534,713	26,989
2.01.04.01	Loans and financing	103,676	458,942	26,556
2.01.04.01.01	In domestic currency	8,260	7,644	8,746
2.01.04.01.02	In foreign currency	95,416	451,298	17,810
2.01.04.02	Debentures	9,450	75,771	433
2.01.05	Other liabilities	175,769	181,795	105,199
2.01.05.02	Other	175,769	181,795	105,199
2.01.05.02.01	Dividends and interest on own capital	3	3	3
2.01.05.02.04	Derivative financial instruments	0	242	543
2.01.05.02.05	Foreign exchange withdrawals	43,795	24,193	28,065
2.01.05.02.08	Advance from receivables	48,455	15,422	6,136
2.01.05.02.09	Advances from clients	28,793	49,983	26,282
2.01.05.02.10	Other liabilities	33,270	0	44,170
2.01.05.02.11	Other liabilities	21,453	91,952	0
2.01.06	Provisions	78,176	67,272	51,182

Consolidated financial statements / Balance sheet - Liabilities

(In thousands of reais)

Code of account	Account description	Last year 12/31/2018	Penultimate year 12/31/2017	Antepenultimate year 12/31/2016
2.01.06.01	Tax, social security, labor and civil provisions	60,273	55,298	40,090
2.01.06.01.01	Tax provisions	27,689	28,008	318
2.01.06.01.02	Social security and labor provisions	5,235	21,486	33,235
2.01.06.01.04	Civil provisions	27,349	5,804	6,537
2.01.06.02	Other provisions	17,903	11,974	11,092
2.01.06.02.01	Provision for guarantees	17,903	11,974	11,092
2.02	Non-current liabilities	792,493	248,500	679,061
2.02.01	Loans and financing	703,565	157,970	641,123
2.02.01.01	Loans and financing	627,927	157,970	573,112
2.02.01.01.01	In domestic currency	18,131	8,420	15,045
2.02.01.01.02	In foreign currency	609,796	149,550	558,067
2.02.01.02	Debentures	75,638	0	68,011
2.02.02	Other liabilities	987	7,614	5,572
2.02.02.02	Other	987	7,614	5,572
2.02.02.02.04	Taxes payable	592	4,748	2,496
2.02.02.02.05	Other liabilities	0	2,866	3,076
2.02.02.02.06	Suppliers	395	0	0
2.02.03	Deferred taxes	20,804	30,937	15,190
2.02.03.01	Deferred income tax and social contribution	20,804	30,937	15,190
2.02.04	Provisions	67,137	51,979	17,176
2.02.04.01	Tax, social security, labor and civil provisions	61,558	47,233	11,741
2.02.04.01.01	Tax provisions	0	0	6,732
2.02.04.01.02	Social security and labor provisions	49,842	43,175	2,114
2.02.04.01.04	Civil provisions	11,716	4,058	2,895
2.02.04.02	Other provisions	5,579	4,746	5,435
2.02.04.02.01	Provision for guarantees	5,579	4,746	5,435
2.03	Consolidated shareholders' equity	-406,963	-445,233	-171,901
2.03.01	Realized capital	465,218	404,489	393,977
2.03.02	Capital reserves	-31,170	-40,996	-40,832

Consolidated financial statements / Balance sheet - Liabilities

(In thousands of reais)

Code of account	Account description	Last year 12/31/2018	Penultimate year 12/31/2017	Antepenultimate year 12/31/2016
2.03.02.06	Advance for future capital increase	0	0	164
2.03.02.09	Capital transactions	-31,170	-40,996	-40,996
2.03.05	Retained Earnings/Losses	-1,012,915	-952,635	-668,102
2.03.06	Equity valuation adjustments	47,023	48,240	49,736
2.03.07	Accumulated translation adjustments	124,881	95,669	93,320

Consolidated financial statements / Statement of income

(In thousands of reais)

Code of account	Account description	Last year 01/01/2018–12/31/2018	Penultimate year 01/01/2017–12/31/2017	Antepenultimate year 01/01/2016–12/31/2016
3.01	Revenue from sales of goods and/or services	845,287	695,258	830,273
3.02	Cost of goods and/or services sold	-537,660	-599,880	-637,072
3.03	Gross income	307,627	95,378	193,201
3.04	Operating expenses/revenue	-261,379	-256,182	-291,441
3.04.01	Sales expenses	-97,067	-94,354	-130,732
3.04.02	General and administrative expenses	-146,596	-139,677	-131,981
3.04.03	Loss due to the non-recoverability of assets	-3,024	1,837	0
3.04.04	Other operating revenue	63,341	16,511	14,317
3.04.05	Other operating expenses	-78,033	-40,499	-41,241
3.04.06	Equity in net income of subsidiaries	0	0	-1,804
3.05	Income (loss) before financial income and taxes	46,248	-160,804	-98,240
3.06	Financial income (loss)	-183,580	-110,284	-2,709
3.06.01	Financial revenues	28,103	4,954	101,909
3.06.02	Financial expenses	-211,683	-115,238	-104,618
3.07	Income (loss) before income tax	-137,332	-271,088	-100,949
3.08	Income tax and social contribution	74,726	-9,635	-2,078
3.08.01	Current	-1,864	13,593	3,980
3.08.02	Deferred	76,590	-23,228	-6,058
3.09	Net income (loss) from continued operations	-62,606	-280,723	-103,027
3.10	Net income (loss) from discontinued operations	2,744	-5,305	0
3.10.01	Net income (loss) of discontinued operations	2,744	-5,305	0
3.11	Income/loss for the period	-59,862	-286,028	-103,027
3.11.01	Attributed to the Parent company's partners	-59,862	-286,028	-103,027
3.99	Earnings per share - (Reais / Share)			
3.99.01	Basic earnings per share			
3.99.01.01	Common shares	-0.79963	-4.42165	-1.76784
3.99.01.02	Preferred shares	-0.79963	-4.42165	-1.76784
3.99.02	Diluted earning per share			
3.99.02.01	Common shares	-0.79963	-4.42165	-1.76585

Consolidated financial statements / Statement of income

(In thousands of reais)

Code of account	Account description	Last year 01/01/2018–12/31/2018	Penultimate year 01/01/2017–12/31/2017	Antepenultimate year 01/01/2016–12/31/2016
3.99.02.02	Preferred shares	-0.79963	-4.42165	-1.76585

Consolidated financial statements / Statement of comprehensive income

(In thousands of reais)

Code of account	Account description	Last year 01/01/2018–12/31/2018	Penultimate year 01/01/2017–12/31/2017	Antepenultimate year 01/01/2016–12/31/2016
4.01	Consolidated net income for the period	-59,862	-286,028	-103,027
4.02	Other comprehensive income	29,212	2,349	-45,540
4.02.01	Translation adjustments in the period	29,212	2,349	-45,540
4.03	Consolidated comprehensive income for the period	-30,650	-283,679	-148,567
4.03.01	Attributed to the Parent company's partners	-30,650	-283,679	-148,567

Consolidated financial statements / Statement of cash flows - Indirect method

(In thousands of reais)

Code of account	Account description	Last year 01/01/2018–12/31/2018	Penultimate year 01/01/2017–12/31/2017	Antepenultimate year 01/01/2016–12/31/2016
6.01	Net cash from operational activities	32,011	34,547	36,276
6.01.01	Cash generated in operations	138,270	-38,687	753
6.01.01.01	Net income before income tax and social contribution	-137,332	-271,088	-100,949
6.01.01.02	Depreciation and amortization	34,230	33,669	34,241
6.01.01.03	Cost of permanent assets written-off	49,475	2,683	18,417
6.01.01.04	Provision for impairment of assets held for sale	0	0	4,286
6.01.01.05	Equity in net income of subsidiaries	0	0	1,804
6.01.01.06	Provision for Derivative financial instruments	-242	0	7,941
6.01.01.07	Allowance for doubtful accounts	3,024	1,508	4,060
6.01.01.10	Provision for interest on loans	59,548	66,123	67,669
6.01.01.12	Exchange rate changes on loans and financing	0	0	-63,115
6.01.01.14	Provision for freight and commissions / Fair value of asset held for sale	0	-1,282	0
6.01.01.15	Exchange rate change on loans and others	118,245	863	0
6.01.01.16	Provision for inventory loss	-25,801	47,600	2,288
6.01.01.17	Sale of investments	7,163	20,840	2,636
6.01.01.18	Write-off of goodwill on investments	0	0	2,215
6.01.01.19	Provision for contingencies	23,198	60,203	20,867
6.01.01.20	Provision for guarantees	6,762	194	-1,607
6.01.02	Changes in assets and liabilities	-105,335	73,896	36,484
6.01.02.01	(Increase) decrease in trade accounts receivable	-25,792	26,028	39,968
6.01.02.02	(Increase) decrease in inventories	-56,722	-29,031	-24,624
6.01.02.03	Decrease (increase) in other accounts receivable	6,040	-11,658	316
6.01.02.04	(Decrease) increase in suppliers	3,184	-30,357	46,266
6.01.02.05	Increase (Decrease) in accounts payable and provisions	-32,045	118,914	-25,442
6.01.03	Other	-924	-662	-961
6.01.03.02	Payment of income tax and social contribution	-924	-662	-961
6.02	Net cash used in investment activities	-18,995	-20,776	-12,253
6.02.03	In investments	0	0	5,000
6.02.04	In property, plant and equipment	-12,652	-19,617	-47,016

Consolidated financial statements / Statement of cash flows - Indirect method

(In thousands of reais)

Code of account	Account description	Last year 01/01/2018–12/31/2018	Penultimate year 01/01/2017–12/31/2017	Antepenultimate year 01/01/2016–12/31/2016
6.02.05	In intangible assets	-4,371	-695	-1,677
6.02.06	Interest earning bank deposits	-69	401	31,440
6.02.07	Net cash from discontinued investment activities	-1,903	-865	0
6.03	Net cash from financing activities	7,071	-32,906	-57,627
6.03.02	Borrowings	213,184	84,928	721,553
6.03.03	Payments of loans	-98,794	-89,701	-731,815
6.03.05	Capital increase	729	10,348	17,541
6.03.06	Advance for future capital increase	0	0	164
6.03.10	Payment of Interest on loans	-105,352	-47,651	-65,070
6.03.13	Net cash from discontinued financing activities	-2,696	9,170	0
6.05	Increase (decrease) in cash and cash equivalents	20,087	-19,135	-33,604
6.05.01	Opening balance of cash and cash equivalents	6,679	25,814	60,312
6.05.02	Closing balance of cash and cash equivalents	26,766	6,679	26,708

Consolidated financial statements / Statement of changes in shareholders’ equity / DMPL – 01/01/2018–12/31/2018

(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	404,489	-40,996	0	-952,635	143,909	-445,233	0	-445,233
5.02	Prior-year adjustments	0	0	0	-1,635	0	-1,635	0	-1,635
5.02.01	First-time adoption IFRS 9	0	0	0	-1,635	0	-1,635	0	-1,635
5.03	Adjusted opening balances	404,489	-40,996	0	-954,270	143,909	-446,868	0	-446,868
5.04	Capital transactions with partners	60,729	9,826	0	0	0	70,555	0	70,555
5.04.01	Capital increases	60,729	0	0	0	0	60,729	0	60,729
5.04.02	Expenses with issuance of shares	0	9,826	0	0	0	9,826	0	9,826
5.05	Total comprehensive income	0	0	0	-58,645	27,995	-30,650	0	-30,650
5.05.01	Net income for the period	0	0	0	-59,862	0	-59,862	0	-59,862
5.05.02	Other comprehensive income	0	0	0	1,217	27,995	29,212	0	29,212
5.05.02.04	Translation adjustments in the period	0	0	0	0	29,212	29,212	0	29,212
5.05.02.06	Realization of equity valuation adjustments	0	0	0	1,217	-1,217	0	0	0
5.07	Closing balances	465,218	-31,170	0	-1,012,915	171,904	-406,963	0	-406,963

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	-49,246	-7,893	-57,139	0	-57,139
5.05.01	Net income for the period	0	0	0	-50,391	0	-50,391	0	-50,391
5.05.02	Other comprehensive income	0	0	0	1,145	-7,893	-6,748	0	-6,748
5.05.02.04	Translation adjustments in the period	0	0	0	0	-6,748	-6,748	0	-6,748
5.05.02.06	Realization of equity evaluation adjustment	0	0	0	1,145	-1,145	0	0	0
5.07	Closing balances	404,489	-40,996	0	-717,348	135,163	-218,692	0	-218,692

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	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 added value

(In thousands of reais)

Code of account	Account description	Last year 01/01/2018–12/31/2018	Penultimate year 01/01/2017–12/31/2017	Antepenultimate year 01/01/2016–12/31/2016
7.01	Revenues	904,224	692,088	993,110
7.01.01	Sale of goods, products and services	841,693	699,708	982,853
7.01.02	Other revenues	63,341	-5,969	14,317
7.01.04	Formation/reversal of allowance for doubtful accounts	-810	-1,651	-4,060
7.02	Inputs acquired from third parties	-669,650	-659,542	-653,847
7.02.01	Cost of products, merchandise and services sold	-603,131	-674,497	-398,236
7.02.02	Materials, Energy, Third-party services and other	-66,519	14,955	-255,611
7.03	Gross added value	234,574	32,546	339,263
7.04	Retentions	-32,724	-33,761	-34,241
7.04.01	Depreciation, amortization and depletion	-32,724	-33,761	-34,241
7.05	Net added value produced	201,850	-1,215	305,022
7.06	Added value received as transfer	30,847	18,705	100,105
7.06.01	Equity in net income of subsidiaries	0	0	-1,804
7.06.02	Financial revenues	28,103	24,010	101,909
7.06.03	Other	2,744	-5,305	0
7.06.03.20	Undistributed value added from discontinued operations	2,744	-5,305	0
7.07	Total added value payable	232,697	17,490	405,127
7.08	Distribution of added value	232,697	17,490	405,127
7.08.01	Personnel	130,530	152,735	174,220
7.08.01.01	Direct remuneration	105,224	123,442	142,452
7.08.01.02	Benefits	21,675	17,241	22,189
7.08.01.03	Severance Pay Fund (FGTS)	3,631	12,052	9,579
7.08.02	Taxes, duties and contributions	-44,848	45,886	220,800
7.08.02.01	Federal	-45,195	45,540	175,714
7.08.02.02	State	1	3	44,734
7.08.02.03	Municipal	346	343	352
7.08.03	Third-party capital remuneration	206,877	104,897	113,134
7.08.03.01	Interest	206,209	104,078	104,618
7.08.03.02	Rentals	668	819	8,516

Consolidated financial statements/ Statement of added value

(In thousands of reais)

Code of account	Account description	Last year 01/01/2018–12/31/2018	Penultimate year 01/01/2017–12/31/2017	Antepenultimate year 01/01/2016–12/31/2016
7.08.04	Remuneration of own capital	0	0	-103,027
7.08.04.03	Retained earnings / Loss for the period	0	0	-103,027
7.08.05	Other	-59,862	-286,028	0
7.08.05.01	Retained losses, net of realization of equity valuation adjustments - Continued Operation	-62,606	-280,723	0
7.08.05.02	Retained losses, net of realization of equity valuation adjustments - Discontinued Operation	2,744	-5,305	0

Management REPORT
YEAR 2018

São Leopoldo, March 29, 2019

Dear Shareholders,

The management of Taurus Armas S.A (Taurus), in compliance with the legal and statutory provisions is pleased to submit to you for your analysis the Management's Report and the Financial Statements of the Company, with the Independent Auditors' Report for the year ended December 31, 2018.

The Company's operating and financial information, except as indicated otherwise, are presented based on consolidated numbers and accounting practices adopted in Brazil are considered and international standards in compliance with International Financial Reporting Standards (IFRS) and pronouncements issued by CPC applicable to its operations. All the comparisons take into account the year 2017, unless otherwise indicated.

Proforma comparison basis - Beginning as of January 2018, profit or loss from helmets' operation (units in Paraná and Bahia States) are presented separately, and are incorporated to line "Discontinued operations" in the Statement of Income of Taurus S.A., in accordance with provisions of CPC 31 for operations for sale.

In order to maintain the same comparison basis, this report considers a pro-forma view of the Company's 2017 profit or loss, presenting profit or loss of helmet segment also as "Discontinued operations" for that year.

We have much to celebrate in relation to 2018 and started 2019 with renewed confidence in Taurus. We assumed the management, after a renewal that involved, in addition to my taking office, the appointment of the new CFO and two other directors and, we immediately "rolled up our sleeves". It was a year of hard work and also important achievements that makes us pleased and proud to see that the efforts made in the restructuring of the Company have produced positive results. The Company experienced challenging moments in recent years, but the results for 2018 do not represent only a phase but a turning point in its history, since there have been made structural changes to make such performance sustainable. The renewal involves a path that we are covering in the creation of the new Taurus, a "young" company about to turn 80 years old, with shares listed on stock exchange for more than 30 years. We currently have in the Company a new philosophy of work, a positive and challenging internal environment, and we are pleased to see Taurus reasserting itself as an agile and innovative Company.

As part of the process, and in order to evidence this whole movement of renewal that we are experiencing, we changed our corporate name to Taurus Armas S.A., bringing to the name our business focus, which will be ratified at the next General Meeting.

We are currently producing approximately 4.6 thousand firearms per day in our units in Brazil and in the United States, based on an innovative and efficient industrial process, where quality comes first. We have an important differential in the industry, offering to the global market a complete portfolio of light firearms, including firearms, pistols, tactical firearms - rifles and machine guns - and sporting firearms for shooting and hunting, whereas the industry usually operates in only one of these segments.

The results for 2018 did not only represent a phase but a turning point in its history, since there have been made structural changes to make such performance sustainable.

In operating terms, the several changes focused on quality products, with built-in technology, competitive in the global market and that provide higher profitability to the operation. We adopted and developed efficient and sound operating processes, providing stability to production. Nowadays, there is no employee's interference in the adjustment of pieces in the assembly of firearms, so that the production process ensures the quality. We intensely operate in the renewal of portfolio. The launching of products is again part of our daily routine: 32 models of firearms were launched in 2018, with good acceptance in the domestic and foreign markets, and their sales accounted for more than 60% of the consolidated net revenue for the year. Revenue grew in Brazil, in the USA, and in other countries to where we export, reaching R$ 845 million - consolidated, 22% more than in 2017. The great performance of sales in all countries where we operate indicates that we won back the confidence of consumers, which responded very positively to products' quality and portfolio diversity. With one of the launchings – the new firearm Taurus Raging Hunter- we obtained an important international award, the American Handgun of the Year 2019. The recognition is another evidence that we are in the right way.

In 2019, we started the process of moving our USA unit from Florida to Georgia. After the agreement with the government of this U.S. State, with the obtaining of relevant benefits to Taurus, we began the construction of the new unit which will have a production capacity of 800 thousand firearms/year, twice our current capacity in that country. Investing in the USA is to strengthen our presence where the consumption is, since this is the biggest global market for light firearms, where the demand exceeds local offer. In addition, the Company contracted Galeazzi, a specialized advisory firm, to implement a strong restructuring plan for production and administrative processes. Also in connection with the foreign market, our strategy also involves reinforcing our presence in other countries, seeking new markets. We have made important sales in 2018 to countries in Asia and Africa and we have expanded our revenue from exports – excluding sales in the USA – by 44% compared to the prior year. And we continued to pursue this goal and in February 2019, we signed a memorandum of understanding (MoU) to allow the feasibility study for the establishment of a joint venture in India with the local steel company. With such establishment, we will have a great market to be explored, with the manufacturing and trading of firearms in that country, whose population is currently 1.37 billion people and, therefore, has large police and military forces.

We also strongly work in the reduction of costs and waste, conducting analyses of inventory turnovers of raw materials and higher frequency of inspection for reduction of losses, audits and identification of opportunities with suppliers, which were requalified. The results were consistent over the year, reflecting gain of revenue with simultaneous cost reduction. With everything settled and no debts overdue with suppliers, the gross income was multiplied by more than three in 2018, reaching R$ 307 million with gross margin of 36%, which is higher than gross margin of the two foreign publicly-held companies in the industry. This increase was obtained due to the Company's structural change and not to price increase.

Operating cash generation reflects our efforts in the adoption of the new strategic planning. In 2018, excluding extraordinary non-recurring expenses related to legal agreement brought from prior years and referring to lawsuit in the US, with adjusted Ebitda we reached positive R$ 116 million and margin of 14%, which reversed 2017 negative position. Once again, this margin is in line with international competitors, and is even higher than that of one of the largest companies whose data is public. And with this agreement and the provision for related payment recognized, we cleared this pending item without assuming any past default, mitigating future related expenses that would increase each year.

In financial terms, the changes were equally significant. In fact, the bank debt restructuring was essential to allow us to focus on the operation and on cash generation. They are two sides of the same coin which were addressed at the same time. In July, with the help of a specialized external consulting firm, we concluded the renegotiation of indebtedness with creditor banks syndicate that extended the maturity corresponding to approximately US$ 162 million of the debt were postponed, thus becoming five years, with grace period for payment of principal and interest amortization installments in 2018. Of a total gross debt of around R$ 900 million on December 31, 2018, 50% will fall due in 2022 and more than 77% in the long term. In addition, we have an agreement of automatic renewal until 2022 of financing to export, which at the end of 2018, amounted to R$ 72.4 million, which in practice makes this portion of debt payable in the long term. At the same time, the agreement reduced the average interest rate, with positive impact on Taurus of approximately R$ 120 million in connection with charges in a five-year term.

The restructuring of the bank debt was essential since enabled us to focus on the operation and cash generation.

As part of this agreement, and also in line with our strategy of focus on the operation, manufacturing and sale of firearms, it was decided to dispose the helmets operation, and the proceeds to be obtained from that would be allocated to reduce indebtedness. We also allocated the sale as actual guarantee of the operation to the the land of the Company's former head office in Porto Alegre, with book value of approximately R$ 50 million. Cash generated from sale of assets will be used to reduce indebtedness.

Another measure adopted in 2018 was the capital increase, through private issuance of four series of subscription bonus, with exercise terms between April 2019 and October 2020. Virtually all 74 million of subscription bonuses made available were sold, with inflow of R$ 9.9 million of funds to Taurus. Conversion of bonuses into new shares will represent capital increase of up to R$ 390 million, which will also permit reducing debt and strengthening the Company's cash.

The gain of efficiency, profitability and operating cash generation in 2018 combines with reduction of debt charges, contributing to the success of the restructuring. We believe in the Company's ability to meet the new commitments assumed. Accordingly, we continue in the path established by our strategic planning, bringing Taurus to this new phase of growth.

The positive results to the actions taken by Taurus were almost immediate, which makes us highly confident. We resumed the important asset represented by the reliability of the brand in Brazil and abroad. 2018 was the first year with the new Company's results, which positively surprised us, especially because it occurred together with adverse economic scenario in Brazil. We believe that our country will grow and that Taurus will also grow. Therefore, the Company will invest again in CaPex, is making investments in Brazil and it continues open to opportunities in the global market.

The evolutions in the operating and financial indicators encourage us to carry on working resolutely to achieve growth with sustainable profitability and, consequently, seeking generation of value to all the shareholders. We appreciate the support of our partners, clients, suppliers, directors and shareholders. We would like to thank in special those who materialize this renewal process of Taurus every day, transforming strategies and plans into results: our employees.

Salesio Nuhs

CEO

Management report
Year 2018

MAIN INDICATORS

R$ million	2018	2017	Change %
Net operating revenue	845.3	695.3	*21.6%*
Domestic market	150.5	106.4	*41.4%*
Foreign market	694.8	588.9	*18.0%*
CPV	-537.7	-599.9	*-10.4%*
Gross income	307.6	95.4	*222.5%*
Gross margin (%)	36.4%	13.7%	*+22.7 p.p.*
Operating expenses - SG&A	-261.4	-256.2	*2.0%*
Operating income (EBIT)	46.2	-160.8	-
EBIT margin %	5.5%	-23.1%	*+28.6 p.p.*
Net financial income (loss)	-183.6	-110.3	*66.5%*
Net income / (loss) (continued operations)	**-62.6**	**-280.7**	***-77.7%***
Net income (loss) from discontinued operations	2.7	-5.3	-
Net income / (loss)	**-59.9**	**-286.0**	***-79.1%***
EBITDA	78.9	-125.7	-
EBITDA margin	9.3%	-18.1%	*+27.4 p.p.*
Adjusted EBITDA*	116.2	-125.7	-
Adjusted EBITDA margin	13.7%	-18.1%	*+31.8 p.p.*

** Ebitda is not an indicator used in accounting practices. Its calculation is presented in item "Ebitda" of this report.*
The adjusted Ebitda excludes non-recurring expenses of R$ 37.1 million related to judicial agreement in the USA ("Burrow Case")

OPERATING PERFORMANCE

Taurus' operation focuses on production and trading of light firearms under brands Taurus, Rossi and Heritage, manufactured in its unit in Brazil and in the USA, with sales to more than 100 countries.

It maintains a segment of injection molding metal production and trading (M.I.M. – Metal Injection Molding), with production mainly for own use and punctual sales to third parties, on demand. In January 2018, the Company closed its operation in the plastics segment and, as part of the agreement entered into for restructuring its financial liabilities with banks' unions, it put helmet operations on sale.

In the beginning of 2016, firearms' plant in São Leopoldo, Rio Grande do Sul State, RS, centralized operations of the three old units with the highest efficiency, based on a robust industrial process, to guarantee quality and productivity. Based on new products' development protocols and manufacturing line, in 2018, Taurus launched 32 models, publicizing new products in several exhibitions in Brazil and abroad. The entire line of light firearms has been updated in accordance with new development protocols, and production of models with negative profitability was closed.

The Brazilian industrial unit produced 791.5 thousand units of firearms in 2018 and the American unit produced 325.6 thousand, totaling a production of 1,117.1 thousand firearms in the year.

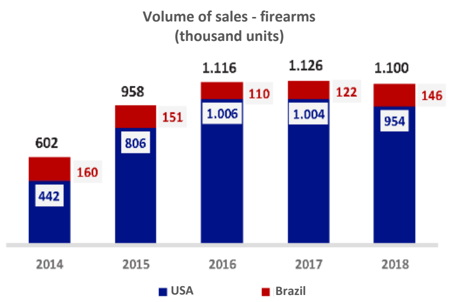
Management report

Management report

Year 2018

In 2018, firearm market in the US was very competitive for the industry, and sales in commerce did not accelerate. Index of firearm purchase intentions measured by “Adjusted NICS” (National Instant Background Check System) was low in the last two years (-13.0% in 2017 e -6.1% in 2018), after presenting increase in 2016 due to the possibility of restrictive measures being adopted in relation to acquisition and possession of firearms in that country. Taurus sales, and the units locally produced and exported from Brazil totaled 954.5 thousand units before 1,003.6 thousand in prior year, with the reduction in sales volume of 5.0%.

The Company’s releases, with products that incorporate innovation and quality, have been well accepted by North-American consumers and have, therefore, contributed to recover the brand’s image in the market. These new line items and the Company’s position allowed it to maintain good sales performance in the US in 2018, even in a reduced market.



In the domestic market, increase of 43.7% in sales volume in the year in comparison with 2017 allows us to identify resumption of credibility and admiration for the brand, also by domestic consumer. Diversification of the portfolio is a highlight in this process, with new models representing a significant portion of sales. The Brazilian market showed resumption of activity level in the year, both in terms of institutional acquisitions and individual purchases, the later represented by acquisition of firearms by police officers, magistrates, and CAC’s (hunters, shooters and collectors) for private use. This proves that confidence in the brand has returned.

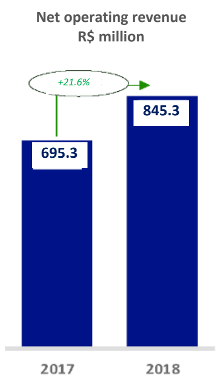
Taurus has devoted commercial efforts to expand its operation to other international markets (in addition to USA). Due to authorizations obtained from the Ministry of Foreign Affairs and robust compliance work to meet defined requirements, the Company has been successful in expanding its markets, with highlight to sales in Middle Eastern and Asian countries in 2018. Similarly, increase in sales to other countries, such as South Africa and Germany, and resumption or opening of new markets are relevant in the year, even if less expressive in terms of absolute volumes and values.

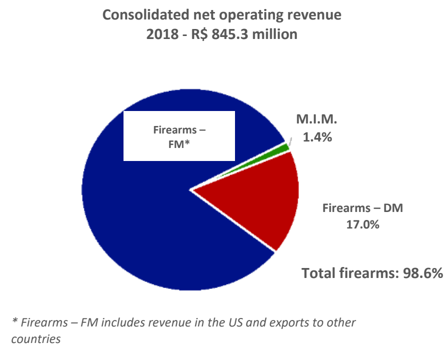
ECONOMIC AND FINANCIAL PERFORMANCE

Net operating revenue

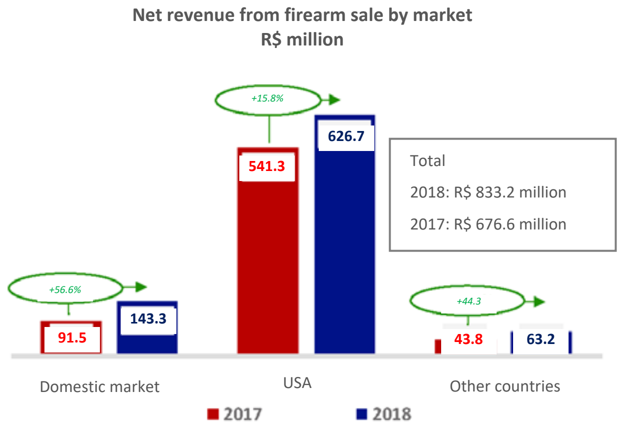
In 2018, with the closing of plastics operations and commitment assumed by the Company to sell helmet operations, Taurus net operating revenue is now formed basically by firearm segment, being supplemented by the production and sale of metal injection molding parts, or M.I.M. This second operating segment has a punctual demand and little representativeness in the Company.

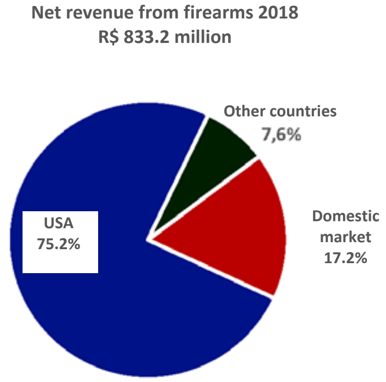
In 2018, adjustment of product price and definition of a product mix with higher added value contributed to growth of 21.6% in consolidated net operating revenue in relation to 2017. In the year, the sale of new models of firearms accounted for 60.8% of the Company's revenue. Positive effect from Brazilian Real devaluation in relation to the US dollar on foreign market sales also favored performance, considering that most of the Company's revenue is in foreign currency.





In **firearms segment**, net revenue in 2018 was R$ 833.2 million, 23.1% greater than the result of the previous year. Growth occurred both in domestic market and in North-American market revenues, as well as in export to other countries, evidencing the success of adopted strategy, which focused on innovation, quality and profitability. Work that has been developed starts to show its effects in resumption of Taurus credibility and quality perception of its products by the consumer market, which is materialized in positive evolution of sales revenue.





Domestic market - Return of institutional purchases (polices and Armed Forces) and increase in the individual sales segment, which includes police officers in general, magistrates, and HSCs (hunters, shooters and collectors), who purchase a firearm for private use; and expansion of product portfolio with higher added value.

USA - the largest market in the world for light firearms and, therefore, is also the main market for Taurus products. Positive effect of the appreciation of 14.5% of the dollar against the Real in 2018, in addition to the better average price, with good acceptance of the launched products.

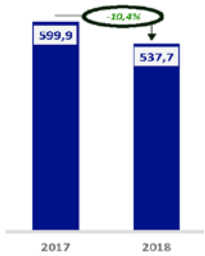
Other countries – Strategy of geographical diversification of sales. The Export, from Brazil, to 32 countries, with sales to Oman being a highlight; revenue from sales to this country represented more than 40% of the total of these sales.

Net revenue from sale of **M.I.M. - Metal Injection Molding**, which totaled R$ 12.1 million in 2018, supplements the Company's performance, with retraction of 35.2% in relation to that recorded in prior year (R$ 18.6 million).

Cost of goods sold - CGS

In 2018, focus on quality and innovation was maintained for the purpose of ensuring profitability and resumption of business growth, according to the strategic plan. This model includes cost management, with strict control over the Company's purchases, which involves close follow-up of inventories turnover so as to avoid excess purchases. Purchase routines were reviewed for the purpose of identifying opportunities with suppliers, which were requalified, as well as guaranteeing volumes and quality, with maintenance of adequate costs.

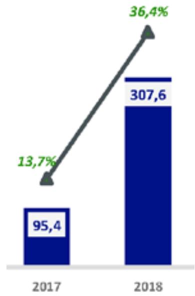
CGS (R$ million)



Gross income

With increased revenue and concurrent cost reduction in 2018, the Company obtained gain of profitability in relation to 2017, recording higher gross compared to the two foreign publicly-traded companies of the sector. This performance is the result of the adequacy of processes and product mix, which involved actions such as elimination of negative margin models, redesign of components, and investment in research and development with launching of products that incorporate innovation to the customer and profitability to the Company.

Gross income (R$ million) and Gross Margin (%)



Operating expenses

	2018	2017	Change %
Sales expenses	97.1	94.4	2.9%
General and administrative expenses	146.6	139.7	5.0%
Other operating revenues/expenses*	17.7	22.2	-20.0%
Operating expenses (SG&A)	261.4	256.2	2.0% 1
Net Oper. Exp./ Revenue (%)	*30.9%*	*36.8%*	*-5.9 p.p.*

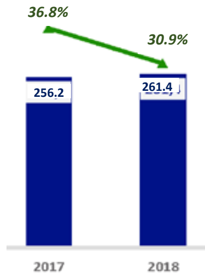
** Includes balance of account classified as "Loss due to the non-recoverability of assets"*

General and Administrative Expenses – In December/18, the Company recorded nonrecurring expenses related to judicial lawsuits (see "Subsequent Events: Court agreement - "Burrow Case") in the amount of R$ 15.6 million. Actions taken in the ambit of the strategic plan, such as elimination of three non-statutory offices and staff reduction, partially offset pressure of additional expenses.

Even though it has burdened profit or loss for 2018, the Company's decision of signing an agreement for the USA lawsuit, based on its legal advisors' recommendation, solves this issue that was pending for two years, cancelling future expenses as maintenance of lawsuit would involve growing costs.

Selling Expenses – Due to the controls adopted, the evolution of the account was lower than the evolution of revenue. The recorded increase is mainly due to variable expenses represented by commissions, freights and insurance.

Operating expenses (in million of Reais) and its share in the net revenue

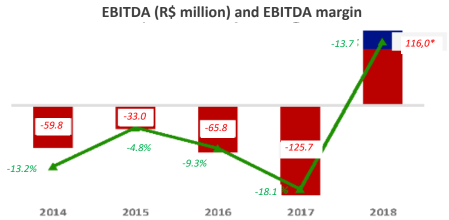


Other operating expenses - In 2018, it also includes nonrecurring expenses related to "Burrow Case", recorded in the last quarter of the year in the amount of R$ 21.5 million. Nevertheless, there was a decrease in relation to the balance recorded in the prior year.

Total operating expenses - Excluding extraordinary expenses related to the judicial agreement in the USA amounting to R$ 37.1 million recorded in 2018, the caption would amount to R$ 224.3 million, which is 12.5% lower in relation to the year 2017.

Ebitda

Restructuring work carried out for the purpose of recovering the Company's growth, focused on profitability, innovation, quality and resulting improvement of financial and operating indicators, shows its effects. Except for the extraordinary expenses related to the "Burrow Case" for lawsuits totaling R$ 37.1 million, the adjusted Ebitda in 2018 totaled R$ 116.0 million due to increase in revenue and gross income, and to controlled evolution of operating expenses, reversing negative performance of R$ 125.7 million in 2017. In that year, indicator was impacted by factors such as increase in provisions for labor and civil contingencies, impairment of inventories.



Ebitda calculation – reconciliation in accordance with ICVM 527/12

R$ million	2018	2017	*Change %*
Income (loss) before financial income (loss) and taxes (Ebit)	46.2	-160.8	-
Depreciation and amortization	32.7	35.1	*-6.8%*
EBITDA	78.9	-125.7	-
EBITDA margin	*9.3%*	*-18.1%*	-
Burrow Case			
General and administrative expenses	15.6	-	
Other operating expenses	21.5	-	
ADJUSTED EBITDA	116.0	-125.7	-
Adjusted EBITDA margin	*13.7%*	*-18.1%*	-

Ebitda (earnings before interest, taxes, depreciation and amortization) is not a financial measurement according to BR GAAP, International Accounting Standard and IFRS and should not be considered on its own as an operating performance measurement or alternative to operating cash flow as liquidity measurement. This indicator is a managerial measurement, presented to offer additional information on operating cash generation. Other companies may calculate Ebitda differently.

Financial income (loss)

The Company recognized total financial expenses of R$ 211.7 million in 2018, amount that is 83.7% higher than that of 2017. The performance reflects negative effect from devaluation of Brazilian Real in relation to average North-American dollar by 14.5% on the payment of bank debt charges, since on 12/31/2018, 84.6% was in foreign currency. With grace period obtained for payment of debt and its charges from July to December 2018, based on agreement entered into with the bank Union, the Company will no longer incur such expenses beginning as of the second semester of the year. It is also important to mention that most of Taurus' revenue (81.6% of consolidated net revenue for 2018) derives from sales abroad and, therefore, has a natural hedge against exchange-rate change.

Financial revenues in the year summed up R$ 28.1 million, leading to net expenses of R$ 183.6 million, an increase of 66.5% in relation to prior year's net financial expenses.

Net income

In 2018, Taurus performance positively reflected restructuring that was carried out, reversing prior-year performance with positive operating income. Financial expenses, however, continued to press the Company's profit or loss. With credit recognition referring to Income Tax and Social Contribution in the amount of R$ 74.7 million and positive results of R$ 2.7 million from operations classified as discontinued (helmets operation), the Company reported net losses of R$ 59.9 million for the year. Compared to 2017, when negative net income of R$ 286.0 million was recorded, advance obtained from measures taken to guarantee activities' sustainable profitability is evident.

INDEBTEDNESS

In July 2018, the Company completed renegotiation of its indebtedness with banks, which was carried out by an external specialized advisory firm, with signature of a new agreement for the rescheduling of debts with a group of creditors, and completion of the 3rd public issuance of Taurus debentures. New payment, period and interest rate conditions were established.

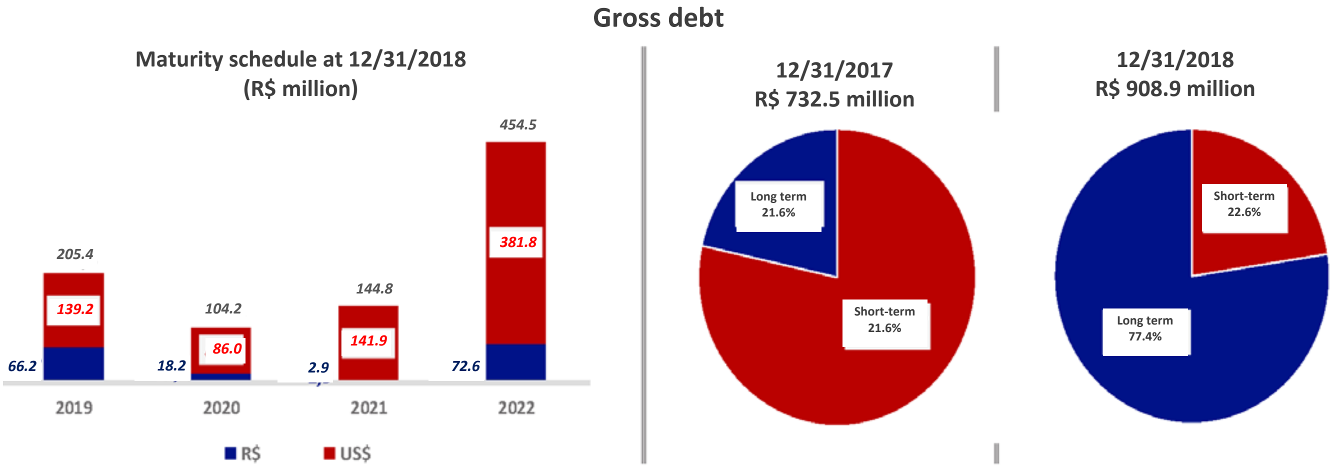
Maturities corresponding to approximately US$ 162 million of the debt were postponed, thus becoming five years, with grace period for payment of principal and interest amortization installments in 2018. First installment was paid on 1/21/2019. Accordingly, at the end of 2018, 77.4% of debt had long-term maturities.

In addition, as the Note accompanying Financial Statements, the Company obtained extension of term and reduction of rates in PPE operations (Export Prepayment) and ACC (Advance on Exchange Agreement), which together amount to approximately R$ 74.7 million. These amounts are accounted for in the short term, but agreement signed with creditor bank provides for automatic renewal at every maturity, with the possibility of them being settled by 10/17/2022. As of 12/31/2018, this amount represents 36.4% of total short-term debt.

Renegotiation provided reduction of 50% in interest rate in relation to previous rate, which represents more than R$ 120 million of charges in five years, in addition to change in amortization schedule, with extended debt profile.

The agreement involves the disposal of assets that are not associated to the core activities of the Company, such as the helmet operation and plots of land owned by Taurus.

Change in indebtedness profile based on renegotiation entered into in July 2018



R$ million	12/31/2018	12/31/2017	Change %
Loans and financing	103.7	458.9	*-77.4%*
Debentures	9.5	75.8	*-87.5%*
Advance from receivables	48.5	15.4	*214.2%*
Foreign exchange withdrawals	43.8	24.2	*81.0%*
Financial instruments	0.0	0.2	*-100.0%*
Short-term	205.4	574.5	***-64.3%***
Loans and financing	627.9	158.0	*297.4%*
Debentures	75.6	0.0	-
Long-term	703.6	158.0	***345.3%***
Gross indebtedness	**908.9**	**732.5**	***24.1%***
Cash and investments	29.6	9.5	*213.0%*
Net indebtedness	**879.3**	**723.0**	***21.6%***

CAPITAL INCREASE - PRIVATE ISSUE

At meeting held on 10/05/18, the Board of Directors approved the capital increase, with issuance of four series of subscription bonus, totaling 74 million bonuses, which entitle to the acquisition of new shares of the Company at predefined terms between April 2019 and October 2020, according to Notice to Shareholders disclosed on 10/08/18. There was subscription of 73.9 million bonuses and cancellation of 100.1 thousand bonuses not exercised in view of conditional subscriptions (0.14% of total), which provided R$ 9.9 million to the Company.

Conversion of bonuses into new shares may represent capital increase of up to R$ 390 million. Funds to be obtained will be assigned to debt amortization and strengthening of the Company's cash.

All details on capital increase, including about conversion of subscription bonuses into shares, may be obtained from Notices to Shareholders available in CVM website and in the Company's Investors' Relations website dated 10/08/2018; 11/21/2018 and 01/17/2019.

CAPITAL MARKET

Listed at Level II of Bolsa Brasil Balcão - B3, differentiated market segment where Companies assume additional commitments in terms of good corporate governance practices, Taurus' shares appreciated in 2018, as shown below.

Performance of shares and Ibovespa

	FJTA3	FJTA4	IBOV	Market value /
12/31/2017	R$ 1.94	R$ 2.15	76,383	R$ 129.3 million
12/31/2018	R$ 4.79	R$ 4.05	88,104	R$ 337.6 million
Change	**+146.9%**	**+88.4%**	**+15.3%**	**+161.1%**

PRELIMINARY AGREEMENT – LAWSUIT IN THE USA ("BURROW CASE")

On January 8, 2019, a Relevant Event announcing execution of a preliminary agreement to end lawsuit filed in the USA against Taurus and its subsidiary in that country was published; it refers to alleged faults presented by certain revolver models manufactured by the Company under brand Rossi in a given period.

Preliminary agreement involves total estimated cost to the Company from US$ 7.1 to US$ 7.9 million, which includes procedural costs, indemnities, and fees of lawsuit plaintiffs' legal advisors. Execution of definitive agreement pursuant to the terms proposed will imply recognition of negative effect on Taurus' profit or loss, and may affect its shareholders' equity by the above-mentioned amount.

Said agreement depends on final homologation by the North-American Court, which is expected to occur in the second half of 2019. All payments provided for in the agreement will only be mandatory after final and definitive approval.

MEMORANDUM OF UNDERSTANDING (MOU) - OPERATION IN INDIA

Through Relevant Event, the Company disclosed the fact that the Board of Directors approved, in a Meeting held on 2/14/2019 and signed on 2/18/2019, non-binding MoU (memorandum of understanding) to allow feasibility study on establishment of a joint venture with a large company of the metallurgy industry in India. The goal is to manufacture and sell firearms in Indian territory complying with a program to support the development of local war industry called "Make in India".

Based on MoU signature, the parties will have up to 180 days to complete joint venture creation studies and the business plan to be developed. This Agreement is another important step in Taurus' global strategy, opening the doors of the market of a country whose current population is 1.37 billion people.

EXTERNAL AUDIT – CVM INSTRUCTION 381/2003

KPMG Auditores Independentes provides external audit service related to the examination of the financial statements of the Company and its subsidiaries for the year 2018. In additional, KPMG Auditores Independentes also provided tax consulting services (tax compliance) in Brazil and in the Unites States, and prepared diagnosis of possible impacts of new accounting pronouncements as of agreements signed in 2018. The total fees for these services was approximately R$ 1,060,700.00, which represented approximately 145% of the remuneration related to external audit of the financial statements.

Taurus is very careful to avoid the existence of a conflict of interest, or loss of independence or objectivity of its independent auditors and has the practice of not access the services regarding any matter that may interfere in the audit of financial statements.

For the contracting of these additional services, KPMG Auditores Independentes presented the following reasons to support their understanding that said consulting service does not affect the independence and objectivity required to perform the external audit services: the work consisted in the evaluation of tax compliance and diagnosis of possible impacts of new accounting pronouncements.

Statement of Added Value

R$ million	2018	2017
Revenues	**904.2**	**692.1**
Inputs acquired from third parties	-669.7	-659.5
Gross added value	**234.6**	**32.5**
Depreciation, amortization and depletion	-32.7	-33.8
Net added value produced	**201.9**	**-1.2**
Financial revenues	28.1	24.0
Undistributed value added from discontinued operations	2.7	-5.3
Total added value payable	**232.7**	**17.5**
Personnel	130.5	152.7
Taxes, duties and contributions	-44.8	45.9
Remuneration of own capital	0.0	0.0
Retained losses, net of equity valuation adjustments - Continued Operation	-62.6	-280.7
Retained losses, net of realization of equity valuation adjustments - Discontinued Operation	2.7	-5.3

Taurus Armas S.A.

Balance sheets
Years ended December 31, 2018 and 2017
(In thousands of reais)

	Note	Consolidated		Parent company	
		2018	**2017**	**2018**	**2017**
Assets					
Current assets					
Cash and cash equivalents	**7**	**26,766**	6,679	**5,157**	2,543
Interest earning bank deposits and escrow accounts	**8**	**1,801**	1,777	**1,801**	1,777
Trade accounts receivable	**9**	**140,420**	122,611	**114,744**	69,008
Inventories	**10**	**277,037**	211,885	**103,818**	95,155
Recoverable taxes	**11**	**29,461**	44,458	**14,991**	25,693
Prepayments		**6,309**	6,674	**2,366**	2,224
Other accounts receivable	**12**	**11,872**	5,985	**31,458**	22,753
Assets held for sale	**14**	**122,551**	51,390	**-**	-
		616,217	451,459	**274,335**	219,153
Non-current assets					
Interest earning bank deposits and escrow accounts	**8**	**1,053**	1,008	**746**	753
Recoverable taxes	**11**	**246**	493	**121**	195
Deferred income tax and social contribution	**13**	**73,419**	3,465	**44,653**	-
Credit with related parties	**25**	**-**	-	**18,164**	14,044
Other accounts receivable	**12**	**9,821**	16,489	**5,333**	9,419
		84,539	21,455	**69,017**	24,411
Investments	**15**	**-**	-	**-**	-
Subsidiaries	**15**	**-**	-	**444,788**	417,433
Other investments		**192**	349	**190**	190
Property, plant and equipment	**16**	**144,429**	222,686	**32,599**	36,172
Intangible assets	**17**	**75,779**	73,009	**6,056**	5,541
		220,400	296,044	**483,633**	459,336
Total assets		**921,156**	768,958	**826,985**	702,900

See the accompanying notes to the financial statements.

Taurus Armas S.A.

Balance sheets
Years ended December 31, 2018 and 2017
(In thousands of reais)

	Note	Consolidated 2018	Consolidated 2017	Parent company 2018	Parent company 2017
Liabilities					
Current liabilities					
Suppliers		**94,707**	99,954	**155,932**	134,832
Loans and financing	18	**103,676**	458,942	**103,676**	453,416
Advance from receivables	18	**48,455**	15,422	**48,455**	1,535
Foreign exchange advances	18	**43,795**	24,193	**43,795**	24,193
Debentures	19	**9,450**	75,771	**9,450**	75,771
Salaries and social security charges	21	**31,946**	41,926	**14,116**	17,418
Taxes, duties and contributions	22	**41,902**	40,031	**14,903**	17,944
Advances from clients		**28,793**	49,983	**27,848**	79,467
Derivative financial instruments	24	**-**	242	**-**	-
Commissions payable	20	**1,782**	3,540	**1,725**	2,491
Dividends payable		**3**	3	**3**	3
Provisions for civil, labor and tax risks	23	**60,273**	55,298	**52,501**	39,189
Related parties - Loans		**-**	-	**59,057**	38,097
Provision for product warranty	32	**17,903**	11,974	**12,654**	6,764
Other accounts payable	20	**19,671**	88,412	**2,711**	77,866
Liabilities related to non-current assets held for sale and discontinued operation	14	**33,270**	-	**-**	-
		535,626	965,691	**546,826**	968,986
Non-current liabilities					
Suppliers		**395**	-	**233**	-
Loans and financing	18	**627,927**	157,970	**501,128**	47,103
Debentures	19	**75,638**	-	**75,638**	-
Taxes, duties and contributions	22	**592**	4,748	**549**	2,986
Deferred income tax and social contribution	13	**20,804**	30,937	**-**	6,079
Provisions for civil, labor and tax risks	23	**61,558**	47,233	**44,099**	32,973
Related parties - Loans		**-**	-	**6,241**	5,329
Provision for product warranty	32	**5,579**	4,746	**-**	-
Provision for unsecured liability	15	**-**	-	**16,165**	34,722
Other accounts payable	20	**-**	2,866	**43,069**	49,955
		792,493	248,500	**687,122**	179,147
Total liabilities		**1,328,119**	1,214,191	**1,233,948**	1,148,133
Unsecured liability	27				
Capital		**465,218**	404,489	**465,218**	404,489
Capital reserves and transactions		**(31,170)**	(40,996)	**(31,170)**	(40,996)
Accumulated loss		**(1,012,915)**	(952,635)	**(1,012,915)**	(952,635)
Equity valuation adjustments		**47,023**	48,240	**47,023**	48,240
Accumulated translation adjustments		**124,881**	95,669	**124,881**	95,669
Total unsecured liability		**(406,963)**	(445,233)	**(406,963)**	(445,233)
Total liabilities and shareholders' deficit		**921,156**	768,958	**826,985**	702,900

See the accompanying notes to the financial statements.

Taurus Armas S.A.

Statement of Income for the year
Years ended December 31, 2018 and 2017
(In thousands of reais)

	Note	Consolidated		Parent company	
		2018	**2017**	**2018**	**2017**
Net operating revenue	28	**845,287**	695,258	**626,631**	556,383
Cost of goods sold	29	**(537,660)**	(599,880)	**(427,021)**	(496,590)
Gross income		**307,627**	95,378	**199,610**	59,793
Operating (expenses) revenues					
Sales expenses	29	**(97,067)**	(94,354)	**(42,719)**	(40,500)
Administrative and general expenses	29	**(146,596)**	(139,677)	**(84,820)**	(84,283)
Equity in net income of subsidiaries	15	**-**	-	**16,700**	(104,490)
Provision for impairment of financial instruments	9-29	**(3,024)**	1,837	**420**	(1,380)
Other operating revenues, net		**63,341**	16,511	**8,722**	6,900
Other operating expenses, net	29	**(78,033)**	(40,499)	**(29,520)**	(32,637)
		(261,379)	(256,182)	**(131,217)**	(256,390)
Income (loss) before financial income (loss) and taxes		**46,248**	(160,804)	**68,393**	(196,597)
Financial revenues		**28,103**	4,954	**25,278**	3,346
Financial expenses		**(211,683)**	(115,238)	**(201,120)**	(111,176)
Net financial income (loss)	30	**(183,580)**	(110,284)	**(175,842)**	(107,830)
Operating income before taxes		**(137,332)**	(271,088)	**(107,449)**	(304,427)
Current income tax and social contribution	14	**(1,864)**	13,593	**-**	-
Deferred income tax and social contribution	14	**76,590**	(23,228)	**47,587**	18,399
Earnings before reversal of interest on own capital		**(62,606)**	**(280,723)**	**(59,862)**	**(286,028)**
Income from continued operations		**(62,606)**	(280,723)	**(59,862)**	(286,028)
Income from discontinued operations		**2,744**	(5,305)	**-**	-
Income (loss) for the year		**(59,862)**	(286,028)	**(59,862)**	(286,028)
Loss per common share - basic - R$	27.c	(0.7996)	(4.4217)	**-**	**-**
Loss per preferred share - diluted -R$	27.c	(0.7996)	(4.4217)	**-**	**-**

See the accompanying notes to the financial statements.

Taurus Armas S.A.

Statement of comprehensive income
Years ended December 31, 2018 and 2017
(In thousands of reais)

	Consolidated		Parent company	
	2018	**2017**	**2018**	**2017**
Loss for the year	**(59,862)**	(286,028)	**(59,862)**	(286,028)
Other comprehensive income				
Other comprehensive income that can be reclassified to the income (loss) for the year in subsequent periods:				
Accumulated translation adjustment	**29,212**	2,349	**29,212**	2,349
Total comprehensive income	**(30,650)**	(283,679)	**(30,650)**	(283,679)

See the accompanying notes to the financial statements.

Taurus Armas S.A.

Statements of changes in shareholders' equity
Years ended December 31, 2018 and 2017
(In thousands of reais)

	Note	Capital	Advances for future capital increase	Capital reserves and transactions	Equity valuation adjustments	Accumulated translation adjustments	Accumulated losses	Total shareholders' equity
Balance at December 31, 2016		393,977	164	(40,996)	49,736	93,320	(668,103)	(171,902)
Capital increase social		10,512	(164)	-	-	-	-	10,348
Accumulated translation adjustment		-	-	-	-	2,349	-	2,349
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	95,669	(952,635)	(445,233)
Capital increase social		**60,729**	**-**	**-**	**-**	**-**	**-**	**60,729**
Expenses with issuance of shares		**-**	**-**	**9,826**	**-**	**-**	**-**	**9,826**
Initial adoption of IFRS 9		**-**	**-**	**-**	**-**	**-**	**(1,635)**	**(1,635)**
Accumulated translation adjustment		**-**	**-**	**-**	**-**	**29,212**	**-**	**29,212**
Realization of equity valuation adjustment of goodwill in assets, net of tax effects		**-**	**-**	**-**	**(262)**	**-**	**262**	**-**
Realization of equity valuation adjustment of goodwill in assets in subsidiaries, net of tax effects		**-**	**-**	**-**	**(955)**	**-**	**955**	**-**
Loss for the year		**-**	**-**	**-**	**-**	**-**	**(59,862)**	**(59,862)**
Balance at December 31, 2018		**465,218**	**-**	**(31,170)**	**47,023**	**124,881**	**(1,012,915)**	**(406,963)**

See the accompanying notes to the financial statements.

Taurus Armas S.A.

Statement of cash flows
Years ended December 31, 2018 and 2017
(In thousands of reais)

	Consolidated		Parent company	
	2018	**2017**	**2018**	**2017**
Cash flow from operating activities				
Loss before income tax and social contribution	**(137,332)**	(271,088)	**(107,449)**	(304,427)
Adjustments for:				
Depreciation and amortization	**34,230**	33,669	**8,049**	8,019
Cost of the of written-off fixed assets	**47,892**	2,683	**(483)**	215
Cost of the written-off intangible assets	**1,583**	-	**-**	-
Allowance for doubtful accounts	**3,024**	1,508	**1,214**	1,380
Provision for legal risks	**23,198**	60,203	**24,438**	58,059
Provision for guarantees	**6,762**	194	**5,890**	1,642
Provision for inventory loss	**(25,801)**	47,600	**(25,056)**	45,481
Equity in net income of subsidiaries	**-**	-	**(16,700)**	104,490
Exchange-rate change on loans and financing	**118,245**	1,790	**106,297**	71
Foreign exchange rate on other accounts payable and receivable	**4,187**	(927)	**4,123**	104,725
Provision of interest on loans and financing	**59,548**	66,123	**53,930**	70,075
Derivative financial instruments	**(242)**	-	**-**	-
Fair value of investment property	**-**	(1,282)	**-**	-
Net change from discontinued operations	**7,163**	20,840	**-**	-
	142,457	(38,687)	**54,253**	89,730
Changes in assets and liabilities				
(Increase) decrease in inventories	**(56,722)**	(29,031)	**16,393**	(14,711)
Decrease / (increase) in trade accounts receivable	**(25,792)**	26,028	**(40,826)**	(26,084)
(Increase) decrease in other accounts receivable	**1,385**	(11,658)	**14,268**	(18,073)
(Decrease) increase in suppliers	**3,184**	(30,357)	**21,765**	(94,589)
Increase (decrease) in accounts payable	**(31,577)**	118,914	**(75,147)**	113,437
Payment of income tax and social contribution	**(924)**	(662)	**-**	-
	(110,446)	73,234	**(63,547)**	(40,020)
Net cash flow generated by operating activities	**32,011**	34,547	**(9,294)**	49,710
Cash flow from investment activities				
Credit of linked companies	**-**	-	**(9,731)**	2,897
Property, plant and equipment	**(12,652)**	(19,617)	**(3,333)**	(5,432)
Intangible assets	**(4,371)**	(695)	**(1,175)**	(195)
Interest earning bank deposits	**(69)**	401	**(17)**	452
Net changes from discontinued investment activities	**(1,903)**	(865)	**-**	-
Cash flow invested in investing activities	**(18,995)**	(20,776)	**(14,256)**	(2,278)
Cash flow from financing activities				
Capital increase	**729**	10,348	**729**	10,348
Loans	**213,184**	84,928	**170,682**	9,744
Payment of loans and financing	**(98,794)**	(89,701)	**(57,903)**	(31,919)
Interest paid	**(105,352)**	(47,651)	**(105,196)**	(47,555)
Financial loans	**-**	-	**17,852**	13,180
Net change from discontinued financing activities	**(2,696)**	9,170	**-**	-
Net cash flow (invested in) generated by financing activities	**7,071**	(32,906)	**26,164**	(46,202)
(Decrease) increase in cash and cash equivalents	**20,087**	(19,135)	**2,614**	**1,230**
Statement of changes in cash and cash equivalents				
At the beginning of the year	**6,679**	25,814	**2,543**	1,313
At the end of the year	**26,766**	6,679	**5,157**	2,543
(Decrease) increase in cash and cash equivalents	**20,087**	(19,135)	**2,614**	1,230

See the accompanying notes to the financial statements.

Taurus Armas S.A.

Statement of added value
Years ended December 31, 2018 and 2017
(In thousands of reais)

	Consolidated		Parent company	
	2018	**2017**	**2018**	**2017**
Revenues				
Sale of merchandise, products and services	**841,693**	699,708	**623,202**	656,160
Other revenues	**63,341**	(5,969)	**8,722**	6,900
Allowance for doubtful accounts	**(810)**	(1,651)	**420**	(1,380)
	904,224	692,088	**632,344**	661,680
Inputs acquired from third-parties, including tax amounts - ICMS, IPI, PIS and COFINS				
Cost of products, goods and services sold	**603,131**	674,497	**438,725**	471,855
Materials, energy, outsourced services and other	**66,519**	(14,955)	**53,440**	101,402
	669,650	659,542	**492,165**	573,257
Gross added value	**234,574**	32,546	**140,179**	88,423
Depreciation and amortization	**32,724**	33,761	**7,487**	8,019
Net value added produced by the Company	**201,850**	(1,215)	**132,692**	80,404
Added value received as transfer				
Equity in net income of subsidiaries	**-**	-	**16,700**	(104,490)
Financial revenues	**28,103**	24,010	**25,278**	3,346
	28,103	24,010	**41,978**	(101,144)
Total added value of continued operations to be distributed	**229,953**	22,795	**174,670**	(20,740)
Undistributed value added from discontinued operations	**2,744**	(5,305)	**-**	-
Total added value payable	**232,697**	17,490	**174,670**	(20,740)
Distribution of added value				
Collaborators				
Direct remuneration	**105,224**	123,442	**53,429**	57,552
Benefits	**21,675**	17,241	**10,814**	6,530
FGTS	**3,631**	12,052	**1,531**	5,283
	130,530	152,735	**65,774**	69,365
Governments				
Federal	**(45,195)**	45,540	**(32,733)**	64,975
State	**1**	3	**-**	29,484
Municipal	**346**	343	**52**	78
	(44,848)	45,886	**(32,681)**	94,537
Financing entities				
Interest	**206,209**	104,078	**201,270**	101,062
Rentals	**668**	819	**169**	324
	206,877	104,897	**201,439**	101,386
Remuneration of own capital				
Retained losses, net of realization of equity valuation adjustments - Continued	**(62,606)**	(280,723)	**(59,862)**	(286,028)
Retained losses, net of realization of equity valuation adjustments - Discontinued	**2,744**	(5,305)	**-**	-
	(59,862)	(286,028)	**(59,862)**	(286,028)
	232,697	17,490	**174,670**	(20,740)

See the accompanying notes to the financial statements.

1. Operations

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

On June 29, 2018, the Annual Shareholders' Meeting approved change of trade name from Forjas Taurus S.A. to Taurus Armas S.A.

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

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

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

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

The consolidated statements of income for the year ended December 31, 2018 show the results of the helmets operation in a single line, as a net income (loss) from discontinued operations. The consolidated statement of income for the year ended December 31, 2017 was reclassified for comparability.

Economic /Financial Balance

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

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

As additional option to assist in the economic and financial rebalance, the Company maintains its strategy: (a) divestitures of non-core assets, namely: the helmets operation (historically advantageous and profitable), whose decision of sale and authorization for selling efforts were made by the Board of Directors in March 2018, in addition to a large land in an affluent residential region of Porto Alegre, where the former facilities of the Company were located and; (b) strong restructuring plan, already in course and conducted by specialized consulting firm already contracted.

The aforementioned restructuring plan, which is already in progress, presented positive results throughout 2018 and will to continue to bring efficiency gains in 2019. The plan is divided into 4 areas: i) Renegotiation of Debt; ii) Operating Efficiency, iii) Commercial Efficiency, and (iv) Evaluation of Results. Below is a summary of the actions:

I - Debt Renegotiation (completed):

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

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

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

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

II - Operating efficiency

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

Stages concluded:

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

Stages in progress:

- Clear definition of the metrics;
- Redesign of the relationship with other units of the company;
- Revaluation of outsourcing of non-core activities;
- Revaluation of the centralization of activities;
- Elimination of activities that do not aggregate value;
- Analyses of gains of efficiency in the processes;
- Intelligent and long-lasting reduction of costs;

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

Stages concluded:

Operating Master Planning:

- Review the S&OP model.

Research and Development:

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

Stages in progress:

CGS - Cost of goods sold

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

Operating Master Planning:

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

Efficiency of the Operating Management:

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

Losses of Materials (yield and scrap):

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

Research and Development:

- Schedule of actions.

Tools used:

- Explosion of Ideas;

- Data analysis;
- Simulations of scenarios;
- Analyses of Cause/Effect;
- Compensation Matrix.

III - Commercial efficiency

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

Stages concluded:

Market analysis
- Reviewing the pricing model

Portfolio of products
- Analysis for streamlining of SKUs.

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

Stages in progress:

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

Portfolio of products
- Performance analysis of the categories of products;
- Definition of the positioning of each category.

IV - Evaluation of results (in progress)

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

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

Management evaluates that the set of actions related to improvement of above-mentioned operating efficiency, plus sales of non-core assets, capital transactions and the already perceptible improvement in operations performance will be sufficient to guarantee normal continuity of operations.

2. Presentation of information for the year

2.1. Preparation basis

a) Compliance statement

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 pronouncements 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 for the year ended December 31, 2018 and only them correspond to those of its management.

The issue of individual and consolidated annual financial statements was authorized by the Board of Directors on March 21, 2019.

2.2. Basis of consolidation

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

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

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

- Shares of the parent company in capital, reserves and retained earnings of the consolidated companies;
- Balances of asset and liability accounts maintained between the consolidated companies;
- Balances of revenues 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 information is being presented in Brazilian Real, functional and presentation currency of the Company and its subsidiaries headquartered in Brazil. The functional currency of the subsidiary Taurus Holdings, Inc., headquartered in the US, and controlled T. Investments Co. Inc., headquartered in Panama is the US dollar and its assets and liabilities are converted into Reais, marked at the exchange rate on date of the balance sheet, their results are converted to the monthly average exchange rate. Exchange differences arising from the translation process of foreign subsidiaries are reported in other comprehensive income, and presented as shareholders' equity.

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

3. Significant accounting judgments and sources of uncertainties about estimates

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

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

(i) Measurement of fair value

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

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

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

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

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

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

4. Significant accounting policies

The accounting policies have also been consistently applied by Company's investees.

a) Financial instruments

(i) Non-derivative financial assets

The Company has the following non-derivative financial assets: cash and cash equivalents, interest earning bank deposits and escrow accounts, trade accounts receivable credits with related persons and other accounts receivable.

(ii) Non-derivative financial liabilities

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

(iii) Derivative financial instruments

The Company keeps derivative instruments to hedge its exposures to foreign currency and interest rate changes.

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

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

(iv) Impairment

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

b) Statements of added value

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

c) New standards, interpretations and non-standard revisions

New standards or amendments and interpretations will be effective for the years started after January 1, 2019.

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

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

The standard is effective in years starting on or after January 1, 2019.
The Company evaluated impacts from adoption of new standard and effects initially estimated were not considered as significant.

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

5. Financial risk management

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

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

5.1 Credit risk

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

Trade accounts receivable and other credits

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

Credit approvals are analyzed individually before the terms and the standard terms of payment and delivery of the Company are offered. This analysis includes external evaluations and, in some cases, bank references. Purchase limits are established for each client and represent the maximum outstanding amount for which credit approval is not required; these limits are regularly reviewed. Clients who fail to meet the credit limit established by the Company may only operate when there is a settlement of securities. For public bodies, the Company's management individually assesses the ability to pay and the bidding requirements for completion of the sale. The consolidated statement excludes transactions between related parties and, since these transactions are excluded, the Company has no customers that 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	
	2018	2017	2018	2017
Fair value through profit or loss				
Cash and cash equivalents	**26,766**	6,679	**5,157**	2,543
Amortized cost				
Trade accounts receivable	**140,420**	122,611	**114,744**	69,008
Financial investments and linked account	**2,547**	2,785	**2,547**	2,530
Total	**170,040**	132,075	**122,448**	74,081

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

	Consolidated		Parent company	
	Book value		Book value	
	2018	2017	2018	2017
Domestic - trade accounts receivable	**97,458**	59,734	**84,013**	32,654
United States clients - trade accounts receivable	**72,557**	59,239	**-**	-
Foreign - trade accounts receivable	**785**	34,825	**45,730**	50,784

Total	**170,800**	153,798	**129,743**	83,438

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

	Consolidated		Parent company	
	Book value		Book value	
	2018	**2017**	**2018**	**2017**
Clients - public agencies	**9,787**	16,377	**9,621**	15,009
Clients - distributors	**111,732**	119,776	**84,286**	50,784
End clients	**49,281**	17,645	**35,836**	17,645
Total	**170,800**	153,798	**129,743**	83,438

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

Provision for estimated losses

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

						Consolidated
			2018			2017
	Portfolio	Provision	Coverage %	Portfolio	Provision	Coverage %
Not overdue	**70,517**	**(1,261)**	**1.8%**	**98,314**	**(2,349)**	**2.4%**
Overdue (in days)						
0–30	**44,360**	**(860)**	**1.9%**	**8,628**	**(1,132)**	**13.1%**
31–60(1)	**11,764**	**(821)**	**7.0%**	**4,180**	**(275)**	**6.6%**
61–90(1)	**2,710**	**(536)**	**19.8%**	**2,052**	**(295)**	**14.4%**
91–180(1)	**7,361**	**(1,453)**	**19.7%**	**5,218**	**(2,633)**	**50.5%**
181–360(1)	**7,654**	**(3,019)**	**39.4%**	**4,636**	**(1,897)**	**40.9%**
>360	**26,435**	**(22,430)**	**84.9%**	**30,770**	**(22,607)**	**73.5%**
Total	**170,800**	(30,380)		**153,798**	(31,188)	

						Parent company
			2018			2017
	Portfolio	Provision	Coverage %	Portfolio	Provision	Coverage %
Not overdue	**53,145**	**(1,222)**	**2.3%**	**16,452**	**(1,505)**	**9.1%**
Overdue (in days)						
0–30	**40,718**	**(840)**	**2.1%**	**24,421**	**(1,038)**	**4.3%**
31–60(1)	**10,770**	**(790)**	**7.3%**	**3,689**	**(269)**	**7.3%**
61–90(1)	**2,806**	**(480)**	**17.1%**	**7,272**	**(302)**	**4.2%**
91–180(1)	**5,399**	**(1,275)**	**23.6%**	**10,767**	**(2,622)**	**24.4%**
181–360(1)	**6,033**	**(2,607)**	**43.2%**	**3,241**	**(1,884)**	**58.1%**
>360	**10,872**	**(7,784)**	**71.6%**	**17,594**	**(6,810)**	**38.7%**
Total	**129,743**	(14,999)		**83,436**	(14,430)	

5.2 Liquidity risk

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

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

The contractual maturities of financial liabilities including payment of estimated interest are as follows:

						Consolidated
						2018
	Book value	Contractual cash flow	Up to 1 year	1–2 years	2–5 years	>5 years
Non-derivative financial liabilities						
Suppliers	95,102	95,102	94,707	395	-	-
Loans and financing	731,603	813,414	103,676	244,959	464,779	-
Debentures	85,088	85,088	9,450	13,224	60,380	-
Foreign exchange advances	43,795	43,795	43,795	-	-	-
Advance from receivables	48,455	48,455	48,455	-	-	-
Derivative financial instruments						
Derivative instruments (liabilities)	-	-	-	-	-	-
	1,004,043	**1,085,854**	**300,083**	**258,578**	**525,159**	**-**

						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	75,771	75,771	-	-	-
Foreign exchange advances	24,193	24,193	24,193	-	-	-
Advance from receivables	15,422	15,422	15,422	-	-	-
Derivative financial instruments						
Derivative instruments (liabilities)	242	242	242	-	-	-
	832,494	841,964	674,524	150,346	5,022	12,072

						Parent company
						2018
	Book value	Contractual cash flow	Up to 1 year	1–2 years	2–5 years	>5 years
Non-derivative financial liabilities						
Suppliers	156,165	156,165	155,932	233	-	-
Loans and financing	604,804	707,284	129,223	113,282	464,779	-
Debentures	85,088	85,088	9,450	13,224	60,380	-
Foreign exchange advances	43,795	43,795	43,795	-	-	-
Advance from receivables	48,455	48,455	48,455	-	-	-
	938,307	**1,040,787**	**386,855**	**126,739**	**525,159**	**-**

						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	75,771	75,771	-	-	-
Foreign exchange advances	24,193	24,193	24,193	-	-	-
Advance from receivables	1,535	1,535	1,535	-	-	-
	736,850	797,585	371,001	342,887	83,697	-

5.3 Market risk

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

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

(i) Currency risk (foreign exchange)

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

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

Sensitivity analysis

The probable base scenario for 2018 was defined through assumptions available in the market (source: Brazilian Central Bank Focus), and sensitivity calculation considered the change, affected in balances due to the fluctuation between rates of the scenario foreseen for 2019 and those prevailing in 2018.

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

Currencies and ratios		**Rate 2018**	**Probable scenario**	**Possible scenario ∆ 25%**	**Remote scenario ∆ 50%**
US dollar	Write-off	**3.8748**	3.8000	2.8500	1.9000
US dollar	Increase	**3.8748**	3.8000	4.7500	5.7000

Awareness of the changes in the foreign currency:

					Consolidated
		Balance in 2018	**Probable scenario**	**Possible (25%)**	**Remote scenario (50%)**
Assets - Depreciation of Dollar					
Accounts receivable	Dollar - USD	**18,928**	(373)	(6,806)	(19,673)
Liabilities - Increase in Dollar					
Loans and financing	Dollar - USD	**(182,000)**	3,583	(33,534)	(58,278)
Suppliers	Dollar - USD	**(10,010)**	197	(1,844)	(3,205)
Foreign exchange advances	Dollar - USD	**(11,303)**	222	(2,261)	(3,619)
Advances from clients	Dollar - USD	**(20,078)**	395	(3,699)	(6,429)
Other	Dollar - USD	**(3,792)**	75	(699)	(1,214)

					Parent company
		Balance in 2018	**Probable scenario**	**Possible (25%)**	**Remote scenario (50%)**
Assets - Depreciation of Dollar					
Accounts receivable	Dollar - USD	**11,802**	(228)	(3,121)	(6,015)
Liabilities - Increase in Dollar					
Loans and financing	Dollar - USD	**(149,276)**	2,882	(33,717)	(70,315)
Suppliers	Dollar - USD	**(6,701)**	129	(1,513)	(3,156)
Foreign exchange advances	Dollar - USD	**(11,303)**	218	(2,553)	(5,324)
Advances from clients	Dollar - USD	**(19,912)**	384	(4,498)	(9,379)
Other	Dollar - USD	**(4,339)**	84	(980)	(2,044)

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

(ii) Interest rate risk

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

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

On December 31, 2018, the management considered the likely scenario for 2018 is a CDI rate of 6.40% and TJLP of 6.98%. 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	**2018**	**Probable scenario**	**Possible scenario Δ 25%**	**Remote scenario Δ 50%**
CDI - write-off	6.40%	6.40%	4.80%	3.20%
Rise in the CDI rate	6.40%	6.40%	8.00%	9.60%
TJLP	6.98%	7.00%	8.75%	10.50%
SELIC	6.40%	6.50%	8.13%	9.75%
LIBOR Overnight	2.38%	2.38%	2.97%	3.57%
LIBOR - 30 days	2.50%	2.50%	3.13%	3.75%
LIBOR 3 months	2.75%	2.75%	3.44%	4.13%

					Consolidated Gain (loss)
	Index	**Balance 2018**	**Probable scenario**	**Possible scenario**	**Remote scenario**
Assets					
Interest earning bank deposits	CDI - write-off	6,058	-	(97)	(194)
Liabilities					
Loans	Rise in the CDI rate	(141,782)	-	(2,269)	(4,537)
Loans	TJLP	(4,151)	(1)	(73)	(146)
LIBOR - 30 DAYS	LIBOR Overnight	(126,799)	-	(761)	(1,509)
LIBOR 3 months	LIBOR - 30 days	(529,221)	-	(3,334)	(6,615)
LIBOR 6 months	LIBOR 3 months	-	-	-	-

Taxes in installments	SELIC	(3,297)	(3)	(57)	(110)

					Parent company Gain (loss)
	Index	**Balance 2018**	**Probable scenario**	**Possible scenario**	**Remote scenario**
Assets					
Interest earning bank deposits	CDI - write-off	5,648	-	(90)	(181)
Liabilities					
Loan	CDI - write-off	(23,928)	-	383	766
Loans	Rise in the CDI rate	(141,782)	-	(2,269)	(4,537)
Loans	TJLP	(4,151)	(1)	(73)	(146)
LIBOR - 30 DAYS	LIBOR Overnight	-	-	-	-
LIBOR 3 months	LIBOR - 30 days	(529,221)	-	(3,334)	(6,615)
LIBOR 6 months	LIBOR 3 months	-	-	-	-
Taxes in installments	SELIC	(4,507)	(5)	(78)	(151)

5.4 Capital management

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

	Consolidated	
	2018	**2017**
Total liabilities	**1,328,119**	1,214,191
Less: Cash and cash equivalents and interest earning bank deposits	**(27,819)**	(9,464)
Net debt (A)	**1,300,300**	1,204,727
Total shareholders' equity (B)	**(406,963)**	(445,233)
Net debt to equity ratio as of December 31, 2018 and December 31, 2017 (A/B)	(3.21)	(2.71)

6. Operating segments

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

Firearms – the firearm production process, since is treated, primarily, as metalworking, and uses the following basic phases: machining (from machined and forged 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 Taurus Armas S.A., and Taurus Holdings, Inc. and its subsidiaries.

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

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

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

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

	Firearms		Other		Total		Helmets (a)		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
External revenues	**833,226**	676,646	**12,061**	18,612	**845,287**	695,258	**84,647**	89,618	**929,934**	784,876
Inter-segment revenues	**585,353**	599,823	**3,828**	4,443	**589,181**	604,266	**8,480**	12,043	**597,661**	616,309
Cost of sales	**(536,311)**	(592,523)	**(1,349)**	(7,357)	**(537,660)**	(599,880)	**(53,792)**	(68,267)	**(591,452)**	(668,147)
Gross income (loss)	**882,268**	683,946	**14,540**	15,698	**896,808**	699,644	**39,335**	33,394	**936,143**	733,038
Sales expenses	**(99,291)**	(91,120)	**(800)**	(1,397)	**(100,091)**	(92,517)	**(15,927)**	(16,957)	**(116,018)**	(109,474)
General and administrative expense	**(127,608)**	(133,423)	**(4,238)**	(3,315)	**(131,846)**	(136,738)	**(8,668)**	(8,551)	**(140,514)**	(145,289)
Depreciation and amortization	**(12,326)**	(1,351)	**(2,424)**	(1,588)	**(14,750)**	(2,939)	**(3,300)**	(576)	**(18,050)**	(3,515)
Other operating revenues (expenses), net	**(18,211)**	(25,605)	**3,519**	3,286	**(14,692)**	(22,319)	**(16)**	1,013	**(14,708)**	(21,306)
Equity in net income of subsidiaries	**-**	-	**-**	(743)	**-**	(743)		743	**-**	
	(257,436)	(251,499)	**(3,943)**	(3,757)	**(261,379)**	(255,256)	**(27,911)**	(24,328)	**(289,290)**	(279,584)
Operating income (loss)	**624,832**	432,447	**10,597**	11,941	**635,429**	444,388	**11,424**	9,066	**646,853**	453,454
Financial revenues	**28,024**	1,434	**79**	(2,293)	**28,103**	(859)	**545**	2,686	**28,648**	1,827
Financial expenses	**(205,725)**	(114,940)	**(5,958)**	(271)	**(211,683)**	(115,211)	**(5,148)**	(5,615)	**(216,831)**	(120,826)
Net financial income (loss)	**(177,701)**	(113,506)	**(5,879)**	(2,564)	**(183,580)**	(116,070)	**(4,603)**	(2,929)	**(188,183)**	(118,999)
Income (loss) per segment subject to be disclosed before income tax and social contribution	**447,131**	318,941	**4,718**	9,377	**451,849**	328,318	**6,821**	6,137	**458,670**	334,455
Elimination of inter-segment revenues	**(585,353)**	(599,823)	**(3,828)**	(4,443)	**(589,181)**	(604,266)	**(8,480)**	(12,043)	**(597,661)**	(616,309)
Income (loss) before income tax and social contribution	**(138,222)**	(280,882)	**890**	4,934	**(137,332)**	(275,948)	**(1,659)**	(5,906)	**(138,991)**	(281,854)
Income tax and social contribution	**74,368**	(14,928)	**358**	5,293	**74,726**	(9,635)	**4,403**	601	**79,129**	(9,034)
Net income for the year	**(63,854)**	(295,810)	**1,248**	10,227	**(62,606)**	(285,583)	**2,744**	(5,305)	**(59,862)**	(290,888)
Assets of reportable segments	**760,248**	585,914	**89,747**	101,508	**849,995**	687,422	**71,161**	81,536	**921,156**	768,958
Liabilities of reportable segments	**1,274,330**	1,145,919	**20,520**	21,840	**1,294,850**	1,167,759	**33,269**	46,432	**1,328,119**	1,214,191

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

Geographical information

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

	Firearms		Helmets	
	2018	**2017**	**2018**	**2017**
Domestic market				
Southeastern region	**81,198**	61,626	**23,916**	26,670
South region	**26,403**	14,145	**7,239**	4,530
Northeastern region	**16,120**	7,584	**24,285**	30,536
Mid-west region	**8,384**	4,659	**14,053**	13,691
North region	**11,214**	3,524	**14,420**	13,521
	143,319	91,538	**83,913**	88,948
Foreign market				
United States	**626,661**	541,270	**734**	670
Bangladesh	**9,332**	11,764	**-**	-
Argentina	**1,236**	5,429	**-**	-
France	**2,125**	3,925	**-**	-
Chile	**1,415**	3,113	**-**	-
Burkina	**-**	2,182	**-**	-
Honduras	**2,051**	1,654	**-**	-
Germany	**3,143**	2,441	**-**	-
South Africa	**3,786**	2,085	**-**	-
Peru	**863**	1,604	**-**	-
Zambia	**266**	-	**-**	-
Italy	**693**	1,067	**-**	-
Philippines	**4,523**	1,297	**-**	-
Senegal	**246**	-	**-**	-
Haiti	**250**	-	**-**	-
Guatemala	**596**	-	**-**	-
Thailand	**422**	217	**-**	-
Israel	**408**	-	**-**	-
New Zeland	**-**	-	**-**	-
El Salvador	**146**	182	**-**	-
Kenya	**72**	-	**-**	-
Bosnia	**329**	142	**-**	-
Costa Rica	**56**	-	**-**	-
Cabo Verde	**-**	-	**-**	-
Oman	**26,691**	2,844	-	-
United Kingdom	**76**	178	-	-
Singapore	**336**	-	-	-
Malasya	**344**	-	-	-
Morroco	**1,309**	-	-	-
Namibia	**419**	-	-	-
Other countries	**2,113**	3,714	**-**	-
	689,907	585,108	**734**	670
	833,226	676,646	**84,647**	89,618

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. Approximately 75% of consolidated revenues are directed to the American civil market, and are subject to that country's regulations.

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	
	2018	**2017**	**2018**	**2017**

Cash balance	**27**	37	**12**	19
Demand deposits	**23,535**	6,257	**2,044**	2,180
Interest earning bank deposits	**3,204**	385	**3,101**	344
Cash and cash equivalents	**26,766**	6,679	**5,157**	2,543

The investments classified as cash and cash equivalents are remunerated at variable average rates from 86% to 98% of the CDI on December 31, 2018 (86–100.00% of CDI on December 31, 2017) with counterparty financial institutions considered by management as the first line.

8. Interest earning bank deposits and escrow accounts

	Consolidated		Parent company	
	2018	**2017**	**2018**	**2017**
Money market investments in CDB	**1,053**	2,785	**746**	2,530
Interest earning bank deposits - Short-term	**1,801**	-	**1,801**	-
Total	**2,854**	2,785	**2,547**	2,530
Current	**1,801**	1,777	**1,801**	1,777
Non-current	**1,053**	1,008	**746**	753

Financial investments are paid by the average variable rate of 97.69% of CDI at December 31, 2018 (from 86% to 100% of CDI as of December 31, 2017), being held as guarantees and international short and long-term contracts, and their redemption scheduled to take place in conjunction with their termination, presented in current and non-current assets based on their redemption provisions.

9. Clients

Trade accounts receivable are recorded at the amount billed, and include the respective direct taxes for which the Company is responsible.
The allowance for doubtful accounts was calculated at an amount considered adequate by the management to cover any losses arising on collection of accounts receivable.

	Consolidated		Parent company	
	2018	**2017**	**2018**	**2017**
Domestic clients	**97,458**	65,021	**84,013**	32,654
Foreign clients	**73,342**	88,777	**45,730**	50,784
	170,800	153,798	**129,743**	83,438
Allowance for doubtful accounts - domestic	**(23,755)**	(22,596)	**(13,438)**	(8,981)
Allowance for doubtful accounts - abroad	**(6,625)**	(8,591)	**(1,561)**	(5,449)
	(30,380)	(31,187)	**(14,999)**	(14,430)
	140,420	122,611	**114,744**	69,008

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

	Consolidated	Parent company
Balance at December 31, 2017	**(31,187)**	**(14,430)**
Initial adoption - CPC 48 / IFRS 9	**(1,635)**	**(1,635)**
Additions	**(17,757)**	**(14,425)**
Reversal of allowance for doubtful accounts	**16,360**	**14,845**
Realization of allowance for doubtful accounts	**-**	**-**
Exchange-rate change	**202**	**646**
Income (loss) from discontinued operation	**3,637**	**-**
Balance at December 31, 2018	**(30,380)**	**(14,999)**

10. Inventories

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

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

	Consolidated		Parent company	
	2018	2017	2018	2017
Finished goods	**182,433**	127,427	**25,467**	32,399
Raw material	**118,972**	134,346	**101,064**	110,525
Provision for loss	**(24,368)**	(49,888)	**(22,713)**	(47,769)
	277,037	211,885	**103,818**	95,155

	Consolidated	Parent company
Balance at December 31, 2017	**(49,888)**	**(47,769)**
Reversal of provision for loss	**8,995**	**8,707**
Effective loss recognized	**16,525**	**16,349**
Balance at December 31, 2018	(24,368)	(22,713)

11. Recoverable taxes

	Consolidated		Parent company	
	2018	2017	2018	2017
ICMS	**12,546**	14,837	**3,011**	5,591
IPI	**4,494**	4,099	**4,224**	3,153
PIS	**936**	3,482	**842**	3,387
COFINS	**5,070**	12,511	**4,796**	12,010
Income tax and social contribution	**6,634**	10,002	**2,218**	1,747
INSS	**-**	20	**-**	-
Other	**27**	-	**21**	-
Total	**29,707**	44,951	**15,112**	25,888
Current	**29,461**	44,458	**14,991**	25,693
Non-current	**246**	493	**121**	195

12. Other accounts receivable

	Consolidated		Parent company	
	2018	2017	2018	2017
Advances to suppliers	**6,579**	3,384	**4,017**	1,946
Advances to employees	**2,862**	1,788	**1,304**	796
Judicial deposits (Note 23)	**9,808**	16,489	**5,333**	9,419
Receivables from insurance	**-**	82	**-**	**-**
Related party loans	**-**	-	**24,978**	19,367
Other receivables	**2,444**	731	**1,159**	644
Total	**21,693**	22,474	**36,791**	32,172
Current	**11,872**	5,985	**31,458**	22,753
Non-current	**9,821**	16,489	**5,333**	9,419

13. Income tax and social contribution

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

a) Breakdown of effects in deferred assets and liabilities		**Consolidated**		**Parent company**
	2018	2017	**2018**	2017
On tax loss and negative basis of social contribution on net income				
Tax loss	16,640	-	5,666	-
Negative basis of CSLL	6,024	-	2,074	-
On temporary credit assets				
Provision for contingencies	50,755	3,897	36,913	-
Total assets	**73,419**	3,897	**44,653**	-
On temporary liability differences				
Fair value of investment property	(10,263)	-	-	
Equity valuation adjustment	(1,106)	(13,080)	-	(2,356)
Difference for depreciation base	-	(5,405)	-	
Unshipped notes	(2,203)	-	-	
Allocation of goodwill - Goodwill and intangible assets	(6,925)	(9,019)	-	
Other	(307)	(3,865)	-	(3,723)
Total liabilities	**(20,804)**	(31,369)	-	(6,079)

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

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

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

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

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

Opening balance of deferred taxes, net	(27,472)	(6,079)
Allocated in income (loss)	85,195	47,010
Allocated to shareholders' equity	(1,106)	3,723
Offsetting of the Tax Regularization Program	(537)	-
Transfer to held for sale	(3,465)	-
Closing balance of deferred taxes, net	**52,615**	**44,654**

The amount of tax losses and negative basis of social contribution on which deferred taxes are not recorded totaled R$ 925,825. While in parent company, total amount of tax losses and social contribution negative basis were established as deferred taxes.

The main balances of tax losses and negative bases are recorded in the parent company Taurus Armas S.A and in consolidated (Polimetal).

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

	Consolidated		Parent company	
	2018	**2017**	**2018**	**2017**
Accounting loss before income tax and social contribution	(135,595)	(276,994)	(104,351)	(304,427)
Combined statutory rate:	34.00%	34.00%	34.00%	34.00%
Income tax and social contribution at the combined statutory rates	46,102	94,178	35,479	103,505
Permanent additions				
Non-deductible expenses	(555)	(7,468)	(555)	(402)
Transfer pricing	-	(4,081)	-	(4,081)
Equity in net income of subsidiaries	-	-	4,838	(35,527)
Permanent exclusions			-	-
Reintegra	1,689	2,985	1,649	2,985
Tax incentives of subsidiaries	-	1,588	-	-
Effects of differentiated rate of deemed income subsidiary	(2,455)	262	-	-
Deferred formed on prior-year tax loss	22,664	-	7,740	-
Exchange-rate change adjustment - Cash x Accrual Basis	3,007	-	3,007	-
Offset of tax loss and negative basis in PRT (Tax Regularization Program)	-	40,741	-	32,882
Deferred taxes not formed on tax loss and negative basis of CSLL	(3,636)	(43,105)	-	(26,248)
Deferred charges not recorded on unrealized exchange-rate change	-	(2,729)	-	(2,761)
Deferred taxes not recorded on provision for labor/civil/tax lawsuits	(4,571)	(39,723)	(4,571)	(37,471)
Deferred taxes not recorded on other items	-	(51,682)	-	(14,483)
Income tax and social contribution in income (loss) for the year	**62,246**	(9,034)	**47,588**	18,399
Current	(6,225)	13,175	-	-
Deferred	68,471	(22,209)	47,587	18,399
	62,246	(9,034)	**47,587**	18,399

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

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

								Consolidated
				2018				**2017**
	Base	**25%**	**9%**	**Total**	**Base**	**25%**	**9%**	**Total**
Exchange-rate change	-	-	-	-	18,702	4,676	1,683	6,359
Equity valuation adjustment	(3,253)	(813)	(293)	(1,106)	(28,354)	(7,089)	(2,552)	(9,640)
Fair value of investment property	(30,186)	(7,547)	(2,717)	(10,263)	(34,255)	(8,564)	(3,083)	(11,647)
Unshipped notes	(6,480)	(1,620)	(583)	(2,203)	3,091	773	278	1,051
Goodwill and intangible assets	(20,368)	(5,092)	(1,833)	(6,925)	(16,514)	(4,129)	(1,486)	(5,615)
Other	22,050	5,513	1,985	7,497	-	-	-	-
Undelivered Billing - MI	3,813	953	343	1,296	-	-	-	-
Allowance for doubtful accounts	20,425	5,106	1,838	6,945	31,187	7,797	2,807	10,604
Allowance for inventory losses	25,749	6,437	2,317	8,755	49,888	12,472	4,490	16,962
Provision for loss - Interest earning bank deposit	2,989	747	269	1,016	-	-	-	-
Provision for tax expenses	7,363	1,841	663	2,504	-	-	-	-
Profit sharing	5,302	1,326	477	1,803	2,155	539	194	733
Commission of agents	736	184	66	250	4,045	1,011	364	1,375
Provision for Fees from Tax Expenses	103	26	9	35	6,351	1,588	572	2,159
Provision for Life Pensions	2,182	546	196	742	-	-	-	-
Provision for contingencies	113,091	28,273	10,178	38,451	102,531	25,633	9,228	34,861
Provision for guarantee	14,315	3,579	1,288	4,867	16,720	4,180	1,505	5,685
Provision for Offset of INSS Credit	389	97	35	132	-	-	-	-
Differences in Depreciation Rate	4,268	1,067	384	1,451	6,163	1,541	555	2,095
Other	396	99	36	135	(182)	(46)	(16)	(62)
On tax loss and negative basis of social contribution on net income								
Tax loss and negative basis of social contribution on net income	792,332	198,083	71,310	269,393	584,965	146,241	52,647	198,888
	955,217	**238,804**	**85,969**	**324,774**	**746,493**	**186,623**	**67,184**	**253,808**

				2018				Parent company 2017
	Base	**25%**	**9%**	**Total**	**Base**	**25%**	**9%**	**Total**
Equity valuation adjustment	(1,487)	(372)	(134)	(506)	-	-	-	-
Unshipped notes	(2,667)	(667)	(240)	(907)	1,294	324	116	440
Allowance for doubtful accounts	10,361	2,590	932	3,523	14,430	3,608	1,299	4,906
Allowance for inventory losses	24,094	6,023	2,168	8,192	47,769	11,942	4,299	16,241
Provision for loss - Interest earning bank deposit	2,989	747	269	1,016	-	-	-	-
Provision for tax expenses	5,644	1,411	508	1,919	4,176	1,044	376	1,420
Profit sharing	4,141	1,035	373	1,408	690	173	62	235
Commissions of agents	677	169	61	230	2,842	711	256	966
Provision for Fees from Tax Expenses	103	26	9	35	-	-	-	-
Provision for contingencies	94,357	23,589	8,492	32,081	72,162	18,041	6,495	24,535
Provision for guarantee	12,847	3,212	1,156	4,368	6,764	1,691	609	2,300
Provision for Offset of INSS Credit	389	97	35	132	-	-	-	-
Provision for Life Pensions	1,854	464	167	630	-	-	-	-
Exchange-rate change	-	-	-	-	18,463	4,616	1,662	6,277
Differences in Depreciation Rate	2,262	565	204	769	1,635	409	147	556
On tax loss and negative basis of social contribution on net income								
Tax loss and negative basis of social contribution on net income	46,921	11,730	4,223	15,953	200,950	50,238	18,086	68,323
	202,484	**50,621**	**18,224**	**68,845**	**371,175**	**92,794**	**33,406**	**126,200**

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

14. Assets held for sale

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

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

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

Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortized or depreciated.

Reconciliation of book value

	Consolidated	**Consolidated**
In thousands of reais	**2018**	2017
Buildings, land and improvements	51,390	51,390
Helmets' operations - Non-current assets held for sale	71,161	-
Total non-current assets held for sale	**122,551**	**51,390**
Helmets' operation - Liabilities held for sale	33,270	-
Total liabilities held for sale	**33,270**	**-**

Buildings, land and improvements.

In 2016, Taurus Armas 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 annual information, reclassified the items formerly classified as Property, plant and equipment to Investment Property.

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

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

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

Assets held for sale - Helmets' operation

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

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

On December 31, 2018, the group of assets and liabilities held for sale was presented as the chart below and comprised the following assets and liabilities:

Property, plant and equipment / intangible	21,969
Inventories	17,452
Trade accounts receivable and other receivables	31,740
Assets held for sale	**71,161**
Suppliers and other accounts payable	33,270
Liabilities held for sale	**33,270**

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

Profit or loss from transactions with assets held for sale are presented in note on operating segments (note 6).

15. Investments (parent company)

	Taurus Blindagens Ltda.	Taurus Blindagens Nordeste Ltda.	Taurus Plásticos Ltda.	Taurus Holdings, Inc.	T. Investments Co. Inc.	Taurus Investimentos Imobiliários Ltda.	Polimetal Metalurgia e Plásticos Ltda.	Taurus Máquinas-Ferramenta Ltda. (1)	Parent company 12/31/2018	Parent company 12/31/2017
Current assets	44,068	11,002	1,175	320,625	5	64,130	260,483	384		
Non-current assets	104,793	56,842	3,690	87,716	-	44,774	124,274	841		
Current liabilities	31,807	15,424	1,172	109,479	-	1,914	105,042	3,193		
Non-current liabilities	4,747	199	27	146,918	-	16,464	49,995	23,689		
Capital	73,855	9,400	6,355	1,181	42,624	53,292	304,780	293,639		
Shareholders' equity	112,307	52,221	3,666	151,944	5	90,526	229,720	(25,657)		
Net revenue	63,617	29,510	866	626,661	-	3,455	177,085	-		
Net income (loss) for the year	6,578	1,709	(27)	(17,892)	(38,749)	8,315	47,843	29,453		
Number of shares/quotas	14	9,400	636	302,505	11,000,000	43,623,159	304,779,837	185,007,117		
Direct ownership interest (%)	0.00%	0.10%	0.01%	100.00%	100.00%	81.86%	100.00%	63.00%		
Opening balances	1	50	-	131,345	33,976	70,910	181,150	-	**417,433**	**521,562**
Spin-off	-	-	-	-	-	-	-	-	-	-
Paid-up capital (3)	-	-	-	-	-	-	-	-	-	-
Equity income (loss) (2)	-	**2**	-	**(17,322)**	**(38,749)**	**6,806**	**47,405**	**18,557**	**16,699**	**(104,490)**
Exchange rate change over investments	-	-	-	**24,434**	**4,779**	-	-	-	**29,213**	**2,349**
Equity valuation adjustment	-	-	-	-	-	-	-	-	-	-
Reclassified for provision for unsecured liability (1)	-	-	-	-	-	-	-	**(18,557)**	**(18,557)**	**(1,988)**
Closing balances (2)	**1**	**52**	-	**138,458**	**6**	**77,716**	**228,555**	-	**444,788**	**417,433**

(1) The unsecured liability of the subsidiary Taurus Máquinas-Ferramentas Ltda., in the amount of R$ 16,165, is recorded in "Provision for unsecured liability" 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.

<u>Foreign operation</u>

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

	Taurus Holdings, Inc. Consolidated	
	2018	**2017**
Assets	**404,315**	339,379
Liabilities	**252,371**	170,357
Net revenue	**626,661**	541,270
Loss for the year	**(17,892)**	(46,262)

16. Property, plant and equipment

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

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

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

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

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

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

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

Consolidated

Cost or deemed cost	Land	Buildings	Machinery and facilities	Furniture and computers	Vehicles	Other	Construction in progress	Advances to suppliers	Total
Balance at December 31, 2016	18,217	127,557	241,953	23,243	1,020	40	18,222	297	430,549
Additions	-	1,662	13,054	924	-	-	4,730	112	20,482
Disposals	(2,386)	(1)	(4,955)	(555)	(113)	(40)	(153)	-	(8,203)
Transfers	(370)	11,409	6,931	916	18	-	(18,904)	-	-
Effect of exchange rate changes	137	658	724	125	3	-	-	-	1,647
Balance at December 31, 2017	**15,598**	**141,285**	**257,707**	**24,653**	**928**	**-**	**3,895**	**409**	**444,475**
Additions	1,296	156	7,168	751	-	-	3,237	44	12,652
Disposals	(9,268)	(55,565)	(8,165)	(56)	(92)	-	-	(88)	(73,234)
Transfers	-	(134)	2,081	336	-	-	(2,283)	-	-
Effect of exchange rate changes	1,176	7,637	9,352	1,398	33	-	-	-	19,596
Effect of Discontinued Operations:	-								
Net changes in the year	-	91	(4,756)	91	(51)	-	1,835	-	(2,790)
Transfer to held for sale	(76)	(12,402)	(26,014)	(2,359)	(535)	-	(2,392)	(150)	(43,928)
Balance at December 31, 2018	**8,726**	**81,068**	**237,373**	**24,814**	**283**	**-**	**4,292**	**215**	**356,771**
Depreciation									
Balance at December 31, 2016	-	(26,912)	(149,549)	(14,399)	(845)	-	-	-	(191,899)
						-	-	-	
Depreciation for the year	-	(7,469)	(24,992)	(2,158)	(57)	-	-	-	(34,676)
Disposals	-	-	4,663	555	106	-	-	-	5,518
Transfers	-	-	-	-	-	-	-	-	-
Effect of exchange rate changes	-	(179)	(446)	(104)	(3)	-	-	-	(732)
Balance at December 31, 2017	**-**	**(34,560)**	**(170,324)**	**(16,106)**	**(799)**	**-**	**-**	**-**	**(221,789)**
Depreciation for the year	-	(7,068)	(22,516)	(1,732)	(2)	-	-	-	(31,318)
Disposals	-	17,888	7,330	69	55	-	-	-	25,342
Transfers	-	-	-	-	-	-	-	-	-
Effect of exchange rate changes	-	(2,260)	(5,507)	(1,237)	(33)	-	-	-	(9,037)
Effect of Discontinued Operations:									
Net changes in the year	-	(546)	588	(97)	80	-	-	-	25
Transfer to held for sale	-	3,720	18,553	1,746	416	-	-	-	24,435
Balance at December 31, 2018	**-**	**(22,826)**	**(171,876)**	**(17,357)**	**(283)**	**-**	**-**	**-**	**(212,342)**
Book value									
December 2017	15,598	106,725	87,383	8,547	129	-	3,895	409	222,686
December 2018	**8,726**	**58,242**	**65,497**	**7,457**	**-**	**-**	**4,292**	**215**	**144,429**

Parent company

Cost or deemed cost	**Buildings**	**Machinery and facilities**	**Furniture and computers**	**Vehicles**	**Construction in progress**	**Advances to suppliers**	**Total**
Balance at December 31, 2016	10,110	60,514	5,978	134	8,728	-	85,464
Additions	606	1,520	551	-	2,753	2	5,432
Disposals	-	(643)	-	(9)	(83)	-	(735)
Transfers	6,363	1,419	549	-	(8,331)	-	-
Balance at December 31, 2017	**17,079**	**62,810**	**7,078**	**125**	**3,067**	**2**	**90,161**
Additions	82	1,290	236	-	1,681	44	3,333
Disposals	-	(192)	(25)	(92)	-	-	(309)
Transfers	145	1,876	329	-	(2,350)	-	-
Balance at December 31, 2018	**17,306**	**65,784**	**7,618**	**33**	**2,398**	**46**	**93,185**
Depreciation							
Balance at December 31, 2016	(1,796)	(41,421)	(3,779)	(70)	-	-	(47,066)
Depreciation for the year	(1,517)	(5,266)	(642)	(18)	-	-	(7,443)
Disposals	-	518	-	2	-	-	520
Balance at December 31, 2017	**(3,313)**	**(46,169)**	**(4,421)**	**(86)**	**-**	**-**	**(53,989)**
Depreciation for the year	(1,881)	(4,821)	(685)	(2)	-	-	(7,389)
Disposals	367	331	39	55	-	-	792
Balance at December 31, 2018	**(4,827)**	**(50,659)**	**(5,067)**	**(33)**	**-**	**-**	**(60,586)**
Book value							
December 2017	13,766	16,641	2,657	39	3,067	2	36,172
December 2018	**12,479**	**15,125**	**2,551**	**-**	**2,398**	**46**	**32,599**

Construction in progress

The balance of constructions is related to machinery and equipment still in the implementation phase and constructions in progress. These assets should come into operation during 2019.

Guarantee

The Company uses its assets as guarantees for the funds obtained from financial institutions. Although most fixed assets are collateralized by loans and financing, and historically, the guarantees with assets have never been used. In 2018, the Company used the amount of R$ 46,551 in guarantees (R$ 70,763 as of December 31, 2017).

17. Intangible assets

Goodwill

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

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

Other intangible assets

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

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

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

On December 31, 2018 the Company carried out an impairment test of fixed assets as Note 17.

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

						Consolidated
	Software	Trademarks and patents	Client Relationship	Goodwill	Product development	Total
Cost						
Balance at December 31, 2016	6,229	21,043	13,796	43,905	5,119	90,092

Acquisitions	118	-	-	-	577	695
Effects of exchange-rate change	-	703	750	(1,074)	60	439
Balance at December 31, 2017	**6,347**	**21,746**	**14,546**	**42,831**	**5,756**	**91,226**
Acquisitions	884	-	-	1	3,486	4,371
Write-offs	-	-	-	-	(1,583)	(1,583)
Effects of exchange-rate change	-	1,790	2,399	1,749	1,066	7,004
Effect of Discontinued Operations:						
Net changes in the year	-	18	-	-	-	18
Transfer to held for sale	(1,305)	(1,284)	-	-	-	(2,589)
Balance at December 31, 2018	**5,926**	**22,270**	**16,945**	**44,581**	**8,725**	**98,447**
Amortization						
Balance at December 31, 2016	(1,633)	(6,840)	(6,438)	-	-	(15,746)
Amortization for the year	(820)	(91)	(1,463)	-	(2)	(2,376)
Effects of exchange-rate change	(137)	(457)	(336)	-	-	(95)
Balance at December 31, 2017	**(2,590)**	**(7,388)**	**(8,237)**	**-**	**(2)**	**(18,217)**
Amortization for the year	(855)	-	(1,701)	-	(356)	(2,912)
Effects of exchange-rate change	-	-	(1,360)	-	(291)	(1,651)
Effect of Discontinued Operations:						
Transfer to held for sale	112	-	-	-	-	112
Balance at December 31, 2018	**(3,333)**	**(7,388)**	**(11,298)**	**-**	**(649)**	**(22,668)**
Book value						
December 2017	3,757	14,358	6,309	42,831	5,754	73,009
December 2018	**2,593**	**14,882**	**5,647**	**44,581**	**8,076**	**75,779**

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	**2018**
Firearms	42,831

The recoverability test for CGUs mentioned above is performed annually based on the fair value net of sales expenses, which is estimated based on discounted cash flows. On December 31, 2018, the tests performed did not indicate the need of forming a provision for impairment losses on goodwill and intangible assets with indefinite useful lives, as well as on fixed assets.

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	**2018**	**2018**
Firearms	16.1%	4.0%

Discount rate

The discount rate for CGU is represented by a post-tax rate based on US Treasury Bonds for 20 years, adjusted for a risk premium that reflects the risks of investments in equity securities and the systematic risk of the unit in question. The company estimated, based on management's experience with assets of this CGU, the weighted average of the capital cost of the industry in which such CGU operates, which was calculated based on a possible debt/shareholders' equity ratio of 17.06% for Firearms CGU at the market interest rate of 15.85%.

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 3.8% 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).

18. Loans and financing - The terms and conditions of outstanding loans were as follows:

							Consolidated
					2018		2017
	Currency	Nominal interest rate	Year of maturity	Contracted value	Book value	Contracted value	Book value
Loans and financing							
Working capital	R$	CDI + 2.00%	2022	**27,694**	**22,240**	2,500	993
FINAME	R$	2.50–8.70% p.a.	2021	**2,304**	**464**	7,681	1,014
FINEP	R$	4–5.25% p.a.	2020	**-**	**-**	14,095	5,564
BNDES	R$	3.50% p.a.	2020	**9,995**	**3,687**	9,995	5,672
FNE	R$	9.50% p.a.	2019	**-**	**-**	9,806	2,821
Advance from receivables	R$	0.246	2019	**36,141**	**48,455**	6,136	15,422
Foreign exchange advance	USD	0.098	2019	**43,795**	**43,795**	28,065	24,193
Working capital	USD	Libor + 1.55–5.6% p.a.	2021	**499,162**	**670,746**	499,162	528,709
Working capital	USD	80–112% CDI p.a.	2019	**65,072**	**34,466**	65,072	53,526
Investments	USD	5.33% p.a.	2021	**-**	**-**	6,035	15,028
Investments	USD	Libor + 2.25% p.a.	2021	**-**	**-**	1,731	3,585
				Total	**823,853**		**656,527**
				Current liabilities	**195,926**		**498,557**
				Non-current liabilities	**627,927**		**157,970**

							Parent company
					2018		2017
	Currency	Nominal interest rate	Year of maturity	Contracted value	Book value	Contracted value	Book value
Secured bank loans							
Working capital	R$	CDI + 2.00%	2022	**27,694**	**22,240**	2,500	993
FINAME	R$	2.50–5.50%	2021	**2,304**	**464**	2,304	746
BNDES	R$	3.50%	2020	**9,995**	**3,687**	9,995	5,672
Advance from receivables	R$	24.60%	2019	**36,141**	**48,455**	6,136	1,535
Foreign exchange advances	USD	9.80%	2019	**43,795**	**43,795**	28,065	24,193
Working capital	USD	Libor + 3.00%	2022	**424,162**	**543,947**	424,162	439,582
Working capital	USD	112.00% CDI	2019	**65,072**	**34,466**	65,072	53,526
				Total	**697,054**		**526,247**
				Current liabilities	**195,926**		**479,144**
				Non-current liabilities	**501,128**		**47,103**

Schedule of maturities of non-current liabilities:

	Consolidated		Parent company	
Year of maturity	**2018**	**2017**	**2018**	**2017**
2018	**-**	50,673	**-**	45,227
2019	**-**	92,259	**-**	1,861
2020	**90,761**	1,320	**90,761**	15
2021	**15,673**	13,718	**15,673**	-
2022	**521,493**	-	**394,694**	-
	627,927	157,970	**501,128**	47,103

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

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

Covenants

As described in note 1, as of July 18, 2018, the new process of renegotiation of debts with the Bank syndicate was completed. 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/adjusted EBITDA equal or lower than 13x in 2018, 8x in 2019, 7x in 2020 and 6x as of 2021, besides maintaining the Adjusted EBITDA/Financial expenses index equal or higher than 0.90 as of December 31, 2018 and 1.20x as of 2019.

Such indices are monitored by Management, as the contracts determine that the indices be measured annually.

19. Debentures

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

Debentures	Principal (R$)	Issuing Date	Securities in the market	Financial charges	2018	2017
3rd issue (a)	100,000	06/13/2014	5,000	DI rate + 10.30% (2016)	**85,088**	75,771
				Grand total	**85,088**	75,771
				Current liabilities	**9,450**	75,771
				Non-current liabilities	**75,638**	-
				Total	**85,088**	75,771
				Incurred cost transactions	**3,584**	3,584
				Appropriate cost transactions	**3,584**	3,544

Unearned transaction costs	**-**	40

Covenants

As described in note 1, as of 2018, the new process of renegotiation of Company's debt was concluded. The instrument, which was included in re-profile of debt process 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/adjusted EBITDA equal or lower than 13x in 2018, 8x in 2019, 7x in 2020 and 6x as of 2021, besides maintaining the Adjusted EBITDA/Financial expenses index equal or higher than 0.90 as of December 31, 2018 and 1.20x as of 2019.

Such indices are monitored by Management, as the contracts determine that the indices be measured annually.

20. Other accounts payable

	Consolidated		Parent company	
	2018	**2017**	**2018**	**2017**
Performance bonus	**2,505**	4,463	**-**	-
Sales commissions	**1,782**	3,540	**1,725**	2,491
Accrued interest	**2**	1,036	**-**	-
Royalties	**-**	3,730	**-**	3,730
FEE Banking Syndicate	**430**	5,602	**430**	5,602
Accounts payable - CBC	**48**	67,740	**48**	67,740
Parent companies and subsidiaries	**-**	-	**43,069**	49,955
Other	**16,686**	5,167	**2,233**	794
	21,453	91,278	**20,601**	115,454
Current	**21,453**	88,412	**4,436**	80,357
Non-current	**-**	2,866	**43,069**	49,555

21. Salaries and social security charges

	Consolidated		Parent company	
	2018	**2017**	**2018**	**2017**
Salaries	**6,381**	1,413	**4,534**	883
Social security charges	**14,695**	20,458	**4,905**	8,443
Provisions for vacations and 13th salary	**10,870**	20,055	**4,677**	8,092
	31,946	**41,926**	**14,116**	**17,418**

22. Taxes, rates and contributions

	Consolidated		Parent company	
	2018	**2017**	**2018**	**2017**
ICMS	**911**	5,376	**911**	2,402

IPI	**5,462**	3,909	**5,462**	3,849
PIS	**43**	69	**-**	10
COFINS	**200**	325	**-**	47
SPECIAL TAX - FAET (USA)	**16,457**	14,567	**-**	-
IRRF	**8**	1,113	**(5)**	262
INCOME TAX AND SOCIAL CONTRIBUTION	**8,135**	3,740	**-**	276
INSTALLMENT PAYMENT OF PRT	**2,312**	7,192	**1,922**	6,645
OTHER PAYMENTS IN INSTALLMENTS	**1,453**	1,446	**1,379**	1,485
OTHER	**7,513**	7,042	**5,783**	5,954
	42,494	44,779	**15,452**	20,930
Current	**41,902**	40,031	**14,903**	17,944
Non-current	**592**	4,748	**549**	2,986

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

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

							Consolidated
	IPI	**IRPJ/CSLL**	**PIS/COFINS**	**IOF**	**IRRF/PCC**	**INSS**	**Total**
Value Principal	30,754	456	9,054	342	1,090	307	42,003
Fine	6,811	165	2,158	68	368	-	9,570
Interest	3,686	94	2,030	38	(39)	438	6,247
	41,251	**715**	**13,242**	**448**	**1,419**	**745**	**57,820**
Offset of tax loss and negative basis of social contribution on net income	31,350	543	10,065	341	1,079	566	43,944
Balance - Payment in 4 installments	9,901	172	3,177	107	340	179	13,877
Payments	(8,250)	(143)	(2,648)	(90)	(284)	(149)	(11,564)
Balance payable	**1,651**	**29**	**529**	**17**	**56**	**30**	**2,312**

							Parent company
	IPI	**IRPJ/CSLL**	**PIS/COFINS**	**IOF**	**IRRF/PCC**	**INSS**	**Total**
Value Principal	29,555	-	5,101	342	711	307	36,016
Fine	5,911	-	1,020	68	142	-	7,141
Interest	3,681	-	671	38	76	438	4,904
	39,147	**-**	**6,792**	**448**	**929**	**745**	**48,061**
Offset of tax loss and negative basis of social contribution on net income	29,752	-	5,162	341	706	566	36,527
Balance - Payment in 4 installments	9,395	-	1,630	107	223	179	11,534
Payments	(7,829)	-	(1,358)	(90)	(186)	(149)	(9,612)
Balance payable	**1,566**	**-**	**272**	**17**	**37**	**30**	**1,922**

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	
			2018	**2017**
	Provision	**Judicial deposit (1)**	**Net**	**Net**
Labor	55,076	(9,069)	46,007	49,230
Civil	39,065	-	39,065	9,863
Tax	27,689	(739)	26,950	26,949
	121,830	**(9,808)**	**112,022**	86,042
Classified in current liabilities	60,272			
Classified in the non-current liabilities	61,558			

			Parent company	
			2018	**2017**
	Provision	**Judicial deposit (1)**	**Net**	**Net**
Labor	35,745	(4,594)	31,151	34,631
Civil	33,166	-	33,166	1,163
Tax	27,689	(739)	26,950	26,950
	96,600	**(5,333)**	**91,267**	62,744
Classified in current liabilities	52,501			
Classified in the non-current liabilities	44,099			

(1) Recorded in other non-current assets.

Changes in provisions are as follows:

			Consolidated
	Civil and labor	**Tax**	**Total**
Balance at December 31, 2017	74,524	28,007	102,531
Provisions formed during the year	51,654	-	51,654
Provisions used during the year	(1,104)	-	(1,104)
Write-off of provision	(28,369)	-	(28,369)
Effect of changes	1,016	-	1,016
Effect of discontinued operations and assets and liabilities held for sale			
Transfer of Assets held for sale	(3,580)	(318)	(3,898)
Balance at December 31, 2018	**94,141**	**27,689**	**121,830**

			Parent company
	Civil and labor	**Tax**	**Total**
Balance at December 31, 2017	44,473	27,689	72,162

Provisions formed during the year	35,306	-	35,306
Provisions used during the year	(467)	-	(467)
Write-off of provision	(10,401)	-	(10,401)
Balance at December 31, 2018	**68,911**	**27,689**	**96,600**

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**			
	2018		**2017**		**2018**		**2017**	
	Possible	**Remote**	**Possible**	**Remote**	**Possible**	**Remote**	**Possible**	**Remote**
Tax	**50,924**	**4,266**	12,141	418	**24,788**	**-**	736	-
Civil	**96,711**	**1,935**	62,524	351	**75,616**	**493**	55,665	200
Labor	**59,664**	**31,777**	59,153	6,711	**28,846**	**23,174**	39,904	4,547
Other	**-**	**-**	8,438	712	**-**	**-**	8,160	330
	207,299	**37,798**	142,256	8,192	**129,250**	**23,667**	104,465	5,077

Sanctioning Administrative Processes - PMESP

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

In relation to Sanctioning Process CSMAM-002/30/16, the Company considers possible some monetary loss, but since it is an administrative process and is at Discovery 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 2 (two) years which expired in October 2018, and there no facts that might prevent the Company from executing into contracts with the State Government of São Paulo at this moment.

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

The Company has already presented its defense in the lawsuit and, according to its legal advisors, lawsuit was qualified as possible loss.

Djibouti

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

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

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

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

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

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

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

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

Punitive action - State of Goiás

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

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

In view of the foregoing, the parties signed an agreement that had been attached to the process which provides for the delivery by the MP of the State of Goiás to Taurus the total of 2,457 Taurus pistols model PT 24/7 PRO D, upon replacement by 2,000 (two thousand) Pistols model PT 92 AF. After compliance with executed agreement, lawsuit was extinct.

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

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

After the submission of contestation by Taurus, the Judge accepted the request of qualification of the Federal District as co-plaintiff of the MPDFT and determined the forwarding of the lawsuit to one of the Public Treasury Courts of the Federal District, since it considers itself unqualified to judge the action. Lawsuit is now in the 1st Court of the Federal District's Public Revenue Service.

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

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

Based on the facts and circumstances known to date, the current stage of the process, the low history of flaws reported by the Company's clients and the requirements of ABA (American Bar Association), it is not possible to conclude on the probability of an unfavorable outcome to the Company. However, after preliminary negotiations carried out between the parties, a proposal for agreement to end present lawsuit was forwarded to the Company's Board of Directors, subject to judicial homologation, in case it is approved by the Board of Directors.

In 2018, the Company established a provision for expected loss at amounts of the agreement (note 33).

24. Financial instruments

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

a) Derivatives

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

We summarize below our positions with derivative financial instruments:

	Consolidated		Parent company	
	2018	2017	2018	2017
Derivative financial instruments - liabilities	-	(242)	-	-
	-	(242)	-	-

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

		Consolidated 2018		Consolidated 2017	
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	(242)

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

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

b) Fair value vs. book value

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

	Consolidated	
	2018	2017

	Amortized cost	Fair value	Amortized cost	Fair value
Assets measured at amortized cost				
Cash and cash equivalents	**26,766**	**26,766**	6,679	6,679
Interest earning bank deposits	**1,053**	**1,053**	2,785	2,785
Accounts receivable	**140,420**	**140,420**	122,611	122,611
	168,239	**168,239**	132,075	132,075
Liabilities measured at fair value				
Forward exchange contracts and interest rate swap used to hedge transactions	**-**	**-**	242	242
Liabilities measured by the amortized cost				
Loans and financing	**731,603**	**711,265**	616,912	656,443
Debentures	**85,088**	**88,866**	75,771	75,771
Foreign exchange advances	**43,795**	**43,795**	24,193	24,193
Suppliers	**95,102**	**95,102**	99,954	99,954
Advance from receivables	**48,455**	**48,455**	15,422	15,422
Advance of real estate credits	**-**	**-**	-	-
	1,004,043	**987,483**	832,252	871,783

				Parent company
		2018		2017
	Amortized cost	Fair value	Amortized cost	Fair value
Assets measured at amortized cost				
Cash and cash equivalents	**5,157**	**5,157**	2,543	2,543
Interest earning bank deposits	**746**	**746**	2,530	2,530
Accounts receivable	**114,744**	**114,744**	69,008	69,008
	120,647	**120,647**	74,081	74,081
Liabilities measured by the amortized cost				
Loans and financing	**604,804**	**594,952**	500,519	504,886
Debentures	**9,450**	**88,866**	75,771	75,771
Foreign exchange advances	**43,795**	**43,795**	24,193	24,193
Suppliers	**156,165**	**156,165**	134,832	134,832
Advance from receivables	**48,455**	**48,455**	1,535	1,535
Advance of real estate credits	**-**	**-**	-	-
	862,669	**932,233**	736,850	741,217

Due to the short-term cycle, it is assumed that the fair value of cash and cash equivalents, receivables, suppliers, other accounts payable and advances from receivables are close to its book values.
The fair value that is determined for disclosure purposes is calculated based on the present value of principal and future cash flows, discounted at market interest rate on the date of presentation of the quarterly information.

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

25. Related parties

					Balances of subsidiaries outstanding with the parent company					Effect on the result of transactions of subsidiaries with parent company
	Current assets (ii)	Non-current assets (iii)	Total assets	Current liabilities (i)	Non-current liabilities		Total liabilities	Revenue		Expense
December 31, 2017										
Taurus Blindagens Ltda.	731	-	731	997	19,074	(iv)	20,071	-		-
Taurus Blindagens Nordeste Ltda.	26	-	26	775	28,015	(iv)	28,790	-		-
Taurus Holdings, Inc.	23,252	-	23,252	63,901	5,329	(v)	69,230	420,535		-
Taurus Investimentos Imobiliários Ltda.	421	-	421	1,681	-		1,681	-		-
Taurus Máquinas-Ferramenta Ltda.	-	14,044	14,044	-	-		-	-		1,523
Taurus Plásticos Ltda.	46	-	46	-	-		-	-		-
Polimetal Metalurgia e Plásticos Ltda.	18,745	-	18,745	68,411	-		68,411	546		178,416
	43,221	14,044	57,265	135,765	52,418		188,183	421,081		179,939
December 31, 2018										
Taurus Blindagens Ltda.	**364**	**-**	**364**	**888**	**10,407**	(iv)	**11,295**	**-**		**729**
Taurus Blindagens Nordeste Ltda.	**187**	**-**	**187**	**329**	**24,185**	(iv)	**24,514**	**-**		**1,513**
Taurus Holdings, Inc.	**30,104**	**-**	**30,104**	**75,625**	**6,241**	(v)	**81,866**	**419,693**		**-**
Taurus Investimentos Imobiliários Ltda.	**377**	**-**	**377**	**1,649**	**8,478**	(iv)	**10,127**	**-**		**1,414**
Taurus Máquinas-Ferramenta Ltda.	**-**	**18,164**	**18,164**	**-**	**-**		**-**	**982**		**-**
Taurus Plásticos Ltda.	**47**	**-**	**47**	**-**	**-**		**-**	**-**		**-**
Polimetal Metalurgia e Plásticos Ltda.	**24,652**	**-**	**24,652**	**85,096**	**-**		**85,096**	**373**		**165,660**
	55,731	**18,164**	**73,895**	**163,587**	**49,311**		**212,898**	**421,048**		**169,316**

(i) Refers to amounts recorded under Suppliers - R$ 103,413, other accounts payable - R$ 59,854 and advance from clients, R$ 320.
(ii) Refers to amounts recorded under Trade accounts receivable caption, R$ 30,753 and other accounts receivable - R$ 24,978.
(iii) Refers to values recorded under the captions financial loans R$ 18,164 with the parent company Taurus Armas S.A. which are updated at 100% of CDI (Interbank Deposit Certificate).
(iv) Represent loan agreements totaling R$ 43,070 with subsidiary Taurus Blindagens Ltda., Taurus Blindagens Nordeste Ltda. and Taurus Investimentos Imobiliários Ltda which are restated to 100% of the CDI (Interbank Deposit Certificate).
(v) Refers to advances received from clients - R$ 6,241

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

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

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

On December 31, 2018, operations involving Taurus Armas 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	Non-current liabilities	Revenue	Expense
Companhia Brasileira de Cartuchos	**813**	**22,124**	**-**	**3,304**	**36,953**
CBC Participações	**40,664**	**163**	**-**	**113,710**	**-**
	41,477	**22,287**	**-**	**117,014**	**36,953**

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

	Consolidated		Parent company	
	2018	2017	2018	2017
Salaries and benefits of statutory directors	**2,777**	3,429	**2,777**	3,429
Remuneration and benefits of the Board of Directors	**166**	417	**166**	417
Remuneration and benefits of the Tax Council	**477**	357	**477**	357
	3,420	4,203	**3,420**	4,203

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

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

Sureties among related parties
Loans and financing are guaranteed by promissory notes, fiduciary assignment of machinery and equipment, and real estate mortgages.

The parent company granted sureties to Taurus USA in the amounts corresponding to R$ 126,799 (R$ 113,581 as of December 31, 2017) and Taurus Blindagens Ltda granted the corresponding amount of R$ 707,294 (R$ 575,690 as of December 31, 2017) to Taurus Armas S.A..

26. Discontinued operations

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

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

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

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

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

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

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

(a) Net income (loss) from discontinued operations

	2018	**2017**
Net sales	84,647	89,618
Elimination of inter-segment revenues	(8,480)	(12,043)
External revenues	76,167	77,575
Expenses / costs / net financial income (loss)	(86,306)	(95,523)
Elimination of inter-segment expenses	8,480	12,043
Foreign expenses	(77,826)	(83,480)
Income (loss) from operating activities	(1,659)	(5,906)
Taxes on profits	4,403	601
Net income (loss) of discontinued operations	**2,744**	**(5,305)**
Earnings per share - Basic (in R$)	**0.036654**	(0.071826)

Income (loss) from discontinued operations as of December 31, 2018 is R$ 2,744 thousand (R$ 5,305 thousand on December 31, 2017) is fully attributed to controlling shareholders.

(b) Cash flow from discontinued operations

	2018	**2017**
Net cash generated by operating activities	**7,163**	19,165
Net cash generated in investment activities	**(3,355)**	(29,671)
Net cash invested in financing activities	**(2,526)**	9,782
Net cash generated by discontinued operations	**1,282**	(724)

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

a) Capital

On December 31, 2018, the Company's capital is R$ 465,218 (R$ 404,489 thousand as of December 31, 2017), represented by 74,862,626 shares, of which 46,445,314 common shares and 28,417,312 preferred shares, all registered, book-entry and with no par value.
On October 5, 2018, the Company issued 4 series of share subscription bonus, with each bonus being converted into 1 share, as follows: (i) 25 million of series A, (ii) 20 million of series B, (iii) 20 million of series C and (iv) 9 million of series D. Subscription prices are R$ 4.00, R$ 5, R$ 6 Brazilian Reais and R$ 7, respectively.

As of December 31, 2018, bonuses executed until then were automatically converted into capital, in the amount equivalent to R$ 60,729, and this was ratified in the minutes of the Board of Directors' Meeting held on January 22, 2019.

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)

	2018	2017
Common shares	51,851	51,851
Preferred shares	103,702	103,702
	155,553	155,553

Shares issued and fully paid-in

	Common (ON)		Preferred	
	Amount in thousands	**Amount in R$ thousand**	**Amount in thousands**	**Amount in R$ thousand**
December 31, 2017 Com.shares R$ 2.15 - Pref.shares - R$ 1.94*	46,445	98,857	18,243	35,391
December 31, 2018 Com.shares R$ 4.79 - Pref.shares - R$ 4.05*	**46,445**	222,472	**28,417**	115,089

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

b) Equity valuation adjustments

Deemed cost

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

Fair value of property investments

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

Accumulated translation adjustments

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

c) Earnings per share

Basic earnings per share - Continued operations	**2018**	2017
Income attributable to shareholders (in thousands of R$)	**(62,606)**	(280,723)
Balance of shares at the end of the year	**74,862,626**	64,688,212
Total shares according to CPC 41 – weighted average	**74,862,626**	64,688,212
Earnings per share - Basic (in R$)	**(0.8363)**	(4.4216)
Basic earnings per share - Discontinued operations	**2018**	2017
Income attributable to shareholders (in thousands of R$)	**2,744**	(5,305)
Balance of shares at the end of the year	**74,862,626**	64,688,212
Total shares according to CPC 41 – weighted average	**74,862,626**	64,688,212
Earnings per share - Basic (in R$)	**0.0367**	(0.0820)
Basic earnings per share	**2018**	2017
Income/(loss) attributable to shareholders (in thousands of R$)	**(59,862)**	(286,028)
Balance of shares at the end of the year	**74,862,626**	64,688,212
Total shares according to CPC 41 – weighted average	**74,862,626**	64,688,212
Earnings per share - Basic (in R$)	**(0.7996)**	(4.4216)

d) Capital transactions

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

28. Net operating revenue

According to CPC 47 / IFRS 15, revenue is recognized when the client obtains control of the products. If a reasonable estimate of potential return of goods cannot be made, when allowed, income recognition is deferred until the return period expires or until a reasonable estimate of the returns can be made.

Pursuant to CPC 47 / IFRS 15, revenue 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, revenues are expected to be recognized prior to the expiry of the period of return or before it is possible to make a reasonable estimate. A reimbursement liability and an asset for recovery will be recognized for these contracts and will be reported separately on the balance sheet.

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

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

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

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

	Consolidated		**Parent company**	
	2018	**2017**	**2018**	**2017**
Sales of goods	**988,839**	805,788	**711,707**	616,690
Rendering of services	16	76	16	5
Total gross revenue	**988,855**	805,864	**711,723**	616,695
Sales tax	**(118,123)**	(91,707)	**(60,295)**	(42,826)
Refunds and rebates	(25,445)	(18,899)	(24,797)	(17,486)
Total net operating revenue	**845,287**	**695,258**	**626,631**	**556,383**

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.

29. Expenses per type

	Consolidated		Parent company	
	2018	2017	2018	2017
Expenses according to the role				
Cost of products sold	(537,660)	(599,880)	(427,021)	(496,590)
Sales expenses	(97,067)	(94,354)	(42,719)	(40,500)
Provision for impairment of financial instruments	(3,024)	1,837	420	(1,380)
General and administrative expenses	(146,596)	(139,677)	(84,820)	(84,283)
Other operating expenses	(78,033)	(40,499)	(29,520)	(32,637)
	(862,380)	(872,573)	**(583,660)**	(655,390)
Expenses per type				
Depreciation and amortization	**(34,230)**	(37,052)	**(5,550)**	(8,019)
Personnel expenses	**(228,263)**	(254,032)	**(69,660)**	(88,991)
Tax expenses	**31,975**	(29,023)	**(4,399)**	(29,910)
Raw materials and use and consumption materials	**(274,795)**	(298,019)	**(370,678)**	(422,646)
Auxiliary, conservation and maintenance materials	**(37,489)**	(44,831)	**(7,200)**	(5,978)
Freight and insurance	**(29,988)**	(26,909)	**(17,624)**	(15,351)
Third party services	**(45,167)**	(38,762)	**(31,194)**	(16,698)
Advertising and publicity	**(21,531)**	(20,511)	**(4,694)**	(4,339)
Expenses with product warranty	**(13,356)**	(4,521)	**(13,390)**	(6,232)
Water and electricity	**(12,228)**	(15,868)	**(1,470)**	(3,093)
Travel and accommodation	**(6,652)**	(4,948)	**(2,973)**	(3,221)
Commission expenses	**(23,973)**	(14,492)	**(10,832)**	(2,627)
Cost of write-off property, plant and equipment	**(49,475)**	(2,685)	**(80)**	(215)
Provision for contingencies	**(41,295)**	(44,610)	**(35,448)**	(36,637)
Rentals	**(1,213)**	(1,037)	**(993)**	(856)
Other expenses (i)	**(74,700)**	(35,273)	**(7,475)**	(10,577)
	(862,380)	**(872,573)**	**(583,660)**	**(655,390)**

(i) Other expenses account holds values referring to cost deriving from sale of properties in subsidiary Taurus International.

30. Net financial income (loss)

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

	Consolidated		Parent company	
	2018	2017	2018	2017
Financial expenses				
Interest	**(61,478)**	(84,349)	**(60,404)**	(80,031)
Exchange-rate changes	**(132,163)**	(13,618)	**(126,217)**	(13,001)
IOF	**(1,876)**	(1,659)	**(1,620)**	(1,172)
Other expenses	**(16,166)**	(15,612)	**(12,879)**	(16,982)
	(211,683)	(115,238)	**(201,120)**	(111,176)
Financial revenues				
Interest	**5,676**	3,288	**3,399**	1,844
Exchange-rate changes	**22,149**	494	**21,617**	372
Other revenues	**278**	1,172	**262**	1,130
	28,103	4,954	**25,278**	3,346
Net financial income (loss)	**(183,580)**	(110,284)	**(175,842)**	(107,830)

31. Insurance coverage

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

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

		2018
	Consolidated	**Parent company**
Material damages	428,592	80,000
Civil liability	196,534	15,000
Loss of profit	200,583	200,583

32. Provision for product warranty

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

	Consolidated		**Parent company**	
	2018	**2017**	**2018**	**2017**
Domestic market	**14,122**	8,232	**12,654**	6,764
Foreign market	**9,360**	8,488	**-**	-
Total	**23,482**	**16,720**	**12,654**	**6,764**
Current liabilities	**17,903**	11,974	**12,654**	6,764
Non-current liabilities	**5,579**	4,746	**-**	-

33. Subsequent events

Memorandum of understanding – Joint Venture – India

On February 18, 2019, Taurus Armas S.A. informed its shareholders and the market that its Board of Directors, in a meeting held on 2/14/19, approved the signature of a non-binding memorandum of understanding (MoU) to permit the realization of a feasibility study on establishment of a joint venture in India with a large company of the local metallurgy industry. This Memorandum of Understanding was signed for the establishment of a joint venture - in case all statutory and legal authorizations are obtained – to be engaged in manufacturing and trading of firearms in Indian territory, in accordance with local program denominated “Make in India” whose purpose is to develop local war industry. Beginning as of signature of MoU, the parties will have up to 180 days to conclude studies on joint venture creation and on business plan to be developed. During this period, local company will take part in tender bids with Taurus products, for Armed Forces and Police Forces, and interest of each of the parties involved will be established, as well as other conditions to establish the joint venture. Execution of this agreement is another important step in Taurus global restructuring strategy based on sustainable profitability, quality, and improvement of financial and operating indicators, in addition to strong investment in the development of new products and technologies.

Issuance of subscription bonus by the Company.

On January 15, 2019, Taurus Armas S.A. Board of Directors approved cancellation of subscription bonus surplus corresponding to 5,603 bonuses of series A, as well as 94,523 subscription bonus of series A subscribed in the ambit of conditioned subscription orders that are the object of retraction, all of them issued in accordance with decision made in a meeting of this Board held on October 5, 2018. Therefore, 100,126 bonuses of series A, corresponding to only 0.1353% of total issued bonuses, were cancelled.

Issuance is now represented by the following amounts and maintains the same conditions provided for in the Executive Board Proposal and approved by the Board of Directors in the meeting held on October 5, 2018, whose main characteristics are as follows:

Number and Type: Up to 73,89,874 subscription bonus, all registered and book entry.

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

Principal reason for issuance: Decrease in Company's indebtedness

Series: 4 (four) series as follows: (i) up to 24,899,874 series A bonus; (i) up to 20,000,000 series B bonus; (iii) up to 20,000,000 series C bonus; and (iv) up to 9,000,000 series D bonus.

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

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

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

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

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

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

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

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

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

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

BURROW CASE

In Board of Directors' Meeting held on January 8, 2019, execution of a preliminary agreement was approved to end lawsuit filed with the U.S. District Court for the Southern District of Florida by William Burrow, Oma Louise Burrow, Suzanne M. Bedwell and Ernest D. Bedwell against Taurus and its subsidiary in the United States, Braztech International L.C. (together, "Companies"). On March 15, 2019, this agreement was homologated on a preliminary basis by the federal judge responsible for the lawsuit in the United States.

In 2018, the Company recorded a provision for value loss equivalent to US$5,560, which is the loss expected in the cause.

Taurus management understands that signature of this agreement is a large step to minimize financial impacts on the Company and give management more stability. This decision corroborates the restructuring process the Company is undergoing, seeking sustainable earnings and improvement of financial and operating indicators.

Said agreement depends on final homologation by the American Court, which is expected to occur in the second half of 2019. All payments provided for in the agreement will only be mandatory after final and definitive approval.

Capital budget proposal - 2018

Capex			
Forjas Taurus			**Sources of Resources**
Improvement in manufacturing processes	R$	4.087.400,00	Own
Machinery and equipment	R$	5.212.801,00	Own
Research and development of products	R$	7.177.000,00	Own
Tools (matrix/mold/devices)	R$	1.577.800,00	Own
Occupational Safety and Environment	R$	3.390.185,00	Own
Information technology	R$	4.872.039,00	Own
Fire line	R$	3.100.000,00	Own
Other	R$	295.424,00	Own
Modernization and expansion of capacity	R$	50.000,00	Own
SUBTOTAL	**R$**	**29.762.649,00**	
Polimetal			
Improvement in manufacturing processes	R$	25.329.152,00	Own
Machinery and equipment	R$	6.610.444,00	Own
Research and development of products	R$	-	
Tools (matrix/mold/devices)	R$	5.591.420,00	Own
Occupational Safety and Environment	R$	2.779.422,00	Own
Information technology	R$	300.066,00	Own
Fire line	R$	-	
Other	R$	826.640,00	Own
Modernization and expansion of capacity	R$	800.000,00	Own
SUBTOTAL	**R$**	**42.237.144,00**	
Taurus USA			
Improvement in manufacturing processes	R$	-	
Machinery and equipment	R$	-	
Research and development of products	R$	6.121.780,00	Own
Tools (matrix/mold/devices)	R$	-	
Occupational Safety and Environment	R$	-	
Information technology	R$	266.450,00	Own
Fire line	R$	-	
Other	R$	-	
Modernization and expansion of capacity	R$	1.095.000,00	Own
SUBTOTAL	**R$**	**7.483.230,00**	
Taurus Blindagens			
Improvement in manufacturing processes	R$	270.000,00	Own
Machinery and equipment	R$	390.000,00	Own
Research and development of products	R$	1.240.000,00	Own
Tools (matrix/mold/devices)	R$	116.000,00	Own
Occupational Safety and Environment	R$	-	
Information technology	R$	505.500,00	Own
Fire line	R$	-	
Other	R$	84.000,00	Own
Modernization and expansion of capacity	R$	70.000,00	Own
SUBTOTAL	**R$**	**2.675.500,00**	
Consolidated - Taurus			
Improvement in manufacturing processes	R$	29.686.552,00	Own
Machinery and equipment	R$	12.213.245,00	Own
Research and development of products	R$	14.538.780,00	Own
Tools (matrix/mold/devices)	R$	7.285.220,00	Own
Occupational Safety and Environment	R$	6.169.607,00	Own
Information technology	R$	5.944.055,00	Own
Fire line	R$	3.100.000,00	Own
Other	R$	1.206.064,00	Own
Modernization and expansion of capacity	R$	2.015.000,00	Own
TOTAL	**R$**	**82.158.523,00**	

Independent auditors' report on the individual and consolidated financial statements

To the Shareholders of Taurus Armas S.A.

São Leopoldo - RS

Opinion

We have audited the individual and consolidated financial statements of Taurus Armas S.A. ("Company"), identified as Parent Company and Consolidated, respectively, comprising the balance sheet as of December 31, 2018 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 clarifying information.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the individual and consolidated financial position of Taurus Armas S.A. as of December 31, 2018, the individual and consolidated performance of its operations and its individual and consolidated cash flows for the year then ended, in conformity with accounting practices adopted in Brazil and 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 auditing standards. 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.

Key audit matters

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. The 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	
Key audit matters	**How our audit conducted this matter**
The Company and its subsidiaries are party	Our audit procedures included, without limitation:

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.	• 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. • Evaluation, involving our tax and legal experts in certain cases, in the analysis of the premises and foundations included in the main judgments of the Management, as a way of evaluating the adequacy of the amounts 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 well as certain differences not adjusted, which were considered immaterial. 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, 2018 taken as a whole.

<table>
<tr><th colspan="2">Recognition of deferred tax assets</th></tr>
<tr><td colspan="2">See Note 13 of individual and consolidated financial statements</td></tr>
<tr><td>Key audit matters</td><td>How our audit conducted this matter</td></tr>
<tr><td>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.</td><td>Our audit procedures included, without limitation:

• 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, projected as sufficient to permit their realization, as well as we evaluated the fairness of the disclosures included in the notes of the Company.

Based on evidences obtained through above-summarized procedures, we consider as acceptable the recognition of deferred tax assets, as well as related disclosures, in the context of individual and consolidated financial statements for the year ended December 31, 2018 taken as a whole.</td></tr>
</table>

<table>
<tr><th colspan="2">Impairment of goodwill and fixed assets</th></tr>
<tr><td colspan="2">See Notes 16 and 17 to the individual and consolidated financial statements</td></tr>
<tr><td>Key audit matters</td><td>How our audit conducted this matter</td></tr>
<tr><td>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.</td><td>Our audit procedures included, without limitation:
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, 2018 taken as a whole.</td></tr>
</table>

Valuation and existence of inventories	
See Note 10 of individual and consolidated financial statements	
Key audit matters	**How our audit conducted this matter**
In 2018, Taurus Armas 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.	Our audit procedures included, without limitation: • Evaluation of the operating 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 impairment loss of net realizable value. • Evaluation of the fairness of disclosures included in the financial statements. The weaknesses of controls which we became aware in the design of internal controls related to the existence of inventories were considered in our evaluation regarding the nature of our work and extended the scope of our substantive procedures. As result of the evidences obtained through the procedures summarized above, we consider that the balance of inventories as to its 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, 2018 taken as a whole.

Other issues

Statements of added value

Individual and consolidated statement of added value (DVA) for the year ended December 31, 2018, prepared under responsibility of Company's management, and presented as supplementary information for IFRS purposes, were submitted to audit procedures carried out together with the audit of Company's financial statements. In order to form our opinion, we evaluated whether these statements are reconciled with the financial statements and accounting records, as applicable, and whether their form and content are in accordance with the criteria defined in CPC 09 Technical Pronouncement - 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 purposes are to obtain reasonable assurance that the individual and consolidated financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error, and to issue audit report containing 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 in the individual and consolidated financial statements, whether caused by fraud or error, we planned and performed audit procedures in response to such risks, and we obtained proper and sufficient audit evidence to support our opinion. The risk of not detecting a material misstatement due to fraud is higher than due to error, since a fraud can involve the act of circumventing internal controls, collusion, falsification, omission or intentional misrepresentations.

– 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 assessed the adequacy of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

– We reached a conclusion as to the suitability of Management’s use of the accounting basis for going concern and, based on the audit evidence obtained, as to whether there is a material uncertainty regarding events or conditions that could raise a significant doubt regarding the Company’s and its subsidiaries’ capacity for 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 assessed 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 consistent with the objective 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 directing, supervising and carrying out the group’s audit and, therefore, for the audit opinion.

We communicated with the ones responsible for governance with respect to, among other aspects, the planned scope, time of the audit and significant audit findings, including possible material weaknesses in internal controls identified by us during our work.

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, March 25, 2019

KPMG Auditores Independentes

CRC SP014428/F-7

Cristiano Jardim Seguecio

Accountant CRC SP244525/O-9 T-RS

TAX COUNCIL OPINION

The Tax Council of Taurus Armas S.A., in compliance with legal and statutory provisions, examined the Management Report and the Financial Statements for the fiscal year ended December 31, 2018, approved by the Board of Directors in the meeting held on March 21, 2019.

Based on the examinations performed and also considering the Independent auditors' report of KPMG Auditores Independentes, issued with no qualifications on March 25, 2019, and information and clarification received from the Company's management during the year, we conclude that such documents may be examined by the Annual Shareholders' Meeting.

São Leopoldo, March 26, 2019

Haroldo Zago
President

Mauro César Medeiros de Mello
Board Member

Amoreti Franco Gibbon
Board Member

OPINION OF THE AUDIT AND RISK COMMITTEE OF TAURUS ARMAS S.A.

The members of the Audit and Risk Committee of Taurus Armas 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 2018 (“2018 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 26, 2019.

Sérgio Laurimar Fioravanti

Bernardo Birmann

Magno Neves Fonseca

STATEMENT OF THE EXECUTIVE BOARD OF TAURUS ARMAS S.A. ON THE FINANCIAL STATEMENTS FOR YEAR ENDED DECEMBER 31, 2018

Messrs. Salesio Nuhs, Sergio Castilho Sgrillo Filho, Eduardo Minghelli e Ricardo Machado, Directors of Taurus Armas 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 Taurus Armas S.A. and consolidated companies for the period from January 01, 2018 to December 31, 2018.

São Leopoldo, April 26, 2019.

Salesio Nuhs
Chief Executive Officer

Sergio Castilho Sgrillo Filho
Investor Relations Director

Eduardo Minghelli
Executive Officer without specific designation

Ricardo Machado
Executive Officer without specific designation

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

Messrs. Salesio Nuhs, Sergio Castilho Sgrillo Filho, Eduardo Minghelli e Ricardo Machado, Directors of Taurus Armas 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, as provided in sections V and VI, article 25, CVM Instruction 480, dated December 07, 2009, hereby represent that they reviewed, discussed and agreed with the opinions expressed KPMG Auditores Independentes, contained in the Independent Auditors' Review Report with regard to the Financial Statements for the period from January 01, 2018 to December 31, 2018, issued on April 25, 2019.

São Leopoldo, April 26, 2019.

Salesio Nuhs
Chief Executive Officer

Sergio Castilho Sgrillo Filho
Investor Relations Director

Eduardo Minghelli
Executive Officer without specific designation

Ricardo Machado
Executive Officer without specific designation