

Randon S.A. Implementos e Participações
(Publicly-held company)

Financial statements
December 31, 2007 and 2006

(With independent auditors' report thereon)

(A translation of the original report in Portuguese as published in Brazil containing financial statements prepared in accordance with accounting practices adopted in Brazil)

Randon S.A. Implementos e Participações

(Publicly-held company)

Financial statements

December 31, 2007 and 2006

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Independent auditors' report

To
The Board of Directors and Shareholders
Randon S.A. Implementos e Participações
Caxias do Sul - RS

1. We have examined the accompanying balance sheets of Randon S.A. Implementos e Participações and the consolidated balance sheets of the Company and its subsidiaries as of December 31, 2007 and 2006 and the related statements of income, changes in shareholders' equity and changes in financial position for the years then ended, which are the responsibility of its management. Our responsibility is to express an opinion on these financial statements. The financial statements of the wholly owned subsidiaries Randon Argentina S.A., Master Sistemas Automotivos Ltda. and Suspensys Sistemas Automotivos Ltda., and the indirect subsidiaries Fras-le Argentina S.A. and Fras-le North America, Inc., for the years ended December 31, 2007 and 2006, were examined by other independent auditors and our opinion, with respect to the amounts of these investments, which total R\$ 114,822 thousand (R\$ 94,558 thousand in 2006) and the positive equity in the earnings of these subsidiaries in the amount of R\$ 51,840 thousand (R\$ 37,570 thousand in 2006), is based exclusively on the opinion of the other independent auditors.
2. Our examinations were conducted in accordance with auditing standards generally accepted in Brazil and included: (a) planning of the audit work, considering the materiality of the balances, the volume of transactions and the accounting systems and internal accounting controls of the Company and its subsidiaries; (b) verification, on a test basis, of the evidence and records which support the amounts and accounting information disclosed; and (c) evaluation of the most significant accounting policies and estimates adopted by Company management and its subsidiaries, as well as the presentation of the financial statements taken as a whole.
3. In our opinion, based on our examinations and the opinion of other independent auditors, the aforementioned financial statements present fairly, in all material respects, the financial position of Randon S.A. Implementos e Participações and the consolidated financial position of the Company and its subsidiaries as of December 31, 2007 and 2006, and the result of its operations, changes in its shareholders' equity and changes in its financial position for the year then ended, in conformity with accounting practices adopted in Brazil

4. Our examinations were performed with the objective of expressing an opinion on the aforementioned financial statements taken as a whole. The statements of added value, cash flows, and the information by business segment represent supplementary information to those financial statements, which are not required by accounting practices adopted in Brazil, and they have been included to facilitate additional analysis. This supplementary information was subjected to the same audit procedures as applied to the financial statements and, in our opinion, are presented fairly, in all material respects, in relation to the financial statements for the years ended December 31, 2007 and 2006, taken as a whole.

January 25, 2008

KPMG Auditores Independentes
CRC 2SP014428/F-RS

Wladimir Omiechuk
Accountant CRC RS041241/O-2

Randon S.A. Implementos e Participações

(Publicly-held Company)

Balance sheets

December 31, 2007 and 2006

(In thousands of Reals)

Assets	Note	Parent company		Consolidated		Liabilities	Note	Parent company		Consolidated							
		2007	2006	2007	2006			2007	2006	2007	2006						
Current assets																	
Cash and banks	5	64,872	112,016	252,879	183,221	Loans and financing	13	115,172	30,746	239,171	80,857						
Short term securities	6	65,262	33,238	65,288	33,238	Accounts payable to suppliers		43,298	36,777	119,900	98,799						
Trade accounts receivable	7	204,278	161,068	408,576	322,577	Advance payment to customers		47,315	27,938	49,043	29,365						
Inventories	8	118,260	107,592	284,125	227,946	Clients per goods to be delivered		24,535	29,219	24,676	29,230						
Taxes recoverable	9	37,442	34,607	63,868	57,793	Taxes payable		12,032	7,126	23,952	17,703						
Prepaid expenses		1,252	564	1,998	1,192	Salaries and related charges		12,869	10,155	36,368	28,337						
Deferred taxes	18	12,590	7,361	19,940	16,656	Dividends	19	14,576	11,961	24,700	17,082						
Rights due to consortium resources	14	-	-	32,077	31,031	Interest on shareholders' equity	20	21,915	14,071	29,728	21,299						
Other accounts		30,157	18,695	11,610	11,739	Employees and management participation	25	12,806	10,372	30,850	24,596						
		<u>534,113</u>	<u>475,141</u>	<u>1,140,361</u>	<u>885,393</u>	Deferred taxes	18	115	497	1,421	1,486						
Noncurrent assets																	
Long term assets																	
Related parties	10	147	1,866	-	124	Income and Social Contribution Taxes		-	-	3,523	747						
Consortium for resale		11,461	11,082	26,578	26,639	Obligations due to consortium resources	14	-	-	32,077	31,031						
Deferred taxes	18	2,518	4,373	11,523	9,875	Commissions		5,312	6,109	7,193	7,564						
Taxes recoverable	9	17,937	10,663	36,417	27,132	Related parties	10	2,029	2,422	8,085	2,422						
Court deposits	16	1,437	4,802	9,062	9,113	Other accounts		<u>12,307</u>	<u>9,350</u>	<u>29,084</u>	<u>23,257</u>						
Other accounts		11	11	4,697	2,023			<u>324,281</u>	<u>196,743</u>	<u>659,771</u>	<u>413,775</u>						
		<u>33,511</u>	<u>32,797</u>	<u>88,277</u>	<u>74,906</u>	Noncurrent liabilities											
Long term liabilities																	
Investments	11	316,133	240,214	28,293	25,226	Loans and financing	13	110,370	126,110	207,120	195,992						
Property, plant and equipment	12	233,786	143,585	527,565	395,200	Taxes and contributions payable	15	-	-	9,979	11,703						
Deferred charges		3,129	1,592	15,648	11,397	Related parties	10	52,601	33,498	35,376	18,793						
		<u>553,048</u>	<u>385,391</u>	<u>571,506</u>	<u>431,823</u>	Deferred taxes	18	840	955	878	1,139						
		<u>1,120,672</u>	<u>893,329</u>	<u>1,800,144</u>	<u>1,392,122</u>	Provision for contingencies	16	5,492	4,372	9,217	9,388						
						Pension plan	17	904	1,526	1,430	2,391						
						Other accounts		<u>2,290</u>	<u>2,751</u>	<u>7,189</u>	<u>8,887</u>						
								<u>172,497</u>	<u>169,212</u>	<u>271,189</u>	<u>248,293</u>						
						Minority interest											
								<u>-</u>	<u>-</u>	<u>246,240</u>	<u>204,364</u>						
						Shareholders' equity											
							19										
						Capital		279,000	279,000	279,000	279,000						
						Profit reserves		336,802	240,237	335,852	238,553						
						Revaluation reserve		8,092	8,137	8,092	8,137						
								<u>623,894</u>	<u>527,374</u>	<u>622,944</u>	<u>525,690</u>						
								<u>1,120,672</u>	<u>893,329</u>	<u>1,800,144</u>	<u>1,392,122</u>						

See the accompanying notes to financial statements.

Randon S.A. Implementos e Participações

(Publicly-held Company)

Statements of income

Years ended December 31, 2007 and 2006

(In thousands of Reais, except net income per share)

	Note	Parent company		Consolidated	
		2007	2006	2007	2006
Revenues					
Sale of goods and services		1,435,532	1,195,886	3,181,880	2,524,101
Deductions					
Sales taxes		(295,987)	(231,047)	(627,319)	(474,391)
Returns and discounts		(8,611)	(11,894)	(24,338)	(28,669)
		<u>(304,598)</u>	<u>(242,941)</u>	<u>(651,657)</u>	<u>(503,060)</u>
Net revenues		1,130,934	952,945	2,530,223	2,021,041
Cost of goods sold and services rendered		<u>(871,264)</u>	<u>(743,674)</u>	<u>(1859,111)</u>	<u>(1493,894)</u>
Gross profit		259,670	209,271	671,112	527,147
Operating (expenses) income					
Selling expenses		(97,609)	(82,532)	(204,749)	(170,304)
Administrative and general		(41,120)	(39,241)	(97,004)	(91,828)
Management remuneration		(3,305)	(3,113)	(9,390)	(8,574)
Financial expenses	21	(51,070)	(53,313)	(100,809)	(107,635)
Financial income	21	51,666	56,584	101,380	110,915
Equity in income of subsidiaries	11	95,183	73,294	-	-
Others operating expenses, net		<u>(15,331)</u>	<u>(5,730)</u>	<u>(23,416)</u>	<u>(5,501)</u>
		(61,586)	(54,051)	(333,988)	(272,927)
Operating income		198,084	155,220	337,124	254,220
Nonoperating income		<u>(1,208)</u>	<u>935</u>	<u>5,166</u>	<u>1,967</u>
Net income before income and social contribution taxes and profit sharing		196,876	156,155	342,290	256,187
Income and Social Contribution Taxes	18	(21,423)	(19,660)	(89,737)	(62,447)
Directors profit sharing		<u>(2,828)</u>	<u>(2,505)</u>	<u>(6,882)</u>	<u>(5,740)</u>
Net income before minority interest		172,625	133,990	245,671	188,000
Minority interest				<u>(72,312)</u>	<u>(54,617)</u>
Net income for the year		<u>172,625</u>	<u>133,990</u>	<u>173,359</u>	<u>133,383</u>
Net income per share - R\$		<u>1.08</u>	<u>0.83</u>		
Number of shares in circulation at year-end		<u>160,223,635</u>	<u>161,523,635</u>		

See the accompanying notes to financial statements.

Randon S.A. Implementos e Participações

(Publicly-held Company)

Statements of changes in shareholders' equity

Years ended December 31, 2007 and 2006

(In thousands of Reais)

Parent company	Capital	Revaluation Reserve	Profit Reserves			Retained earnings accumulated	Total
			Legal	Reserve for investment and working capital	Treasury shares		
Balances at January 1, 2006	180,000	-	20,483	135,431	-	-	335,914
Capital increase in cash	99,000	-	-	-	-	-	99,000
Constitution of revaluation reserve	-	8,731	-	-	-	-	8,731
Deferred Income Tax and Social Contribution from revaluation reserve	-	(578)	-	-	-	-	(578)
Realization of revaluation reserve	-	(16)	-	-	-	16	-
Acquisition of own shares	-	-	-	-	(6,852)	-	(6,852)
Net income for the year	-	-	-	-	-	133,990	133,990
Distributions:							
Legal reserve	-	-	6,700	-	-	(6,700)	-
Reserve for investment and working capital	-	-	-	84,475	-	(84,475)	-
Dividends	-	-	-	-	-	(11,905)	(11,905)
Interest on shareholders' equity - Law 9249/95	-	-	-	-	-	(30,926)	(30,926)
Balances at December 31, 2006	<u>279,000</u>	<u>8,137</u>	<u>27,183</u>	<u>219,906</u>	<u>(6,852)</u>	<u>-</u>	<u>527,374</u>
Realization of revaluation reserve net of taxes	-	(45)	-	-	-	45	-
Acquisition of own shares	-	-	-	-	(20,774)	-	(20,774)
Net income for the year	-	-	-	-	-	172,625	172,625
Distributions purposed:							
Legal reserve	-	-	8,634	-	-	(8,634)	-
Reserve for investment and working capital	-	-	-	108,705	-	(108,705)	-
Dividends	-	-	-	-	-	(14,534)	(14,534)
Interest on shareholders' equity - Law 9249/95	-	-	-	-	-	(40,797)	(40,797)
Balances at December 31, 2007	<u>279,000</u>	<u>8,092</u>	<u>35,817</u>	<u>328,611</u>	<u>(27,626)</u>	<u>-</u>	<u>623,894</u>

See the accompanying notes to financial statements.

Randon S.A. Implementos e Participações

(Publicly-held Company)

Statements of changes in financial position

Years ended December 31, 2007 and 2006

(In thousands of Reais)

	Parent Company		Consolidated	
	2007	2006	2007	2006
Sources of funds				
Operations				
Net income for the year	172,625	133,990	173,359	133,383
Items not affecting working capital				
Depreciation and amortization	10,972	8,179	52,065	43,912
Residual cost on disposal and sale of fixed assets	6,572	976	8,525	2,341
Equity in income of subsidiaries	(95,183)	(73,294)	-	-
Equity in income of other companys in subsidiaries	-	-	(3,944)	(1,741)
Amortization in goodwill invested in subsidiaries	-	3,023	-	-
Monetary variation of noncurrent items	(7,690)	(1,611)	(8,604)	(155)
Exchange variation in foreign subsidiaries	-	-	221	126
Minority interest	-	-	41,876	32,588
Resources from operations	87,296	71,263	263,498	210,454
From shareholders`				
Capital increase in cash	-	99,000	-	99,000
From third parties				
Increase in noncurrent liabilities	10,975	32,266	31,500	34,689
Interest and dividends received from subsidiaries	50,688	40,763	-	-
	<u>148,959</u>	<u>243,292</u>	<u>294,998</u>	<u>344,143</u>
Applications of funds				
Acquisition of property, plant and equipment	104,923	60,616	186,661	144,616
Additions in deferred charges	4,099	345	8,864	4,543
Purshase of share and quotas	31,684	19,780	1,025	70
Increase in noncurrent assets	714	5,503	13,371	10,214
Acquisition of own shares	20,774	6,852	20,774	6,852
Interest on equity reserve - Law nº 9.249/95	40,797	30,926	40,797	30,926
Proposed dividends	14,534	11,905	14,534	11,905
	<u>217,525</u>	<u>135,927</u>	<u>286,026</u>	<u>209,126</u>
Increase (decrease) in working capital	(68,566)	107,365	8,972	135,017
Changes in working capital				
Current assets				
At end of year	534,113	475,141	1140,361	885,393
At beginning of year	475,141	380,114	885,393	787,855
	<u>58,972</u>	<u>95,027</u>	<u>254,968</u>	<u>97,538</u>
Current liabilities				
At end of year	324,281	196,743	659,771	413,775
At beginning of year	196,743	209,081	413,775	451,254
	<u>127,538</u>	<u>(12,338)</u>	<u>245,996</u>	<u>(37,479)</u>
	<u>(68,566)</u>	<u>107,365</u>	<u>8,972</u>	<u>135,017</u>

See the accompanying notes to financial statements.

Randon S.A. Implementos e Participações

(Publicly-held company)

Notes to the financial statements

December 31, 2007 and 2006

(In thousands of Reais)

1 Operations

The objective of the Company is: a) investment in the capital of other companies; b) administration of its own assets and property; c) industry, commerce, importation and exportation of vehicles for road transport, implements for road and rail transport, mechanical apparatus, parts, pieces and components related to this line; d) road transport of cargo and; e) rendering of services related to its lines of business.

2 Presentantion of the financial statements

The individual and consolidated financial statements were prepared in accordance with accounting practices derived from the Brazilian Corporation Law and rules of the Brazilian Securities Exchange Commission.

With the objective of better presenting the information provided to the market , the Company is presenting the following supplementary information with respect to the parent company and the consolidated financial statements:

a. Statements of cash flows

The statements of cash flows were prepared in accordance with NPC 20 - Statement of Cash Flows, issued by IBRACON - Brazilian Institute of Independent Auditors. (Appendix I)

b. Statement of added value

The Management, voluntarily, is presenting the statements of added value, prepared in accordance with Circular-Notice/CVM/SNC/SEP/01/07 and CFC Resolution 1010/05, the aim of which is to demonstrate the value of the wealth generated by the Company and its distribution among the elements that contributed to its generation.

All the information presented has been obtained from the accounting records of the Company and its subsidiaries. Specific information contained in the statement of income has been reclassified, due to the fact that, in the statement of added value it was considered as distribution of the added value generated. (Appendix II)

Randon S.A. Implementos e Participações

(Publicly-held Company)

Notes to financial statements

(In thousands of Reais)

c. Segment report

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. (Appendix III)

3 Description of significant accounting policies

a. Statement of Income

Income and expenses are recognized on the accrual basis.

Revenue from the sale of goods is recognized in the statement of income when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognized in the statement of income in proportion to the stage of completion of the service. Revenue is not recognized if there are significant uncertainties as to its realization.

b. Accounting estimates

The preparation of the financial statements in accordance with accounting practices adopted in Brazil requires that Management uses its judgment in determining and recording accounting estimates. Significant assets and liabilities subject to these estimates and assumptions include the residual value of property, plant and equipment, allowance for doubtful accounts, inventories and deferred tax assets, provision for contingencies, and assets and liabilities related to employees' benefits. The settlement of transactions involving these estimates may result in significantly different amounts due to the lack of precision inherent to the process of their determination. The Company reviews the estimates and assumptions at quarterly.

Randon S.A. Implementos e Participações

(Publicly-held Company)

Notes to financial statements

(In thousands of Reais)

c. Foreign currency

Monetary assets and liabilities denominated in foreign currencies were translated into reais at the foreign exchange rate ruling at the balance sheet date and the foreign exchange differences arising on translation are recognized in the statement of income. For the subsidiaries located abroad, the assets and liabilities were translated into reais at the foreign exchange rate ruling at the balance sheet date.

d. Current and noncurrent assets

- **Interest earning bank deposits**

Interest earning bank deposits are recorded at cost plus income accrued up to the balance sheet date.

- **Trade account receivable**

The balance of trade accounts receivable is recorded at the amount billed including the respective taxes.

The allowance for doubtful accounts was calculated at an amount considered adequate by management to cover any losses arising on collection of accounts receivable. The criteria for recording the allowance was the individual analysis of the balances of clients running the risk of default.

- **Inventories**

Inventories are stated at average purchase or production cost and that does not exceed market value.

The cost of inventories includes expenditure incurred in acquiring the inventories transport and storage. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overhead based on normal operating capacity.

- **Resale Consortium**

Estimate for the credit value object of investment in consortium group quotas up to the date of the balance sheet.

Randon S.A. Implementos e Participações

(Publicly-held Company)

Notes to financial statements

(In thousands of Reais)

- **Other current and noncurrent assets**

Presented at the net realizable amount.

e. Permanent assets

- **Investments**

Investments in subsidiaries are valued using the equity method.

Other investments were valued at cost, less a provision for devaluation, when applicable.

- **Fixed assets**

Recorded at the cost of acquisition, formation or construction. Depreciation is calculated using the straight-line method at rates described in Note 12, which take into account the estimated useful lives of the assets.

Expenditure incurred to replace a component of an item of fixed assets that is accounted for separately, including major inspection and overhaul costs, is capitalized. Other subsequent expenditures are capitalized only when it increases the future economic benefit of the item of property, plant and equipment. All other expenditures are recognized in the statement of income as an expense as incurred.

- **Deferred charges**

Deferred charges are recorded at purchase and formation cost, less amortization, which is calculated by the straight-line method at rates that consider the useful life of the intangible assets. Deferred charges are recognized only when there is an increase in the economic benefit related to those assets.

- **Intangible assets**

Intangible assets are recorded at purchase cost.

f. Current and noncurrents liabilities

Stated at the known amounts or estimated, plus, when applicable, the corresponding charges, monetary and exchange variations incurred up to the balance sheet date.

Randon S.A. Implementos e Participações

(Publicly-held Company)

Notes to financial statements

(In thousands of Reais)

g. Provisions for contingencies

A provision for contingencies is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recorded considering the best estimates of the risk specific to the liability.

h. Pension plan and benefits to employees

The sponsorship costs of the pension plan and eventual deficits (surpluses) of the plan are recorded in compliance with CVM Deliberation nº 371/00.

i. Income and social contribution taxes

The income and social contribution taxes, both current and deferred, are calculated based on the rates 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.

The deferred tax assets resulting from carryforward tax losses, negative basis of social contribution and temporary differences were recorded in accordance with CVM Instruction 371 of June 27, 2002, and consider past profitability and expectations of future taxable income, based on a technical viability study.

Randon S.A. Implementos e Participações

(Publicly-held Company)

Notes to financial statements

(In thousands of Reais)

4 Consolidated financial statements

The consolidated financial statements include the financial statements of Randon S.A. Implementos e Participações and its subsidiaries, as listed below:

	Ownership percentage			
	2007		2006	
	Direct	Indirect	Direct	Indirect
Randon Argentina S.A. (a)	99.99	-	99.99	-
Randon Middle East (b)	100.00	-	100.00	-
Randon Automotive Ltda. (a)	100.00	-	100.00	-
Jost Brasil Sistemas Automotivos Ltda.	51.00	-	51.00	-
Master Sistemas Automotivos Ltda.	51.00	-	51.00	-
Suspensys Sistemas Automotivos Ltda.	22.88	27.12	22.88	27.12
Randon Administradora de Consórcios Ltda.	99.57	-	99.57	-
Randon Veículos Ltda.	99.99	-	99.99	-
Castertech Fundação e Tecnologia Ltda.	99.99	-	99.99	-
Fras-le S.A.	45.22	-	45.22	-
Fras-le Argentina S.A. (a)	6.00	94.00	6.00	94.00
Fras-le North América, Inc. (a)	-	100.00	-	100.00
Fras-le Andina Com. Y Repres. Ltda. (a)	-	99.00	-	99.00
Fras-le Europe (a)	-	100.00	-	100.00
Fras-le México S de RL de CV (a)	-	99.66	-	99.66

(a) Foreign subsidiary.

(b) Foreign subsidiary which, for purposes of investment evaluation, was considered as a controlled company, as determined by CVM Instruction 247/96.

The accounting policies have been consistently applied in all the consolidated companies and are consistent with those used in the previous year.

Randon S.A. Implementos e Participações

(Publicly-held Company)

Notes to financial statements

(In thousands of Reais)

Description of main consolidation procedures

- a. Elimination of intercompany asset and liability account balances;
- b. Elimination of investment in the capital, reserves and retained earnings of the subsidiaries;
- c. Elimination of intercompany income and expense balances and unearned income arising from intercompany transactions. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment;
- d. Elimination of taxes charges on unearned income in the consolidated balance sheet; and
- e. Identification of minority interests in the consolidated financial statements.

The reconciliation of the income for the year and shareholders' equity is shown below:

	<u>Net income</u>		<u>Shareholders' equity</u>	
	2007	2006	2007	2006
Parent company	<u>172,625</u>	<u>133,990</u>	<u>623,894</u>	<u>527,374</u>
Elimination of income earned by the parent company in transactions with subsidiaries, net of Income and Social Contribution	<u>734</u>	<u>(607)</u>	<u>(950)</u>	<u>(1,684)</u>
Consolidated	<u>173,359</u>	<u>133,383</u>	<u>622,944</u>	<u>525,690</u>

Randon S.A. Implementos e Participações

(Publicly-held Company)

Notes to financial statements

(In thousands of Reais)

5 Cash and banks

	<u>Parent company</u>		<u>Consolidated</u>	
	2007	2006	2007	2006
Cash and banks	25,002	2,832	36,434	17,553
Interest earning bank deposits	<u>39,870</u>	<u>109,184</u>	<u>216,445</u>	<u>165,668</u>
	<u>64,872</u>	<u>112,016</u>	<u>252,879</u>	<u>183,221</u>

Interest earning bank deposits refer substantially to Banks Deposits Certificates and Fixed Income Funds, remunerated at rates which vary from 98.0% to 101.0% of the Interbank Deposit Certificate – CDI.

6 Short term securities

Tipo	Remuneration	<u>Parent company</u>		<u>Consolidated</u>	
		2007	2006	2007	2006
CDB	100.5% of the CDI	-	16,388	-	16,388
Debentures	100.0% of the CDI	65,262	16,397	65,262	16,397
Hedge operations	Exchange variation	<u>-</u>	<u>453</u>	<u>26</u>	<u>453</u>
		<u>65,262</u>	<u>33,238</u>	<u>65,288</u>	<u>33,238</u>

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7 Trade accounts receivable

	<u>Parent company</u>		<u>Consolidated</u>	
	2007	2006	2007	2006
Current:				
Domestic customers	156,798	143,171	332,317	271,190
Foreign customers	45,042	25,698	99,570	101,533
Subsidiaries	14,089	13,940	-	-
Less:				
Vendor	(8,250)	(18,498)	(10,224)	(22,206)
Exchange trade bills discounted	-	(22)	(5,406)	(19,288)
Allowance for doubtful accounts	(3,401)	(3,221)	(7,681)	(8,652)
	<u>204,278</u>	<u>161,068</u>	<u>408,576</u>	<u>322,577</u>

8 Inventories

	<u>Parent company</u>		<u>Consolidated</u>	
	2007	2006	2007	2006
Finish goods	35,929	30,131	67,031	55,367
Work in process	43,970	36,872	70,489	55,215
Raw materials	23,887	26,307	119,064	84,683
Miscellaneous materials	9,989	8,791	22,027	22,905
Inventory obsolescence provision	(605)	(519)	(1,734)	(1,210)
Advances to suppliers	790	3,994	2,268	8,227
Imports in transit	<u>4,300</u>	<u>2,016</u>	<u>4,980</u>	<u>2,759</u>
	<u>118,260</u>	<u>107,592</u>	<u>284,125</u>	<u>227,946</u>

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9 Taxes recoverable

	<u>Parent Company</u>		<u>Consolidated</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
ICMS	30,111	23,176	51,063	39,687
IPI	513	225	2,455	488
Income Tax and Social Contribution	8,744	5,658	11,470	9,296
COFINS	13,133	14,451	24,507	26,171
PIS	2,867	1,749	5,384	4,289
Others	<u>11</u>	<u>11</u>	<u>5,406</u>	<u>4,994</u>
Total	<u>55,379</u>	<u>45,270</u>	<u>100,285</u>	<u>84,925</u>
Current	<u>37,442</u>	<u>34,607</u>	<u>63,868</u>	<u>57,793</u>
Noncurrent	<u>17,937</u>	<u>10,663</u>	<u>36,417</u>	<u>27,132</u>

a. Value-Added Tax on Sales and Services - ICMS

The balance is originated by tax credits recorded in commercial operations and purchase of fixed assets, generated on productive and commercial units of the Company.

b. Employees' Profit Participation Program (PIS) and Social Contribution on Billings (COFINS)

The balance is originated by PIS and Cofins non-cumulated taxation, recorded mainly in purchase transactions of fixed assets, which are compensated in monthly successive installments, as determined by tax legislation.

c. Excise Tax - IPI

The balance is originated mainly by amounts recorded in commercial operations.

d. Income Tax and Social Contribution

Correspond to income tax withheld at source in interest earning bank deposits and anticipated payments of Income Tax and Social Contribution realizable by compensation on federal payable taxes.

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10 Related parties transactions

a. Balances and operations with related parties

The main asset and liability balances at December 31, 2007 and 2006, as well as the transactions that affect the result for the year, related to operations with related parties, originate from transactions with the Company and its subsidiaries, which were performed under normal market conditions for the respective types of transactions and specific conditions considering the volumes of the transactions and the payment terms.

	Subsidiaries and related parties													Parent Company	
	Randon Veículos Ltda.	Master Sistemas Automotivos Ltda.	Jost Brasil Sistemas Automotivos Ltda.	Fras-le S.A.	Suspensys Sistemas Automotivos Ltda.	Randon Argentina S.A.	Randon Administradora de Consórcios Ltda.	Randon Middle East	Randon Automotive Ltda.	DRAMD Particip. e Adm. Ltda.	Ravímia Corretora de Seguros Ltda.	Fras-le Argentina S.A.	Other related parties (a)	2007	2006
Assets															
Accounts receivable from sales	158	507	2,076	12	3,654	7,640	-	-	-	-	-	42	-	14,089	13,940
Advances to subsidiaries	-	1	-	-	-	-	-	-	-	-	-	-	-	1	12
Intercompany loans receivable	-	-	-	-	147	-	-	-	-	-	-	-	-	147	1,866
Liabilities															
Accounts payable purchase	-	56	38	14	304	-	-	-	-	-	-	-	-	412	162
Advances from subsidiaries	2	27	1	-	4	-	61	-	-	-	-	-	-	95	29
Intercompany loans payable	83	6,191	5,351	5,315	727	-	-	-	-	30,463	1,252	-	5,248	54,630	35,920
Income															
Income from products and services	4,209	4,462	2,366	4,337	10,974	22,621	884	-	-	-	-	242	-	50,095	50,909
Purchase of products and services	-	8,806	33,270	87	145,122	-	-	199	1,285	-	-	-	-	188,769	161,252
Financial incomes	32	84	-	-	18	-	-	-	-	-	-	-	2	136	544
Financial expenses	4	166	735	658	113	-	-	-	-	2,651	117	-	654	5,098	5,344

(a) Balances of loans receivable and payable held by the directors, managers, members of the board of directors between other related parties.

(b) The subsidiaries Master Sistemas Automotivos Ltda. and Suspensys Sistemas Automotivos Ltda. have operations with their respective quota holders, Arvin Meritor do Brasil Sistemas Automotivos Ltda. and Meritor Heavy Vehicle Systems, LLC, company from Arvin Meritor Group. In 2007 the sales transactions with Arvin Meritor Group companies reached the amount, in Master Sistemas Automotivos Ltda., of R\$ 57,993 and, in Suspensys Sistemas Automotivos Ltda. the amount of R\$ 36,104. The commercial transactions exercised with those related parties follow specific price and maturity dates established in association agreement between the parties. This commercial agreement take into account maturity date, volume and the peculiarity of the products purchased by the related parties, that are not comparable with the products sold to non-related parties.

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The rights and obligations with related parties are represented by commercial transactions, related to purchase and sales transactions. Current account balance, related to the loan contracts between the parent company and subsidiaries, which have an open-ended term of maturity, and are updated on a pro-rata basis by the DI-Extra rate, published by National Association of Open Market Institutions ANDIMA, without interest.

b. Guarantees

On December 31, 2007 and 2006, the Company presented the following amounts of guarantees represented by sureties, bonds, fiduciary properties and mortgages rendered to the related parties:

	Guarantees	2007	2006
Randon Veículos Ltda.	Sureties	587	976
Master Sistemas Automotivos Ltda,	Sureties and bonds	48,632	19,696
Jost Brasil Sistemas Automotivos Ltda,	Sureties	-	389
Fras-le S.A,	Sureties and bonds	40,162	17,146
Randon Argentina S,A,	Bonds	1,437	5,058
Castertech Fundação e Tecnologia Ltda,	Sureties	2,470	-
Suspensys Sistemas Automotivos Ltda,	Sureties, bonds and fiduciary property	<u>45,804</u>	<u>24,254</u>
		<u>139,092</u>	<u>67,519</u>

11 Investments

a. Composition of balances

	<u>Parent Company</u>		<u>Consolidated</u>	
	2007	2006	2007	2006
Investments in subsidiaries	315,257	239,232	-	-
Other companies' interest in subsidiaries	-	-	26,342	22,285
Other investments	1,698	1,804	3,598	4,660
Provision for devaluation of investments stated at historical cost	<u>(822)</u>	<u>(822)</u>	<u>(1,647)</u>	<u>(1,719)</u>
	<u>316,133</u>	<u>240,214</u>	<u>28,293</u>	<u>25,226</u>

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b. Movement of investments

	Fras-Ie S.A.	Suspensys Sistemas Automotivos Ltda.	Master Sistemas Automotivos Ltda.	Jost Brasil Sistemas Automotivos Ltda.	Randon Veículos Ltda.	Randon Administradora Consórcios Ltda.	Randon Argentina S.A.	Castertech Fundição e Tecnologia Ltda.	Randon Middle East	Randon Automotive Ltda.	Fras-Ie Argentina S.A.	Total
Balances at December 31, 2006	74,195	18,250	60,799	12,976	22,972	23,106	5,138	21,269	143	35	349	239,232
- Capital Increased	-	-	-	-	-	-	-	31,531	-	-	-	31,531
- Interest in capital received and dividends	(6,029)	(17,927)	(11,434)	(6,811)	(2,195)	(6,160)	-	-	-	-	(133)	(50,689)
- Equity in income of subsidiaries	18,463	21,454	28,276	9,887	8,528	7,700	745	-	(20)	13	137	95,183
Balances at December 31, 2007	<u>86,629</u>	<u>21,777</u>	<u>77,641</u>	<u>16,052</u>	<u>29,305</u>	<u>24,646</u>	<u>5,883</u>	<u>52,800</u>	<u>123</u>	<u>48</u>	<u>353</u>	<u>315,257</u>

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c. Information on the investees

	Fras-le S.A. (b)	Suspensys Sistemas Automotivos Ltda. (a) e (b)	Master Sistemas Automotivos Ltda. (a) e (b)	Jost Brasil Sistemas Automotivos Ltda. (b)	Randon Veículos Ltda. (b)	Randon Administradora de Consórcios Ltda.	Randon Argentina S.A. (a)	Castertech Fundação e Tecnologia Ltda.	Randon Middle East	Randon Automotive Ltda.	Fras-le Argentina S.A. (a)	Parent Company	2007	2006
Capital	100,000	34,233	32,100	5,690	15,000	5,950	36,748	52,807	53	55	37			
Quantity of subsidiaries' shares or quotas (in lots of one thousand shares)														
- Common	44,116	-	-	-	-	-	31,016	-	-	-	1,547			
- Preferred	24,137	-	-	-	-	-	-	-	-	-	-			
- Quotas	-	100,000	92,000	5,690	15,000	5,950	-	70,000	-	210	-			
Interest in capital at end of the year - %	45.22	22.88	51.00	51.00	99.99	99.57	99.99	100.00	100.00	100.00	6.00			
Adjusted net equity	191,790	100,663	152,305	32,859	29,309	24,753	5,884	52,807	123	48	5,892			
Net income (loss) for the year	41,006	54,400	55,303	19,682	8,527	7,733	1,134	-	81	17	3,097			
Equity in income of subsidiaries	18,463	21,454	28,276	9,887	8,528	7,700	745	-	(20)	13	137	95,183	73,294	
Value of investments at December 31, 2006	86,629	21,777	77,641	16,052	29,305	24,646	5,883	52,800	123	48	353	315,257	239,232	

(a) Information examined by other independent auditors;

(b) It does not include unearned income in inventories: Fras-le S.A. (R\$ 103), Suspensys Sistemas Automotivos Ltda. (R\$ 1,256), Master Sistemas Automotivos Ltda. (R\$ 35), Jost Brasil Sistemas Automotivos Ltda. (R\$ 706) and Randon Veículos Ltda. (R\$ 2).

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d. Interest on shareholders' equity and dividends received

The Company received from the subsidiaries interest on shareholders' equity in the amount of R\$ 14,386 which until December 31, 2007 (R\$ 13,173 in 2006).

The Company received from controlled companies dividends in the value of R\$ 36,302 in 2007 (R\$ 27,590 in 2006).

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12 Property, plant and equipment

a. Composition of balances

	Average rate annual of depreciation % p.a.	Parent Company				Consolidated			
		2007		2006		2007		2006	
		Cost	Depreciation	Net	Net	Cost	Depreciation	Net	Net
Tangible									
Buildings	4	65,789	(28,315)	37,474	37,461	140,135	(49,705)	90,430	88,427
Machinery and equipment	10	82,351	(35,423)	46,928	25,298	403,849	(238,056)	165,793	140,264
Molds	10	11,521	(4,303)	7,218	3,977	81,154	(41,599)	39,555	34,127
Furniture and fixtures	10	6,591	(3,724)	2,867	2,451	21,444	(13,971)	7,473	8,503
Vehicles	21	9,031	(6,017)	3,014	1,770	13,889	(9,340)	4,549	2,753
Computer equipment	20	5,762	(4,114)	1,648	1,162	16,210	(11,765)	4,445	3,541
Land		36,188	-	36,188	24,255	48,911	-	48,911	37,242
Others		3,688	-	3,688	3,310	3,688	-	3,688	3,310
Fixed assets in progress		86,303	-	86,303	36,075	139,860	-	139,860	44,671
Imports in transit		1,565	-	1,565	3,306	3,025	-	3,025	5,704
Advances to suppliers		3,161	-	3,161	2,872	12,001	-	12,001	20,914
		<u>311,950</u>	<u>(81,896)</u>	<u>230,054</u>	<u>141,937</u>	<u>884,166</u>	<u>(364,436)</u>	<u>519,730</u>	<u>389,456</u>
Intangible									
Trademarks and patents		209	-	209	209	220	-	220	224
Software	20	8,013	(4,490)	3,523	1,439	19,068	(11,453)	7,615	5,520
		<u>8,222</u>	<u>(4,490)</u>	<u>3,732</u>	<u>1,648</u>	<u>19,288</u>	<u>(11,453)</u>	<u>7,835</u>	<u>5,744</u>
		<u>320,172</u>	<u>(86,386)</u>	<u>233,786</u>	<u>143,585</u>	<u>903,454</u>	<u>(375,889)</u>	<u>527,565</u>	<u>395,200</u>

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b. Movement of cost

	Consolidated				
	2006	2007			
	Cost	Additions	Write-offs	Others	Cost
Tangible					
Buildings	132,484	2,420	(236)	5,467	140,135
Machinery and equipment	349,712	29,326	(1,264)	26,075	403,849
Molds	69,670	7,172	(20)	4,332	81,154
Furniture and fixtures	19,660	1,695	(470)	559	21,444
Vehicles	11,597	3,134	(931)	89	13,889
Computer equipment	14,490	2,072	(469)	117	16,210
Land	37,242	14,838	(2,922)	(247)	48,911
Fixed assets in progress	44,671	84,577	(75)	10,687	139,860
Others	3,310	517	(139)	-	3,688
Imports in transit	5,704	4,727	(647)	(6,759)	3,025
Advances to suppliers	20,914	33,590	(179)	(42,324)	12,001
	<u>709,454</u>	<u>184,068</u>	<u>(7,352)</u>	<u>(2,004)</u>	<u>884,166</u>
Intangible					
Trademarks and patents	224	-	(4)	-	220
Software	14,513	2,593	(3)	1,965	19,068
	<u>14,737</u>	<u>2,593</u>	<u>(7)</u>	<u>1,965</u>	<u>19,288</u>
	<u>724,191</u>	<u>186,661</u>	<u>(7,359)</u>	<u>(39)</u>	<u>903,454</u>

(a) Fixed assets in progress are represented substantially by expansion and improvement projects for industrial units, mainly related to construction of industrial plant from the subsidiary Castertech Fundação e Tecnologia Ltda.

(b) Fixed assets fully depreciated in use in 2007 correspond to the amount of R\$ 40,528 (R\$ 34,189 in 2006) for parent company, and R\$ 199,547 (R\$ 181,478 in 2006) for consolidated.

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13 Loans and financing

	Index	Interest	Parent company		Consolidated	
			2007	2006	2007	2006
Local currency:						
FINAME	URTJLP / TJLP	2.5% to 8% p.a.	112	201	2,743	3,558
FINEP	TJLP	2.5% to 3% p.a.	15,491	17,119	45,447	42,331
Bank loans	TJLP	2.5% p.a.	4,062	8,914	8,593	14,040
BNDES	URTJLP / TJLP	2.2% to 5.4 % p.a.	131,285	39,332	255,233	72,305
Foreign currency:						
Advances on exchange contracts of prepayment for exportation of US\$ 22,732 thousand in parent company and US\$ 38,982 thousand in consolidated	Exchange variance + Libor	2.65% to 6.15% p.a.	40,266	47,653	69,049	73,496
Financing of US\$ 9,461 thousand thousand in parent company and US\$ 15,559 thousand in consolidated	Exchange variance + Libor	0.75% to 6.17% p.a.	16,759	23,009	27,559	39,493
Banks loans of US\$ 1,440 thousand in consolidated	Exchange variance	11.5% to 12.5% p.a.	-	-	2,550	5,130
BNDES	UMBND / Exchange variance	2.5% to 4.5 % p.a.	<u>7,731</u>	<u>5,941</u>	<u>25,281</u>	<u>10,378</u>
			215,706	142,169	436,455	260,731
Swap operations	Exchange variance	100% to 103% of CDI (-) 5.3% p.a. to (-) 3.5% p.a.	<u>9,836</u>	<u>14,687</u>	<u>9,836</u>	<u>16,118</u>
			225,542	156,856	446,291	276,849
Current portion included in current liabilities			<u>115,172</u>	<u>30,746</u>	<u>239,171</u>	<u>80,857</u>
Noncurrent liabilities			<u>110,370</u>	<u>126,110</u>	<u>207,120</u>	<u>195,992</u>

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The long-term installments have the following payment schedule:

	Parent company	Consolidated
Year of maturity:	2007	2007
2009	26,903	56,365
2010	26,153	51,460
2011	22,551	41,923
2012	14,895	30,190
2013 to 2015	<u>19,868</u>	<u>27,182</u>
	<u>110,370</u>	<u>207,120</u>

The loans and financing are guaranteed by sureties and guarantees for the subsidiaries in the amount of R\$ 130,752 (R\$ 66,252 in 2006), a mortgage in the amount of R\$ 17,000 (R\$ 17,000 in 2006) in the parent company and R\$ 59,111 (R\$ 37,736 in 2006) in consolidated; assets given as guarantee and collateral in the amount of R\$ 18,820 (R\$ 19,673 in 2006) in the parent company and R\$ 129,207 (R\$ 131,175 in 2006) in consolidated; promissory notes and guarantee letters in the amount of R\$ 53,127 (R\$ 86,701 in 2006) in parent company and R\$ 74,327 (R\$ 187,722 in 2006) in consolidated.

The financing contracts with International Finance Corporation – IFC, in the amount of R\$ 7,113 in parent company and R\$ 9,545 in consolidated recorded in current liabilities and in the amount of R\$ 1,181 recorded in noncurrent liabilities, and the financing contracts with National Bank for Economic and Social Development – BNDES have restrictive covenants which include, among others, partial or total maturity anticipation when certain financial ratios are default. On December 31, 2007, those ratios are in compliance with the determined in those contracts.

14 Rights and obligations due to consortium resources

It basically refers to the subsidiary Randon Administradora de Consórcios Ltda.'s balances of resources pending receipt arisen from judicial collection derived from closing of groups transferred to the Administrator, as provided for Circular no. 3084 of the Central Bank of Brazil, dated January 31, 2002, and the respective obligations of prorating values proportionally among beneficiaries of the remaining balance of groups to be paid related to obligations derived from closing of consortium groups, the resources of which have been transferred to the Administrator, as provided for in Circular no. 3084 of the Central Bank of Brazil, dated of January 31, 2002, updated according to earnings obtained through resource investments.

15 Special program for payment of taxes in installments – PAES

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The subsidiary Fras-le S.A. is taking part in the special program for payment of federal and social security taxes, as permitted by Law 10684/02. The requests for payment in installments, officially filed on July 30, 2003, will be paid off over 120 months with price-level restatement by the variation of the Long-Term Interest Rate (TJLP).

The amounts included in this program include the renouncement of the injunction related to full offsetting of tax losses for 1996 and of desistance from the proceedings for offsetting of IPI, PIS and COFINS for 1998 with negative bases of income tax and social contribution computed in 1995.

The main effects included in the program are as follows:

	Federal taxes
Principal	10,091
Fine and interest	<u>8,727</u>
Total debts included in PAES	<u>18,818</u>
(-)Adjustment requested for offsetting ratified by the Federal Revenue Department	(1,768)
Total of the debts included in PAES	<u>17,050</u>
(-)Payments made until December 31, 2007	(9,897)
+ Monetary updating until December 31, 2007	<u>5,044</u>
Balance of the debts at December 31, 2007	12,197
(-) Total of current liabilities	<u>(2,218)</u>
Total of noncurrent liabilities	<u>9,979</u>

16 Provision for contingencies

The Company and its subsidiaries are a party in judicial and administrative proceedings before several courts and governmental bodies, arisen on the ordinary course of the business, involving tax, labor, civil, social security and other matters. The Company made several deposits in court in connection with proceedings related to taxes in judicial discussion. The estimated loss was provisioned for in non-current liabilities based on the opinion of its legal counsel for the cases in which loss is considered as probable.

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a) Contingent Liabilities

The following table demonstrates the contingent risks (loss) as of December 31, 2007, according to the opinion of the Company's legal advisors:

Nature of Contingent Liability	Parent company			Consolidated			Court Deposit	
	Probable	Possible	Remote	Probable	Possible	Remote	Parent company	Consolidated
a) civil	1,261	254	441	1,721	657	629	5	31
b) tax	959	16,055	46,345	3,371	19,231	53,944	2,203	9,690
c) labor	1,215	1,201	440	2,326	3,395	485	228	399
d) social security	3,067	435	24,759	4,703	2,607	26,094	11	1,846
Total :	6,502	17,945	71,985	12,121	25,890	81,152	2,447	11,966
Court deposit	(1,010)	-	-	(2,904)	-	-	(1,010)	(2,904)
Net total	5,492	-	-	9,217	-	-	1,437	9,062

Civil – the majority of actions are actions for damages filed by ex-employees due to termination of contracts;

Tax – represented by federal assessments which are presently being judged in the administrative and judicial spheres.

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The Company and its subsidiaries have proceedings in progress for which, based on the opinion of their legal advisors (possible and remote risk), and in consonance with the accounting practices adopted in Brazil, no provisions for contingencies have been recorded. Challenges have been presented on the lack of basis of the assessments, being proceedings in the administrative phase. The main remote and possible risk proceedings are the following:

- a. **Income Tax, Social Contribution on Net Income and Income Tax Withheld at Source** – The subsidiary Fras-le S.A. was assessed an amount of R\$ 94,100, and the subsidiary Master Sistemas Automotivos Ltda an amount of R\$ 3,089 regarding payments regularly made to their foreign agents, as sales and services agency commission. The values include principal, penalty and interest.
- b. **PIS credits against COFINS and PIS debits** – The Federal Revenue Department partially disallowed PIS credit compensation against COFINS and IPI debits in the value of R\$ 18,881 of the subsidiary Fras-le S.A., in spite of the existence of a final decision in *res judicata*.
- c. **Export premium credit – BEFIEEX** – The Company was assessed for additional tax by the Federal Revenue Department in the updated amount of R\$ 10,815 in an export process for the use of BEFIEEX-DRAWBACK tax benefits, referring to import duties and excise tax (IPI).
- d. **IPI, PIS, COFINS** – The subsidiary Fras-le S.A. rectified 1995 and 1996 base-year income tax returns since it considered the third party debt assumption upon acquisition of the shareholding control by Randon S.A. Implementos e Participações to be deductible, thus requesting to be refunded, which was object of carry-forward against values due in subsequent periods as PIS, COFINS and IPI, but its refund request was not granted. The value of proceeding is of R\$ 9,855.
- e. **COFINS** – The Company was assessed by the Federal Revenue Department in the amount of R\$ 9,954 due to COFINS compensation against FINSOCIAL.
- f. **Value-Added Tax on Sales and Services (ICMS)** – The subsidiary Suspensys Sistemas Automotivos Ltda. was assessed for extra tax in the amount of R\$ 7,801 due to an alleged

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irregularity in the computation of the benefit of a reduction in ICMS through the *Fundopem/Nosso Emprego* program. The amount includes the principal, fine and interest. On January 24, 2007, as a result of the refutation presented by the company, the debit was recalculated by the tax authorities. Management estimates that the total amount of the assessment will be reduced by approximately R\$ 2,000, including the principal, fine and interest.

- g. Compensation based on IRPJ and CSLL negative balance** – The Company was assessed by the Federal Revenue Department in the value of R\$ 7,736 due to Income Tax and Social Contribution compensations based on the Income Tax, Social Contribution on Net Income negative balance related to the 2002 calendar year, ascertained upon the spin-off event occurred in September 2002.
- h. Income Tax and Social Contribution on Net Income** – The subsidiary Fras-le S.A. rectified 1995 and 1996 base-year income tax returns since it considered the third party debt assumption upon acquisition of the shareholding control by Randon S.A. Implementos e Participações and external advisory expenditure installments to be deductible. The Federal Revenue Department disallowed and adjusted the Social Contribution on Net Income's taxable income and calculation basis. The value of proceeding is of R\$ 5,230.
- i. Import duty** – The subsidiary Fras-le S.A. was assessed for extra tax, under the presumption of noncompliance with the ratio – Domestic Capital Assets vs. Capital Assets, and consequent infraction of that established in article 2, item II, of Law 9449/97, and article 6 of Decree 2072/96, in the amount of R\$ 5,093. The subsidiary presented a refutation suggesting that the statute had run for the fine applied. Furthermore, errors of fact and existing rights were presented in the tax assessment and full cancellation of the tax assessment was requested.
- j. IPI** – The subsidiary Fras-le S.A. was assessed due to lack of IPI withholding or payment during the period from January 1997 until September 1997 in the value of R\$ 3,061. The subsidiary Fras-le S.A. presented a challenge claiming nullity of the assessment tax notice due to absence of requirements for compensation request included in the specific proceedings.

Labor – various labor claims, the majority in connection with various actions for damages;

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Social Security – INSS assessments under judgment at the regional federal court. The main proceeding, of remote risk, refers to collection of social contribution upon remuneration to self-employed workers considered by the social security department as employees, in the current amount of R\$ 17,444. The Company is also defending a tax assessment by the National Institute of Social Security (INSS) for the calculation basis of employees' profit sharing, with chances of loss estimated as remote, the updated amount of which is R\$ 4,966.

b) Contingent assets

The statement as of December 31, 2007 containing information on contingent assets (gain), in the opinion of the legal advisors and is presented below:

Assets Contingent	Parent company			Consolidated		
	Probable	Possible	Remote	Probable	Possible	Remote
a) tax	557	2,870	367	638	5,345	29,203
b) social security	653	82	-	693	1,664	142
Total :	<u>1,210</u>	<u>2,952</u>	<u>367</u>	<u>1,331</u>	<u>7,009</u>	<u>29,345</u>

a) tax – represented mainly by state and federal assessments awaiting decisions at High Court of Justice (STJ) and Supreme Court (STF);

b) social security - related to work accident insurance and social security taxes for self-employed workers.

The Company did not record the contingent gains, as it only enters them in the accounting after the final decision of the lawsuits which is not subject to appeals or after the effective entry of the resources.

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a. Movement of lawsuits

	Consolidated				
	2006	2007			
	Opening balance	Additions to the provision	Used	Reversals	Closing balance
Civil	1,945	138	(253)	(109)	1,721
Labor	1,604	951	(229)	-	2,326
Tax	3,005	390	(24)	-	3,371
Social security	<u>4,339</u>	<u>377</u>	<u>(13)</u>	<u>-</u>	<u>4,703</u>
	<u>10,893</u>	<u>1,856</u>	<u>(519)</u>	<u>(109)</u>	<u>12,121</u>

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17 Pension plans and post-employment benefits for employees

The Company and its subsidiaries are sponsors of RANDONPREV – Plano de Pensão, the main objective of which is to supplement benefits assured and provided by the Social Security to its employees. The supplementary plan is a defined contribution for retirement of its employees, with a financial capitalization regime.

The position of the actuarial liabilities at the end of the year calculated based on an independent actuarial report is as follows:

	<u>2007</u>	
	Parent company	Consolidated
Actuarial liability		
Present value of actuarial obligations	(9,389)	(14,451)
Fair value of the plan's assets	12,895	19,847
Unrecognized actuarial (losses)	(4,410)	(6,826)
Net liability in the balance sheet	(<u>904</u>)	(<u>1,430</u>)
The composition of the result is as follows:		
Accumulated service cost	(224)	(540)
Interest on obligation	(778)	(1,198)
Expected return on the plan's assets	1,291	2,001
Net actuarial gains recognized in the year	<u>93</u>	<u>145</u>
Total	<u>382</u>	<u>408</u>

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Movements in the net liability recognized in the balance sheet are as follows:

	<u>2007</u>	
	Parent company	Consolidated
Net liability at beginning of year	(1,526)	(2,391)
Net expense recognized in the statement of income/ shareholders' equity	382	408
Contributions paid	240	549
Effect from formation of new companies	<u>-</u>	<u>4</u>
Net liability at end of year	<u>(904)</u>	<u>(1,430)</u>

The main actuarial assumptions at the balance sheet date (expressed as weighted averages) are as follows:

	%
Discount rate at December 31	9.20 p.a.
Expected return on the plan's assets at December 31	11.00 p.a.
Future salary increases	7.12 p.a.
Inflation rate	4.00 p.a.

The fair value of the plan's assets was determined based on market parameters at the end of the fiscal year or, when applicable, by the projection of the future benefits derived from the utilization of the asset, discounted at the present value.

The actuarial liability at the end of the fiscal year was determined based on the calculations of the independent actuary using the projected unit credit method.

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18 Income Tax and Social Contribution

a. Deferred income taxes

The deferred Income and Social Contribution Taxes are recognized to reflect future tax effects attributable to temporary differences between the tax bases of assets and liabilities and their book values.

Tax credit recovery estimates were based on taxable income projections, taking into consideration several financial and business premises considered at the end of the fiscal year. Consequently, estimates may not be accomplished in the future, in view of the uncertainties inherent to such forecasts. The management considers that deferred taxes realization derived from temporary differences in the fiscal years mentioned below is subject to a final solution of the accounting estimates projected.

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The origin of deferred Income and Social Contribution Taxes is presented below:

	<u>Parent Company</u>		<u>Consolidated</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current assets:				
Tax loss carry-forwards	-	-	-	3,508
Negative basis of social contribution tax	-	-	-	1,594
Provision for commissions and freight	1,850	2,317	2,655	2,934
Allowance for doubtful accounts	1,156	1,095	3,618	2,045
Provision for guarantees	2,810	1,500	3,682	1,778
Derivative operations	2,560	1,586	2,560	1,563
Employees' profit share provision	3,396	-	3,726	-
Miscellaneous provisions and others	<u>818</u>	<u>863</u>	<u>3,699</u>	<u>3,234</u>
	<u>12,590</u>	<u>7,361</u>	<u>19,940</u>	<u>16,656</u>
Noncurrent assets:				
Tax loss carry-forwards	-	-	3,440	1,180
Negative basis of social contribution tax	-	-	1,287	142
Provision for contingences	2,211	2,114	3,960	3,686
Provision for pension plan	307	519	465	753
Derivative operations	-	1,740	1,292	3,033
Miscellaneous provisions and others	<u>-</u>	<u>-</u>	<u>1,079</u>	<u>1,081</u>
	<u>2,518</u>	<u>4,373</u>	<u>11,523</u>	<u>9,875</u>
Current liabilities:				
Derivative operations	-	-	1,306	990
Revenue from sale of buildings	-	382	-	381
Revaluation reserve	<u>115</u>	<u>115</u>	<u>115</u>	<u>115</u>
	<u>115</u>	<u>497</u>	<u>1,421</u>	<u>1,486</u>
Noncurrent liabilities:				
Incited accelerated depreciation	-	-	38	69
Miscellaneous incomes	-	-	-	115
Revaluation reserve	<u>840</u>	<u>955</u>	<u>840</u>	<u>955</u>
	<u>840</u>	<u>955</u>	<u>878</u>	<u>1,139</u>

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Based on the projections for future taxable income, prepared in accordance with CVM Instruction 371, the Company expects to offset the tax credits in the following years:

	Parent company	Consolidated
Year of maturity:	2007	2007
2008	12,475	18,519
2009	<u>1,678</u>	<u>10,645</u>
	<u>14,153</u>	<u>29,164</u>

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b. Reconciliation of tax expenses

The reconciliation between the tax expense as calculated by the combined statutory rates and the Income and Social Contribution Tax expense charged to net income is presented below:

	<u>Parent Company</u>		<u>Consolidated</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Profit before Income and Social Contribution Taxes	<u>196,876</u>	<u>156,155</u>	<u>342,290</u>	<u>256,187</u>
Combined statutory rates	34%	34%	34%	34%
Income and Social Contribution Taxes Combined statutory rates	66,938	53,093	116,379	87,104
Permanent additions: Nondeductible expenses	793	1,536	3,099	2,542
Permanent exclusions: Equity in income of subsidiaries	(32,362)	(24,920)	-	-
Interest on shareholders' equity	(8,980)	(6,036)	(17,102)	(14,439)
Deductions	(4,931)	(3,893)	(16,243)	(11,875)
Other items: Effect of changes in tax rates deferred	-	-	148	-
Others	(35)	(120)	3,456	(885)
Income and Social Contribution Taxes on net income	<u>21,423</u>	<u>19,660</u>	<u>89,737</u>	<u>62,447</u>
Effective rate	<u>10.9%</u>	<u>12.6%</u>	<u>26.2%</u>	<u>24.4%</u>

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19 Equity (Parent company)

a. Capital

The authorized capital, in accordance with the Company's by-laws is 270,000,000 shares, of which 90,000,000 are common shares and 180,000,000 preferred shares. On December 31, 2007 subscribed and paid-in capital is represented by 162,523,635 (162,523,635 in 2006) nominative shares of which 54,592,196 (54,592,196 in 2006) are common shares and 107,931,439 (107,931,439 in 2006) preferred shares, with no par value.

b. Reserves

- *Legal reserve*

In compliance with article 193 of Law 6404/76, the reserve was recorded at the rate of 5% of the net profit for the year, up to the limit of 20% of the capital.

- *Revaluation reserve*

The reserve was formed as a result of the revaluations of the fixed assets of the Parent Company, for purposes of paying in capital in the subsidiaries Master Sistemas Automotivos Ltda., on September 29, 2006, and Castertech Tecnologia e Fundação Ltda., on September 1, 2006, based on appraisal reports prepared by an independent appraiser.

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The deferred income and social contribution taxes corresponding to the revaluation reserve for buildings are recorded in current and noncurrent assets.

The revaluation reserve is being realized in proportion to the depreciation of the buildings recorded in the Parent Company against retained earnings, net of tax charges. The effect of the realization of the revaluation reserve is reflected in the results for the year, by the depreciation of the revalued assets.

As of December 31, 2007, the Company's revaluation reserve was composed as follows:

Revaluation reserve for land	7,029
Revaluation reserve for buildings	1,702
(-) Realization of revaluation reserve for buildings	(91)
(-) Income and social contribution taxes	(<u>548</u>)
Total of revaluation reserve	<u>8,092</u>

The realization of the revaluation reserve is included in the calculation basis of the dividends related to the fiscal year ended on December 31, 2007.

- *Reserve for investment and working capital*

Its purpose is to assure investments in items of permanent assets and growth in working capital, inclusively through amortization of the company's debts, as well as the financing of subsidiaries and associated companies. It is formed by the balance of the adjusted income after deducting the compulsory dividend and the maximum limit, in a total amount the may not exceed, jointly with the legal reserve, the value of the capital.

Considering the profit distribution in 2007, in accordance with corporate legislation and the Company's by-laws, the balance of profit reserves exceeded the amount of the capital. For this reason, in compliance with article 199 of Law 6.404/76, the Administration proposed application of this excess on capital increase, to be deliberated by shareholders in general stockholders' meeting.

c. Treasury shares

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On July 26, 2006 and on April 26, 2007, the Board of Directors, considering that established in item “p” of Article 21 of the bylaws and meeting the requirements of paragraphs 1 and 2 of article 30 of Law 6404/76, as well as CVM Instruction 10/80 and its amendments, authorized the acquisition by the Company of up to 1,000,000 and 1,300,000 preferred shares of its own, respectively, issuance to be held in treasury for subsequent disposal or cancellation, with no reduction in capital.

The objective of the transaction was to take advantage of the investment opportunity for the Company, considering the quotation price of the preferred shares on the stock exchange and the acquisitions were made using the available funds supported by profit reserves reported in the last balance approved by the Annual General Meeting held on April 13, 2007.

The shares were acquired, during the period from August 11, 2006 to July 03, 2007, in quantity of 2,300,000 preferred shares, at the price quoted on the stock market at a weighted average cost of R\$ 12.01 per share, and the maximum cost was R\$ 17.68 and the minimum cost was R\$ 6.38.

The market value of the treasury shares, based on the last stock market quotation on December 31, 2007, is R\$ 39,675.

d. Dividends

In accordance with the Company’s by-laws, the common and preferred shares are entitled to a minimum dividend of 30% of the adjusted income and the preferred shares have all the other rights attributed to common shares under equal conditions, but they have priority in the reimbursement of capital, without a premium, proportionally to their interest in the capital in the event of eventual liquidation of the Company and, furthermore, the right to be included in the public offering of divestiture of control, in the terms of article 254-A of Law 6404/76, with the new wording given by Law 10303/01.

Dividends were calculated as follows:

Net income for the year	172,625
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(+) Realization of reserves	45
(-) Legal reserve	<u>(8,634)</u>
Calculation basis	164,036
Minimum mandatory dividends 30%	49,211
(-)Interest on shareholders' equity paid	(40,797)
Withholding Income Tax	<u>6,120</u>
Net value credited	<u>14,534</u>

The value of the referred interest on shareholders' equity shall be imputed to the mandatory dividend previously declared, on account of the current fiscal period, as per item V of CVM Resolution 207/96.

20 Interest on shareholders' equity - Law 9249/95

In accordance with the option provided in Law 9249/95, the Company computed interest on shareholders' equity of R\$ 40,797 (R\$ 30,926 in 2006) by using the benchmark interest rate (TJLP) in effect for the year.

Income and Social Contribution Taxes for the year decreased by R\$ 13,871 (R\$ 10,515 in 2006) as a result of the deduction of these taxes on interest on shareholders' equity.

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21 Financial result

	<u>Parent company</u>		<u>Consolidated</u>	
	2007	2006	2007	2006
Financial incomes:				
Exchange variance	24,886	23,399	48,084	53,208
Interests on incomes from short-term financial investments	14,264	11,174	27,373	20,631
Incomes from swap operations	2,019	2,723	2,019	4,057
Gains from hedge operations	81	6,986	10,704	16,882
Incomes from intercompany loans receivable	136	544	2	19
Other financial incomes	<u>10,280</u>	<u>11,758</u>	<u>13,198</u>	<u>16,118</u>
	<u>51,666</u>	<u>56,584</u>	<u>101,380</u>	<u>110,915</u>
Financial expenses:				
Exchange variance	(19,922)	(19,306)	(44,130)	(45,451)
Interest on financing	(15,316)	(9,439)	(29,139)	(19,578)
Expenses from swap operations	(4,438)	(9,032)	(4,662)	(12,976)
Loss from hedge operations	-	(5,363)	(778)	(9,426)
Expenses from intercompany loans payable	(5,105)	(5,344)	(3,621)	(3,702)
Other financial expenses	<u>(6,289)</u>	<u>(4,829)</u>	<u>(18,479)</u>	<u>(16,502)</u>
	<u>(51,070)</u>	<u>(53,313)</u>	<u>(100,809)</u>	<u>(107,635)</u>
Financial result	<u>596</u>	<u>3,271</u>	<u>571</u>	<u>3,280</u>

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22 Financial instruments

The estimated realization values of financial assets and liabilities of the Company were determined through information available in the market and appropriate valuation methodologies. However, considerable judgment was required in the interpretation of the market data to estimate the most adequate realization value. Consequently, the estimates below do not necessarily indicate the values that could be realized in the current exchange market. The use of different market methodologies may have a material effect on the estimated realizable values.

The management of these instruments is done through operating strategies, aimed at liquidity, profitability and security. The control policy consists of permanent follow-up of the rates engaged versus those in force in the market. The Company and its subsidiaries do not invest in derivatives or any other risk assets on a speculative basis.

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a. Composition of balances

In compliance with CVM Instruction 235/95, the accounting balances and the market values of the financial instruments included in the balance sheet at December 31, 2007 are shown below:

Balance Description	Parent company		Consolidated	
	Book value	Market value	Book value	Market value
Cash and banks	64,872	64,872	252,879	252,879
Short term securities	65,262	65,262	65,262	65,262
Derivatives operations	-	4,812	26	10,725
Intercompany loans receivable	147	147	-	-
Taxes recoverable	55,379	55,379	100,285	100,285
Deferred tax assets	15,108	15,108	31,463	31,463
Investments:				
Valued at cost:				
Not quoted on the stock exchange	875	875	28,293	28,293
Valued by equity method:				
Not quoted on the stock exchange	294,421	294,421	-	-
Quoted on the stock exchange:				
Preferred	20,837	51,226	-	-
Loans and financing:				
In local currency	150,950	150,950	312,016	312,016
In foreign currency	64,756	64,756	124,439	124,439
Swap operations and others derivatives	9,836	14,380	9,836	15,705
Deferred tax liabilities	955	955	2,299	2,299
Intercompany loans payable	54,630	54,630	43,461	43,461

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b. Criteria, premises and limitations used in the calculation of market value

- *Cash and financial investments*

Current accounts and short-term securities held in banks have market values similar to the book values.

- *Short term securities*

The market value of short term securities is similar to their book value. The hedge amounts were determined as described in the item – Derivatives.

- *Intercompany loans receivable/payable*

Intercompany loans receivable/payable are presented at book value, since there are no similar instruments, and they address operations with parent company and subsidiaries.

- *Taxes recoverable/deferred*

Taxes recoverable/deferred are presented at book value, since there is no information to determine their market value.

- *Investments*

The market values for interests in companies were calculated based on the latest quotation of the shares of the companies that occurred at BOVESPA. For common shares, with no market quotations, the book value was adopted.

The market values for other investments are similar to the book values, since they have no market quotation.

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- *Loans and financing*

The market values of loans and financing are similar to the book values, since there are no similar instruments, with comparable maturities and interest rates.

- *Derivatives*

The Company has a policy of eliminating market risks and avoids assuming positions exposed to market value fluctuations, operating only with instruments which permit controlling these risks. Most of the derivative contracts correspond to swap operations, all of which are recorded on the BM&F (Futures and Commodities Exchange) and involve prefixed rates. The future contracts for dollars on the BM&F are used, mainly, as instruments to hedge financing interest rates. The Company does not expect to have losses from these operations, besides those already disclosed in the financial statements.

- *Limitations*

The market values were estimated at the balance sheet date, based on “relevant market information”. Changes in the assumptions may significantly affect the estimates presented.

b. Credit risk

The sales policies of the Company and its subsidiaries are governed by the credit policies determined by management, and are aimed at minimizing eventual problems resulting from default by its clients. This objective is achieved by management through the judicious selection of the client portfolio, which takes into consideration their capacity to pay (credit analysis) and diversification of its sales (risk spread). The Company also has an allowance for doubtful accounts, in the amount of R\$ 3,401 (parent company) and R\$ 7,681 (consolidated) (2006 - R\$ 3,221 and R\$ 8,652), which represents 2% (2006 – 2%) of the balance of the outstanding accounts receivable in parent company, and 2% (2006 – 3%) of the balance of the outstanding accounts receivable of consolidated.

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d. Exchange rate risk

The results of the Company and its subsidiaries are susceptible to significant variations, due to the effects of the volatility of the foreign exchange rate on the liabilities indexed to foreign currencies, especially the U.S. dollar, which closed 2007 with a negative variation of 17.0% (negative variation of 8.7% in 2006).

As a strategy to prevent and reduce the effects of the fluctuation of the exchange rate, management has adopted the policy of maintaining a natural hedge with the maintenance of tied assets also susceptible to exchange variation, in conformity with the table below:

	2007	2006
A. Loans/financings in U.S. dollars thousand		
Parent company	32,315	35,829
Consolidated	50,981	60,101
B. Net assets in U.S. dollars thousand		
Parent company	32,948	19,694
Consolidated	60,128	45,872
C. Swap operations		
Parent company	5,553	6,870
Consolidated	5,553	7,539
D. Deficit calculated (A-B+C)		
Parent company	4,920	23,005
Consolidated	(3,594)	21,768

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The financial derivative operations with *swap* performed during the year may be summarized as follows:

Company	Assets index	Passive index	Financial incomes	Financial expenses
Parent company	Exchange variance + Libor + 4.3% p.a. to 4.7% p.a. or only exchange variance	Exchange variance or 100% of CDI (-) 5.3% p.a. to (-) 3.5% p.a.	<u>2,100</u>	<u>4,438</u>
Consolidated	Exchange variance + Libor + 4.3% p.a. to 4.7% p.a. or only exchange variance	Exchange variance or 100% of CDI (-) 5.3% p.a. to (-) 3.5% p.a.	<u>12,723</u>	<u>5,440</u>

The Company and its subsidiaries entered into an option operation, in category of swap with regret, also called “Zero Cost Collar”. The total from open operations on December 31, 2007 reach the amount of this US\$ 39 million (US\$ 81 million in consolidated), monthly due on January 15, 2008 until December 22, 2008, ensuring to the buyer, through payment of a premium, a future right on exports, but not an obligation, and to its seller, a future obligation, in case the option is exercised. Through this option operation, the company is ensuring a minimum settlement value of its future exports correspondent to the value of the dollar exchange rate ranging, according to the due date, and it will only have an obligation if the dollar rate is above a second exchange position, with greater exchange rate, also variable according to the due date. The dollar exchange rate intermediary to such positions does not generate obligation or right to either party.

During this year the company earned an income of R\$ 1,598 in parent company (R\$ 9,297 in consolidated). For open operations, on December 31, 2007, total market amount is R\$ 4,812 for receivable operations (R\$ 10,699 in consolidated) and R\$ 1,168 for payable results (R\$ 2,383 in consolidated). This amount is not recorded, because the Company waits for the put and call option exercising to effectively constitute an obligation and/or right.

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(In thousands of Reais)

e. Price risk

Considering that exports represent 17.6% of the income in 2007 of the parent company and 17.9% of the consolidated, included in these case sales of foreign subsidiary Randon Argentina S.A., the eventual volatility of the foreign exchange rate represents, in fact, a price risk that may compromise the results planned by Management. This risk may, in a large part, be reduced by the volume of imports of the Company forecast for next year.

f. Interest rate risk

The results of the Company and its subsidiaries are susceptible to significant variations arising from financing and loan operations contracted at floating interest rates.

The Company and its subsidiaries use derivative financial instruments to protect or reduce the financial costs of the financing operations.

The objective of derivative financial instrument operations, such as swaps and forward exchange contracts, such as hedge, is to reduce the risks in operations, financings and investments in foreign currencies. In accordance with its financial policies, the Company has not performed operations involving financial instruments on a speculative basis.

g. Clause for exercise of option for converting shares

In the parent company, the loan agreement "C" signed with the IFC, with final maturity on April 15, 2008, in the amount of R\$ 5,314, recorded in current liabilities, includes a guarantee clause to the IFC of the right to substitute the loan for preferred shares through the exercise of option for conversion at any time.

If this option is taken, the Company will deliver 1,871,548 preferred shares for settlement of the loan in the amount of R\$ 32,284 at values as of December 31, 2007.

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23 Insurance coverage

The Company has insurance policies taken out with the main insurance companies in Brazil, which were determined in accordance with the orientation of experts, and take into consideration the nature and the level of risk involved. The adopted assumptions for risk, given their nature, are not part of the scope of an audit of financial statements and, accordingly, they were not examined by our independent auditors.

The main insurance coverage is as follows:

		Consolidated	
		Total of indemnification limits	
	Risk covered	2007	2006
Buildings, inventories, machinery and others fixed assets	Fire, gale, electric damages, robbery and general risks	180,031	90,110
Vehicles	Body	13,338	7,910
Airplanes	RETA, public liability and Body	19,839	23,946
Exportation credit	Commercials and politics	24,798	27,794
Public liability	Public liability	3,000	1,500
Personal accidents	Bodily injury	<u>31,177</u>	<u>6,821</u>
		<u>272,183</u>	<u>158,081</u>

24 Vendor operations

At December 31, 2007, the Company and its subsidiaries had outstanding vendor operations with its clients in the amount of R\$ 10,224 (R\$ 22,206 in 2006), in which the Company participates as intervening guarantor.

25 Employees' profit sharing plan

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The employees' profit share was calculated as stipulated in the Profit Sharing Program ratified by the union representing the Company's employees, according to the provisions of Law 10101 of December 19, 2000. The amount of profit sharing referring to 2007 was R\$ 14,322 (R\$ 10,695 in 2006) in parent company and R\$ 34,013 (R\$ 24,732 in 2006) in consolidated.

26 Leases

The Company and its subsidiaries lease vehicles, machines and computing equipment, with buy option through commercial leasing agreements. The position of such agreements on December 31, 2007 and 2006 is the following:

Parent company Assets	Remaining period in months	Charges	Balance of contracted amounts		Purchase option / residual value	
			31/12/2007	31/12/2006	31/12/2007	31/12/2006
Computer equipment	1 to 29 months	100% to 103% of CDI + 0.13% to 0.18% p.m.	157	620	18	18
Machinery and equipment	17 to 44 months	CDI + 0% to 0.21% p.m.	4,929	6,303	69	72
Vehicles	23 to 33 months	CDI + 0% to 0.13% p.m.	561	731	8	9
			<u>5,647</u>	<u>7,654</u>	<u>95</u>	<u>99</u>
Consolidated						
Assets	Remaining period in months	Charges	Balance of contracted amounts		Purchase option / residual value	
			31/12/2007	31/12/2006	31/12/2007	31/12/2006
Computer equipment	1 to 30 months	100% to 103% of CDI + de 0% to 0.18% p.m. or 1.5% a.m.	490	1,737	45	46
Machinery and equipment	6 to 44 months	CDI + 0% to 0.21% p.m. or 1.4% to 2% p.m.	5,191	6,832	76	86
Vehicles	1 to 33 months	CDI + 0% to 0.16% p.m. or 1.41% p.m.	1,023	1,499	17	18
			<u>6,704</u>	<u>10,068</u>	<u>138</u>	<u>150</u>

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Notes to financial statements

(In thousands of Reais)

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(Publicly-held Company)

Notes to financial statements

(In thousands of Reais)

27 Subsequent events

Changes in the Brazilian Corporate Law (Law No. 6,404/76)

Law No. 11,638 published in the Official Federal Gazette on December 28, 2007 changed a number of provisions in Law No.6,404 (Brazilian Corporate Law). These changes came into effect on January 1, 2008.

Among the major changes introduced, we highlight the following issues that in our assessment may change the presentation of our financial statements and the criteria for determination of our financial position and earnings as from the year ending 2008:

- The mandatory disclosure of the Statement of Changes in Financial Position was eliminated and will be replaced by the Statement of Cash Flows. For publicly-held companies, the Statement of Added-Value was also introduced as a mandatory disclosure. The Statement of Cash Flows and the Statement of Added Value are also mandatory for all large companies, irrespective of its corporate structure, which must be subject to examination by independent auditors. The Company presents the above mentioned disclosures, in accordance with Circular-Notice/CVM/SNC/SEP/01/07.
- Intangible assets and rights were segregated from the tangible ones, and permanent assets are now classified into investments, property, plant and equipment, intangible items and deferred charges. The amount of intangible assets is presented in Note 12.
- The caption "Equity valuation adjustments" was created under Shareholders' Equity. Any counterparties to increases or decreases in the amount assigned to asset and liabilities items, arising from its market price valuation, will be considered as adjustments to equity while not computed in the income statement for the year in accordance with the accrual basis.
- Additionally, the criteria for valuation of assets and liabilities were changed, with the following issues worth mentioning:
 - *Asset and liabilities items arising from long-term operations, as well as significant short-term operations, will be adjusted at present value, in accordance with international accounting standards;*

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(In thousands of Reais)

- *The recovery amount of property, plant and equipment, intangible assets and deferred charges assets and rights shall be periodically evaluated so that the company may record potential losses or carry out a review of the depreciation rates, amortization, and depletion criteria;*
- *Rights classified under intangible assets shall be evaluated based on the cost incurred upon purchase deducted from the balance of the respective amortization account;*
- *"Available-for-sale" or "Held-for-Trading" financial instruments will now be evaluated at market value;*
- *All other financial instruments shall be evaluated based on their updated cost or adjusted in accordance with the probable realizable value, if lower. The Company presents in Note 22 the market value from those instruments, comparing with book amounts.*
- Interest in debentures, held by employees and management, even if as financial instruments, or as employees assistance institutions or pension funds, not characterized as expenses, shall be included in the statement of income for the year.
- Elimination of the possibility to record revaluation reserves for corporations. The new Law granted an option to companies to either maintain any existing balances and recognize these balances under the current rules or reverse these balances until the end of the year 2008. The Company intends to maintain actual existent balances.

The Company's Management is analyzing the effects that the aforementioned changes will have on its shareholders' equity and earnings for 2008, and it will also consider the guidance and definitions to be issued by the regulatory bodies. Management currently understands it is not possible to determine the effects of these changes on the income statement or shareholders' equity for the year ended December 31, 2007, except for information presented in above mentioned notes.

Board of Directors

Raul Anselmo Randon - Chairman
David Abramo Randon - Vice-chairman
Hugo Eurico Irigoyen Ferreira – Board Member
José Maria Rabelo – Board Member
Ery José Bernardes - Board Member

Fiscal Council

Sérgio Ricardo Miranda Nazaré
Jessé Souto Amaral
Benilda Waschow
Zulmar Neves
Werner Bornholdt

Management

Raul Anselmo Randon - Director President
Alexandre Randon - Director Vice - President
Astor Milton Schmitt - Director
Erino Tonon – Director

Investor Relations Director

Astor Milton Schmitt

Financial Director Holding Division

Geraldo Santa Catharina

Controller Corporate Manager

Maria Tereza Casagrande

Ieda Maria Onzi Perosa
Accountant CRC/RS: 49.886/O-3

Randon S.A. Implementos e Participações

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Supplementary information

Appendix I

Statements of cash flows - Indirect method

Years ended December 31, 2007 and 2006

(In thousands of Reais)

	Parent Company		Consolidated	
	2007	2006	2007	2006
Cash flows from operating activities				
Net income for the year	172,625	133,990	173,359	133,383
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	10,972	8,179	52,065	43,912
Residual cost on disposal and sale of fixed assets	6,572	976	8,525	2,341
Equity in income	(95,183)	(73,294)	-	-
Equity in income from other companies in subsidiaries	-	-	(3,944)	(1,741)
Amortization of goodwill of investments in subsidiaries	-	3,023	-	-
Minority interest	-	-	41,876	32,588
Exchange variation in foreign subsidiaries	-	-	221	126
Variation in loans and financing	7,157	18,136	16,722	10,986
Profit and dividend received from subsidiaries	50,688	40,763	-	-
Changes in assets and liabilities				
(Increase) in others accounts receivable	(52,952)	(47,114)	(56,503)	(61,491)
(Increase) in accounts receivable	(43,210)	(8,922)	(85,999)	(37,644)
(Increase) in inventories	(10,668)	1,095	(56,179)	(13)
Increase (decrease) in accounts payable to suppliers	6,521	(237)	21,101	2,182
Increase (decrease) in other accounts payable and provisions	22,550	(5,216)	36,314	(1,793)
Increase (decrease) in Income and Social Contribution Taxes	-	-	2,776	(303)
Net cash provided by operating activities	<u>75,072</u>	<u>71,379</u>	<u>150,334</u>	<u>122,533</u>
Cash flows from investment activities				
Purchases of property, plant and equipment	(104,923)	(60,616)	(186,661)	(144,616)
Purchases of shares and quotas	(31,684)	(19,780)	(1,025)	(70)
Deferred charges	(4,099)	(345)	(8,864)	(4,543)
Acquisition of own shares	<u>(20,774)</u>	<u>(6,852)</u>	<u>(20,774)</u>	<u>(6,852)</u>
Net cash (used in) investment activities	<u>(161,480)</u>	<u>(87,593)</u>	<u>(217,324)</u>	<u>(156,081)</u>
Cash flows from financing activities				
Capital increased in cash	-	99,000	-	99,000
Dividends paid	(11,918)	(12,815)	(6,916)	(11,068)
Interest on shareholders' equity	(29,057)	(25,224)	(28,471)	(24,494)
Proceeds from issuance of loans	128,706	83,285	389,512	286,890
Principal payments on loans	(52,357)	(81,914)	(210,974)	(294,725)
Proceeds from issuance of loans from parent company and subsidiaries	18,373	5,977	15,411	3,204
Loans taken with other related parties	337	1,611	3,904	1,611
Interest paid on loans	<u>(14,820)</u>	<u>(10,292)</u>	<u>(25,818)</u>	<u>(16,091)</u>
Net cash provided by financing activities	<u>39,264</u>	<u>59,628</u>	<u>136,648</u>	<u>44,327</u>
Increase in cash and cash equivalents	<u>(47,144)</u>	<u>43,414</u>	<u>69,658</u>	<u>10,779</u>
At beginning of year	112,016	68,602	183,221	172,442
At end of year	<u>64,872</u>	<u>112,016</u>	<u>252,879</u>	<u>183,221</u>
Increase (decrease) in cash and cash equivalents	<u>(47,144)</u>	<u>43,414</u>	<u>69,658</u>	<u>10,779</u>

See the accompanying notes to financial statements.

Randon S.A. Implementos e Participações
(Publicly-held Company)

Supplementary information

Appendix II

Statements of added value

Years ended December 31, 2007 and 2006

(In thousands of Reais)

	Parent Company		Consolidated	
	2007	2006	2007	2006
Revenues				
Sale of goods and services, (-) returns	1,426,921	1,183,992	3,156,258	2,495,432
Provision for doubtful accounts	(180)	(4)	(33)	(1,068)
Nonoperating income	(1,208)	935	5,166	1,967
	<u>1,425,533</u>	<u>1,184,923</u>	<u>3,161,391</u>	<u>2,496,331</u>
Inputs acquired from third parties (including ICMS and IPI taxes)				
Raw materials consumed	980,356	832,625	1,885,523	1,463,467
Material, power, third party services and others operation expenses	123,022	101,430	342,515	272,661
	<u>1,103,378</u>	<u>934,055</u>	<u>2,228,038</u>	<u>1,736,128</u>
Retentions				
Depreciation and amortization	10,972	8,179	52,065	43,912
Added value produced by the Company	<u>311,183</u>	<u>242,689</u>	<u>881,288</u>	<u>716,291</u>
Transferred added value				
Equity in net income of subsidiaries	95,183	73,294	-	-
Rent and royalties	503	358	607	391
Financial incomes	51,666	56,584	101,380	110,915
	<u>147,352</u>	<u>130,236</u>	<u>101,987</u>	<u>111,306</u>
Added value to be distributed	<u>458,535</u>	<u>372,925</u>	<u>983,275</u>	<u>827,597</u>
Distribution of added value				
Employees				
Payroll, benefits and related charges	117,222	98,538	279,411	234,201
Commissions on sales	1,919	1,455	1,958	1,613
Management remuneration and profit sharing	6,133	5,618	15,171	14,314
Employees' profit sharing	14,322	10,695	34,013	24,732
Retirement and pension plans	1,770	1,270	3,332	2,668
	<u>141,366</u>	<u>117,576</u>	<u>333,885</u>	<u>277,528</u>
Taxes				
Federal	76,050	53,717	243,075	195,255
State	10,137	8,061	44,828	46,745
Municipal	1,508	1,100	2,994	2,616
	<u>87,695</u>	<u>62,878</u>	<u>290,897</u>	<u>244,616</u>
Financiers				
Interest and financial expenses	51,070	53,313	100,809	107,635
Rent	5,779	5,168	11,980	9,818
	<u>56,849</u>	<u>58,481</u>	<u>112,789</u>	<u>117,453</u>
Shareholders				
Minority interest	-	-	72,312	54,617
Interest on shareholders' equity and dividends	55,331	42,831	55,331	42,831
Retained earnings for the year	<u>117,294</u>	<u>91,159</u>	<u>118,061</u>	<u>90,552</u>
Added value distributed	<u>458,535</u>	<u>372,925</u>	<u>983,275</u>	<u>827,597</u>

See the accompanying notes to financial statements.

Randon S.A. Implementos e Participações

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Supplementary information

Appendix III

Segment report – Consolidated

(In thousands of Reais)

Information by segment are presented in relation to the consolidated business of the Company identified based on accounting information, on its management structure and on internal managerial information.

The business segments presented have been determined in the consolidation of the information of the following companies of the Randon group:

Road, railroad equipment and specialty vehicles segments: it refers to the consolidated results of the 2007 and 2006 fiscal year of the companies Randon S.A. Implementos e Participações, Randon Argentina S.A., Randon Middle East, Randon Automotive Ltda. and Randon Veículos Ltda., being the main products included in this segment the following: trailers, semi-trailers, railroad, off-road trucks, backhoe loaders and other road equipment and specialty vehicles.

Auto-parts and automotive systems segment: it refers to the consolidated results of the 2006 and 2005 fiscal year of the companies Fras-le S.A., Suspensys Sistemas Automotivos Ltda., Master Sistemas Automotivos Ltda. and Jost Brasil Sistemas Automotivos Ltda., being the main products of this segment the following: friction materials, axle beams, suspension components, air brakes and coupling systems and truck articulations.

Services segment: it refers to the result of the company Randon Administradora de Consórcios Ltda., derived from consortium groups administration operations for acquisition of durable goods.

Randon S.A. Implementos e Participações

(Publicly-held Company)

Supplementary information

Appendix III

Segment report – Consolidated

(In thousands of Reais)

a. Information by business segments

	Road and railroad equipment and specialty vehicles		Auto-parts and automotive systems		Services		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
Revenues	1,547,216	1,269,693	1,592,205	1,214,874	42,459	39,534	3,181,880	2,524,101
Deductions	<u>(327,061)</u>	<u>(259,782)</u>	<u>(320,489)</u>	<u>(239,698)</u>	<u>(4,107)</u>	<u>(3,580)</u>	<u>(651,657)</u>	<u>(503,060)</u>
Net revenues	1,220,155	1,009,911	1,271,716	975,176	38,352	35,954	2,530,223	2,021,041
Cost of goods sold and services rendered	<u>(936,208)</u>	<u>(789,425)</u>	<u>(922,903)</u>	<u>(704,469)</u>	<u>-</u>	<u>-</u>	<u>(1,859,111)</u>	<u>(1,493,894)</u>
Gross profit	283,947	220,486	348,813	270,707	38,352	35,954	671,112	527,147
Operation expenses	<u>(177,892)</u>	<u>(145,805)</u>	<u>(129,491)</u>	<u>(105,845)</u>	<u>(27,176)</u>	<u>(24,557)</u>	<u>(334,559)</u>	<u>(276,207)</u>
Financial incomes (expenses), net	<u>688</u>	<u>2,667</u>	<u>(687)</u>	<u>(483)</u>	<u>570</u>	<u>1,096</u>	<u>571</u>	<u>3,280</u>
Operation income	<u>106,743</u>	<u>77,348</u>	<u>218,635</u>	<u>164,379</u>	<u>11,746</u>	<u>12,493</u>	<u>337,124</u>	<u>254,220</u>
Net income for the year	<u>78,385</u>	<u>55,427</u>	<u>86,538</u>	<u>69,046</u>	<u>8,436</u>	<u>8,910</u>	<u>173,359</u>	<u>133,383</u>
Fixed assets	241,039	151,504	285,479	242,471	1,047	1,225	527,565	395,200

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Supplementary information

Appendix III

Segment report – Consolidated

(In thousands of Reais)

b. Net sales by geographic segments

Geographic region	Road and railroad equipment and specialty vehicles		Auto-parts and automotive systems		Services		Consolidated total	
	2007	2006	2007	2006	2007	2006	2007	2006
Domestic market	991,249	804,316	1,022,253	717,688	38,352	35,954	2,051,854	1,557,958
Mercosur and Chile	125,554	104,080	45,346	34,088	-	-	170,900	138,168
NAFTA	305	1,570	119,045	148,562	-	-	119,350	150,132
Europe	-	696	46,128	35,503	-	-	46,128	36,199
Africa	61,801	74,647	8,938	6,599	-	-	70,739	81,246
South and Central America	37,749	18,175	7,600	7,083	-	-	45,349	25,258
Middle East	154	1,068	4,429	3,844	-	-	4,583	4,912
Asia	-	-	4,308	10,457	-	-	4,308	10,457
Oceania	-	-	2,673	2,032	-	-	2,673	2,032
Others	<u>3,343</u>	<u>5,359</u>	<u>10,996</u>	<u>9,320</u>	<u>-</u>	<u>-</u>	<u>14,339</u>	<u>14,679</u>
Total	<u>1,220,155</u>	<u>1,009,911</u>	<u>1,271,716</u>	<u>975,176</u>	<u>38,352</u>	<u>35,954</u>	<u>2,530,223</u>	<u>2,021,041</u>

Audit Board Report

The full members of the Audit Board of Randon S.A.- Implementos e Participações, in conformity with items II, III and VII of article 163, of the Law 6.404/76, have examined the Annual Report, the Financial Statements and respective Explanatory Notes, the KPMG Auditores Independentes' Report, and the proposal for the apportionment of dividends, included in the financial statements relative to the Fiscal Year ended December 31, 2007. They have also examined the proposal to increase the company's capital by incorporating part of the Investment Reserve and Working Capital balance. Based on their examination and on the Independent Auditors' Report relative to the same period, the Board members have expressed the following opinion: the Annual Report includes the businesses and the main administrative facts of the ended Fiscal Year; the Financial Statements properly express the equity and financial status of the Company on December 31, 2007; and the remuneration proposal to shareholders, as well as the proposal to increase the company's capital, are in compliance with the Corporate Law, as amended, and with the company's by-laws. Therefore, they recommend the approval of these documents by the shareholders at the Ordinary and Extraordinary General Meetings. Caxias do Sul, January 29, 2008.

Benilda Waschow

Jessé Souto Amaral

Sérgio Ricardo Miranda Nazaré

Werner Bornholdt

Zulmar Neves