

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

**Financial statements**  
**December 31, 2005 and 2004**

**(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, 2005 and 2004**

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## Independent auditors' report

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

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, 2005 and 2004 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 year ended December 31, 2005, were examined by other independent auditors and our opinion, with respect to the amounts of these investments, which total R\$ 77,382 thousand and the positive equity in the earnings of these subsidiaries in the amount of R\$ 31,871 thousand, is based exclusively on the opinion of the other independent auditors.

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.

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, 2005 and 2004, 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

Our examination was performed with the objective of expressing an opinion on the financial statements taken as a whole. The statements of cash flow and added value are supplementary to the aforementioned financial statements, and have been included to facilitate additional analysis.

This supplementary information were subject to the same audit procedures as applied to the aforementioned financial statements and, in our opinion, are presented fairly, in all material respects, in relation to the financial statements taken as a whole.

February 14, 2006

KPMG Auditores Independentes  
CRC SP014428/F-RS

Wladimir Omiechuk  
Accountant CRC RS041241/O-2

Randon S.A. Implementos e Participações

(Publicly-held Company)

Balance sheets

December 31, 2005 and 2004

(In thousands of Reais)

Assets	Parent company		Consolidated		Liabilities	Parent company		Consolidated	
	2005	2004	2005	2004		2005	2004	2005	2004
<b>Current assets</b>					<b>Current liabilities</b>				
Cash and banks	68,602	30,295	172,442	83,377	Loans and financing	42,952	20,150	126,494	60,867
Trade accounts receivable	152,146	105,923	284,933	254,906	Accounts payable to suppliers	37,014	29,840	96,617	95,011
Inventories	108,687	87,828	227,933	221,211	Advance payment to customers	48,369	32,912	48,580	40,738
Taxes recoverable	21,722	19,072	38,671	39,051	Clients per goods to be delivered	18,745	21,259	18,745	21,275
Prepaid expenses	486	1,172	2,360	2,094	Taxes payable	6,138	5,242	17,750	15,043
Deferred Income and Social Contribution Taxes	8,219	5,042	15,443	9,993	Salaries and related charges	9,656	8,156	25,563	24,535
Other accounts	20,252	10,756	46,073	36,162	Dividends	12,895	21,954	16,245	23,888
	<u>380,114</u>	<u>260,088</u>	<u>787,855</u>	<u>646,794</u>	Interest on shareholders' equity	11,569	8,813	19,309	14,498
					Employees and management participation	8,238	9,569	19,855	21,743
					Deferred Income and Social Contribution Taxes	1,135	-	2,158	-
					Income and Social Contribution Taxes	-	-	1,050	2,163
					Liabilities from funds of consortium member	-	-	26,330	30,102
					Commissions	2,914	2,540	5,231	5,374
					Other accounts	9,456	9,487	27,327	19,750
						<u>209,081</u>	<u>169,922</u>	<u>451,254</u>	<u>374,987</u>
<b>Noncurrent assets</b>					<b>Noncurrent liabilities</b>				
Related parties	2,381	7,932	-	-	Loans and financing	104,689	89,775	163,295	160,955
Consortium for resale	11,077	11,232	11,077	11,232	Taxes and contributions payable	-	-	14,229	15,238
Deferred Income and Social Contribution Taxes	4,617	6,515	10,370	9,801	Related parties	24,583	392	12,857	-
Recoverable taxes	5,046	1,884	16,540	9,183	Deferred Income and Social Contribution Taxes	881	-	1,598	-
Court deposit	5,661	7,259	12,598	14,179	Provision for contingencies	4,880	5,561	13,264	14,010
Other accounts	1,697	131	2,016	3,414	Benefits to employees	1,925	2,015	3,049	3,206
	<u>30,479</u>	<u>34,953</u>	<u>52,601</u>	<u>47,809</u>	Other accounts	4,206	-	6,392	-
						<u>141,164</u>	<u>97,743</u>	<u>214,684</u>	<u>193,409</u>
<b>Permanent assets</b>					<b>Minority interest</b>				
Investments	180,462	156,919	37,216	32,364		-	-	171,776	148,349
Property, plant and equipment	93,603	69,072	286,074	237,219	<b>Shareholders' equity</b>				
Deferred charges	1,501	1,166	8,807	6,555	Capital	180,000	109,265	180,000	109,265
	<u>275,566</u>	<u>227,157</u>	<u>332,097</u>	<u>276,138</u>	Profit reserves	155,914	145,268	154,839	144,731
						<u>335,914</u>	<u>254,533</u>	<u>334,839</u>	<u>253,996</u>
						<u>686,159</u>	<u>522,198</u>	<u>1,172,553</u>	<u>970,741</u>
	<u>686,159</u>	<u>522,198</u>	<u>1,172,553</u>	<u>970,741</u>					

See the accompanying notes to financial statements.

# Randon S.A. Implementos e Participações

(Publicly-held Company)

## Statements of income

Years ended December 31, 2005 and 2004

(In thousands of Reais)

	Parent company		Consolidated	
	2005	2004	2005	2004
<b>Revenues</b>				
Sale of goods and services	1,117,271	878,072	2,467,333	2,067,986
<b>Deductions</b>				
Sales taxes	(219,235)	(175,081)	(500,870)	(407,999)
Returns and discounts	(8,146)	(8,719)	(30,320)	(23,696)
	(227,381)	(183,800)	(531,190)	(431,695)
<b>Net revenues</b>	889,890	694,272	1,936,143	1,636,291
<b>Cost of goods sold and services rendered</b>	(702,964)	(498,333)	(1,441,165)	(1,101,704)
<b>Gross profit</b>	186,926	195,939	494,978	534,587
<b>Operating (expenses) income</b>				
Selling expenses	(73,447)	(60,847)	(150,353)	(137,107)
Administrative and general	(33,520)	(31,491)	(101,648)	(98,906)
Management remuneration	(2,938)	(2,549)	(7,970)	(6,575)
Financial expenses	(47,384)	(32,359)	(104,788)	(75,375)
Financial income	50,875	31,329	102,006	58,960
Equity in income of subsidiaries	65,185	61,602	-	-
Others operating (expenses)	(9,712)	(2,255)	(17,423)	(16,102)
	(50,941)	(36,570)	(280,176)	(275,105)
<b>Operating income</b>	135,985	159,369	214,802	259,482
Nonoperating income (expenses)	7,175	(274)	14,973	2,281
<b>Net income before income and social contribution taxes and profit sharing</b>	143,160	159,095	229,775	261,763
Income and Social Contribution Taxes	(22,029)	(31,217)	(61,045)	(79,715)
Directors profit sharing	(2,105)	(2,259)	(4,124)	(5,563)
<b>Net income before minority interest</b>	119,026	125,619	164,606	176,485
<b>Minority interest</b>	-	-	(46,118)	(51,606)
<b>Net income for the year</b>	119,026	125,619	118,488	124,879
<b>Net income per share - R\$</b>	0.7907	0.8345		
<b>Number of shares at year-end</b>	150,523,635	150,523,635		

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, 2005 and 2004

(In thousands of Reais)

	Profit reserves				
	Capital	Legal	Reserve for investment and working capital	Retained earnings Accumulated	Total
<b>Balances at January 1, 2004</b>	109,265	8,250	49,650	-	167,165
Net income for the year	-	-	-	125,619	125,619
Distributions:					
Legal reserve	-	6,281	-	(6,281)	-
Reserve for investment and working capital	-	-	81,087	(81,087)	-
Dividends	-	-	-	(21,919)	(21,919)
Interest on shareholders' equity - Law 9249/95	-	-	-	(16,332)	(16,332)
<b>Balances at December 31, 2004</b>	109,265	14,531	130,737	-	254,533
Capital increase in profit reserves	70,735		(70,735)		-
Net income for the year	-			119,026	119,026
Distributions:					
Legal reserve	-	5,952	-	(5,952)	-
Reserve for investment and working capital	-	-	75,429	(75,429)	-
Dividends	-	-	-	(12,828)	(12,828)
Interest on shareholders' equity - Law 9249/95	-	-	-	(24,817)	(24,817)
<b>Balances at December 31, 2005</b>	180,000	20,483	135,431	-	335,914

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, 2005 and 2004

(In thousands of Reais)

	Parent Company		Consolidated	
	2005	2004	2005	2004
<b>Sources of funds</b>				
<b>Operations</b>				
Net income for the year	119,026	125,619	118,488	124,879
<b>Items not affecting working capital</b>				
Depreciation and amortization	7,192	5,950	40,336	33,435
Residual cost on disposal of fixed assets	5,120	5,319	9,292	10,051
Equity in income of subsidiaries	(65,185)	(61,602)	-	-
Provision for loss of investment	-	-	353	-
Monetary variation of noncurrent items	(2,757)	3,419	(1,011)	6,844
Exchange variation in foreign subsidiaries	-	-	177	191
Minority interest	-	-	23,427	49,804
<b>Resources from operations</b>	<b>63,396</b>	<b>78,705</b>	<b>191,062</b>	<b>225,204</b>
<b>From third parties</b>				
Increase in noncurrent liabilities	46,178	-	22,286	1,647
Decrease in noncurrent assets	4,474	3,442	-	10,809
Interest on shareholders' equity - Law 9249/95	13,738	9,837	-	-
Received dividends	27,717	13,391	-	-
	155,503	105,375	213,348	237,660
<b>Applications of funds</b>				
Acquisition of property, plant and equipment	36,423	21,744	95,065	86,442
Increase in deferred charges	478	404	4,865	2,066
Applications in permanent investments in other comp:	90	6,137	6,187	10,330
Increase in noncurrent assets	-	-	4,792	-
Decrease in noncurrent liabilities	-	1,282	-	-
Revaluation of fixed assets	-	-	-	1,488
Interest on shareholders' equity - Law 9249/95	24,817	16,332	24,817	16,332
Proposed dividends	12,828	21,919	12,828	21,919
	74,636	67,818	148,554	138,577
<b>Increase in working capital</b>	<b>80,867</b>	<b>37,557</b>	<b>64,794</b>	<b>99,083</b>
<b>Changes in working capital</b>				
<b>Current assets</b>				
At end of year	380,114	260,088	787,855	646,794
At beginning of year	260,088	185,756	646,794	441,278
	120,026	74,332	141,061	205,516
<b>Current liabilities</b>				
At end of year	209,081	169,922	451,254	374,987
At beginning of year	169,922	133,147	374,987	268,554
	39,159	36,775	76,267	106,433
	80,867	37,557	64,794	99,083

See the accompanying notes to financial statements.



**(Publicly-held company)**

## Notes to financial statements

**December 31, 2005 and 2004**

*(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 Presentation 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. The financial statements for the year ended December 31, 2004 were reclassified, in order for them to be comparable.

#### ***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.

# Randon S.A. Implementos e Participações

**(Publicly-held company)**

## Notes to the financial statements

*(In thousands of Reais)*

### *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.

### *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.

- **Allowance for doubtful accounts**

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

- **Inventories**

Inventories are stated at average purchase or production cost, that do 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.

# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

(In thousands of Reais)

- **Resale consortium**

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

- **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 9, 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.

*f. Current and noncurrent 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 the 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 NPC 26 of the Brazilian Institute of Independent Auditors (IBRACON).

### *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.

### *j. Segment reporting*

The Company, voluntarily, is presenting, the Report by Business Segment. 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.

### *k. Statements of cash flows*

The Company is presenting as supplementary information the statements of cash flows prepared in accordance with NPC 20 - Statement of Cash Flows, issued by IBRACON - Brazilian Institute of Independent Auditors.

# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

(In thousands of Reais)

### 1. Statements of added value

The Company, voluntarily, is presenting the statements of added value, prepared in accordance with Circular-Notice/CVM/SNC/SEP/01/05 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 traditional 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.

### 3 Consolidated financial statements

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

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

	<u>Ownership percentage</u>			
	<u>2005</u>		<u>2004</u>	
	<b>Direct</b>	<b>Indirect</b>	<b>Direct</b>	<b>Indirect</b>
Randon Argentina S.A. (a)	99.99	-	99.99	-
Randon Middle East (b)	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	-
Fras-le S.A.	44.05	-	44.05	-
Fras-le Argentina S.A. (a)	-	99.99	-	99.99
Fras-le North America, 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

(a) Foreign subsidiary

(b) Foreign subsidiary starting operations in October 2005, and which, for purposes of investment evaluation, was considered as a controlled company, as determined by CVM Instruction 247/96.

# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the 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 results for the year and shareholders' equity is shown below:

	<u>Net income</u>		<u>Shareholders' equity</u>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Parent company	<u>119,026</u>	<u>125,619</u>	<u>335,914</u>	<u>254,533</u>
Elimination of income earned by the parent company in transactions with subsidiaries, net of Income and Social Contribution	<u>( 538)</u>	<u>( 740)</u>	<u>( 1,075)</u>	<u>( 537)</u>
Consolidated	<u>118,488</u>	<u>124,879</u>	<u>334,839</u>	<u>253,996</u>

# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

(In thousands of Reais)

### 4 Cash and banks

	<u>Parent company</u>		<u>Consolidated</u>	
	2005	2004	2005	2004
Cash and banks	11,202	6,786	19,629	20,542
Interest earning bank deposits	<u>57,400</u>	<u>23,509</u>	<u>152,813</u>	<u>62,835</u>
	<u>68,602</u>	<u>30,295</u>	<u>172,442</u>	<u>83,377</u>

Interest earning bank deposits refer substantially to Banks Deposits Certificates and Fixed Income Funds, remunerated at rates which vary from 100% to 101% of the Certificate of Interbank Deposit – CDI.

### 5 Trade accounts receivable

	<u>Parent company</u>		<u>Consolidated</u>	
	2005	2004	2005	2004
Current:				
Domestic customers	124,760	99,637	229,224	225,811
Foreign customers	35,915	20,142	99,202	66,346
Subsidiaries	17,090	10,729	-	-
Less:				
Vendor	( 22,402)	( 17,572)	( 28,510)	( 17,572)
Trade bills discounted	-	( 3,504)	( 6,894)	( 10,947)
Allowance for doubtful accounts	( 3,217)	( 3,509)	( 8,089)	( 8,732)
	<u>152,146</u>	<u>105,923</u>	<u>284,933</u>	<u>254,906</u>

# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

(In thousands of Reais)

### 6 Inventories

	<u>Parent company</u>		<u>Consolidated</u>	
	2005	2004	2005	2004
Finished goods	33,266	19,730	57,290	42,097
Work in process	28,691	30,964	45,823	52,854
Direct materials and components	33,238	29,218	92,949	94,063
Miscellaneous materials	10,399	5,084	23,382	23,196
Inventory obsolescence provision	( 467)	( 806)	( 858)	( 806)
Advances to suppliers	1,276	1,807	5,157	7,688
Imports in transit	<u>2,284</u>	<u>1,831</u>	<u>4,190</u>	<u>2,119</u>
	<u>108,687</u>	<u>87,828</u>	<u>227,933</u>	<u>221,211</u>

### 7 Investments

#### a. Composition of balances

	<u>Parent company</u>		<u>Consolidated</u>	
	2005	2004	2005	2004
Investments in subsidiaries	179,402	155,606	-	-
Other companies' interest in subsidiaries	-	-	20,544	18,685
Investments in consortium quotas	-	-	12,303	10,439
Other investments	1,882	2,135	7,161	5,548
Provision for devaluation of investments stated at historical cost	( 822)	( 822)	( 2,884)	( 2,540)
Goodwill not absorbed in the consolidation	<u>-</u>	<u>-</u>	<u>92</u>	<u>232</u>
	<u>180,462</u>	<u>156,919</u>	<u>37,216</u>	<u>32,364</u>



# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

(In thousands of Reais)

### b. Movement of investments

	<b>Fras-le S.A.</b>	<b>Suspensys Sistemas Automotivos Ltda.</b>	<b>Master Sistemas Automotivos Ltda.</b>	<b>Jost Brasil Sistemas Automotivos Ltda.</b>	<b>Randon Veículos Ltda.</b>	<b>Randon Administradora Consórcios Ltda.</b>	<b>Randon Argentina S.A.</b>	<b>Randon Middle East</b>	<b>Total</b>
Balances at December 31, 2004	50,510	15,267	36,342	13,063	15,416	18,873	6,135	-	155,606
- Capital increased	-	-	-	-	-	-	-	66	66
- Interest in capital received and dividends	(4,916)	(15,416)	(6,036)	(7,341)	(1,901)	(5,845)	-	-	(41,455)
- Equity in income of subsidiaries	14,466	16,996	14,929	6,209	5,380	8,571	(1,389)	23	65,185
Balances at December 31, 2005	<u>60,060</u>	<u>16,847</u>	<u>45,235</u>	<u>11,931</u>	<u>18,895</u>	<u>21,599</u>	<u>4,746</u>	<u>89</u>	<u>179,402</u>

# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

(In thousands of Reais)

### 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)	Randon Middle East	Parent company	
									2005	2004
Capital	65,000	34,233	20,265	3,690	15,000	5,950	40,630	70		
Quantity of shares or quotas owned (in lots of one thousand shares)										
- Common	44,116,233	-	-	-	-	-	31,016	-		
- Preferred	24,137,767	-	-	-	-	-	-	-		
- Quotas	-	100,000	92,000	5,689,809	15,000,000	5,950,000	-	-		
Interest in capital at the end of the year - %	44.05	22.88	51	51	99.99	99.57	99.99	100		
Adjusted net equity	136,954	78,825	89,254	24,30	18,924	21,692	4,746	89		
Net income (loss) for the year	33,342	29,477	29,486	12,080	5,379	8,608	(569)	18		
Equity in income of subsidiaries	14,466	16,996	14,929	6,209	5,380	8,571	(1,389)	23	65,185	61,602
Value of investments at December 31, 2005	60,060	16,847	45,235	11,931	18,895	21,599	4,746	89	179,402	155,606

(a) Information examined by other independent auditors;

(b) It does not include unearned income in the inventories: Fras-le S.A (R\$ 265), Suspensys Sistemas Automotivos Ltda. (R\$ 1,189), Master Sistema Automotivos Ltda. (R\$ 284), Jost Brasil Sistema Automotivos Ltda. (R\$ 462) and Randon Veículos Ltda. (R\$ 28).

# Randon S.A. Implementos e Participações

**(Publicly-held company)**

## Notes to the financial statements

*(In thousands of Reais)*

### ***d. Interest on shareholders' equity and dividends received***

The Company received from the subsidiaries interest on shareholders' equity in the amount of R\$ 13,738 which until December 31, 2005 (R\$ 9,837 in 2004), was recorded in the accounting as financial income in the statement of income. For purposes of disclosure and adjustment to accounting principles, the aforementioned amount was reversed in the statement of income having as corresponding entries "permanent assets – investments".

The Company received from controlled companies dividends in the value of R\$ 27,717 in 2005 (R\$ 13,391 in 2004).

# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

(In thousands of Reais)

### 8 Related parties transactions

#### a. Balances and operations with related parties

The main asset and liability balances at December 31, 2005, 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.

	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.	DRAMD Particip. e Adm. Ltda.	2005	2004
Assets										
Accounts receivable from sales	580	242	896	3	126	15,177	66	-	17,090	10,729
Advances to subsidiaries	-	-	-	-	35	-	-	-	35	12
Intercompany loans receivable	1,232	-	-	384	765	-	-	-	2,381	7,932
Liabilities										
Accounts payable purchase	-	142	3	-	81	-	-	-	226	431
Advances from subsidiaries	10	-	-	-	-	-	-	-	10	112
Intercompany loans payable	-	46	5,396	-	6,284	-	-	12,857	24,583	392
Income										
Income from products and services	5,417	3,610	1,372	10,060	12,077	26,607	1,374	-	60,517	52,561
Purchase of products and services	-	12,210	33,560	3,216	131,091	-	-	-	180,077	148,222
Financial incomes	59	978	281	275	-	-	-	35	1,628	404
Financial expenses	16	-	430	3	1,452	-	-	1,300	3,201	1,416
Land sale	-	1,123	-	-	-	-	-	-	1,123	-

# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

(In thousands of Reais)

The rights and obligations with related parties are represented by commercial transactions, related to purchase and sales transactions performed under normal market terms, conditions and prices. 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, 2005 and 2004, the Company presented the following amounts of guaranties represented by sureties, bonds, fiduciary properties and mortgages rendered to the related parties:

	<b>Guarantees</b>	<b>2005</b>	<b>2004</b>
Randon Veículos Ltda.	Sureties	9,383	11,233
Master Sistemas Automotivos Ltda.	Sureties and bonds	17,261	23,020
Jost Brasil Sistemas Automotivos Ltda.	Sureties	907	1,306
Fras-le S.A.	Sureties and bonds	27,471	13,849
Suspensys Sistemas Automotivos Ltda.	Sureties, bonds and fiduciary property	<u>24,172</u>	<u>28,596</u>
		<u>79,194</u>	<u>78,004</u>

# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

(In thousands of Reais)

### 9 Fixed Assets

#### a. Composition of balances

	Average rate annual of depreciation % p.a.	Parent company				Consolidated			
		2005		2004		2005		2004	
		Cost	Depreciation	Net	Net	Cost	Depreciation	Net	Net
<b>Tangible</b>									
Buildings	4	49,250	(23,266)	25,984	19,860	111,845	(39,440)	72,405	59,450
Machinery and equipment	10	46,485	(27,767)	18,718	11,872	293,944	(184,494)	109,450	92,247
Molds	10	6,517	(2,989)	3,528	3,571	59,447	(30,393)	29,054	21,024
Furniture and fixtures	10	5,242	(3,174)	2,068	1,514	18,001	(9,991)	8,010	6,512
Vehicles	21	6,629	(5,130)	1,499	1,356	10,591	(8,446)	2,145	2,216
Computer equipment	20	4,521	(3,241)	1,280	1,289	14,173	(10,225)	3,948	3,137
Land		22,426	-	22,426	12,255	27,514	-	27,514	17,626
Others		3,010	-	3,010	2,508	3,014	-	3,014	3,233
Fixed assets in progress		12,581	-	12,581	12,265	21,853	-	21,853	19,381
Imports in transit		45	-	45	45	445	-	445	136
Advances to suppliers		854	-	854	774	3,348	-	3,348	7,760
		<u>157,560</u>	<u>(65,567)</u>	<u>91,993</u>	<u>67,309</u>	<u>564,175</u>	<u>(282,989)</u>	<u>281,186</u>	<u>232,722</u>
<b>Intangible</b>									
Trademarks and patents		204	-	204	204	214	-	214	214
Software	20	5,462	(4,056)	1,406	1,559	12,942	(8,268)	4,674	4,283
		<u>5,666</u>	<u>(4,056)</u>	<u>1,610</u>	<u>1,763</u>	<u>13,156</u>	<u>(8,268)</u>	<u>4,888</u>	<u>4,497</u>
		<u>163,226</u>	<u>(69,623)</u>	<u>93,603</u>	<u>69,072</u>	<u>577,331</u>	<u>(291,257)</u>	<u>286,074</u>	<u>237,219</u>

# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

(In thousands of Reais)

### *b. Movement of cost*

	<b>Consolidated</b>				
	<b>2004</b>	<b>2005</b>			
	<b>Cost</b>	<b>Additions</b>	<b>Write-offs</b>	<b>Others</b>	<b>Cost</b>
Tangible					
Buildings	100,613	2,096	(9,548)	18,684	111,845
Machinery and equipment	259,025	25,069	(1,175)	11,025	293,944
Molds	43,110	9,167	(980)	8,150	59,447
Furniture and fixtures	15,795	2,411	(682)	477	18,001
Vehicles	10,593	1,027	(909)	(120)	10,591
Computer equipment	11,544	1,703	(209)	1,135	14,173
Land	17,626	13,475	(2,690)	(897)	27,514
Fixed assets in progress	19,913	34,799	(290)	(32,569)	21,853
Others	3,847	569	(233)	(1,169)	3,014
Imports in transit	136	1,001	-	(692)	445
Advances to suppliers	7,760	2,678	-	(7,090)	3,348
	<u>489,962</u>	<u>93,995</u>	<u>(16,716)</u>	<u>(3,066)</u>	<u>564,175</u>
Intangible					
Trademarks and patents	220	-	-	(6)	214
Software	11,029	1,070	(2)	845	12,942
	<u>11,249</u>	<u>1,070</u>	<u>(2)</u>	<u>839</u>	<u>13,156</u>
	<u>501,211</u>	<u>95,065</u>	<u>(16,718)</u>	<u>(2,227)</u>	<u>577,331</u>

Fixed assets fully depreciated in use correspond to the amount of R\$ 37,757 for parent company, and R\$ 168,579 for consolidated in 2005.

# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

(In thousands of Reais)

### 10 Loans and financing

	Index	Interest	Parent company		Consolidated	
			2005	2004	2005	2004
Local currency:						
FINAME	TJLP	5.3% to 8% p.a.	497	833	3,663	1,694
Bank loans	TJLP	2.5% p.a.	17,116	-	27,157	4,476
BNDES	URTJLP	4.5 % p.a.	17,330	13,125	50,607	43,621
Foreign currency:						
Advances on exchange contracts of prepayment for exportation of US\$ 28,916 thousand in parent company and US\$ 47,890 thousand in consolidated	Exchange variance + Libor	2.65% to 5.9% p.a.	67,683	46,424	112,097	79,467
Financing of US\$ 8,890 thousand in subsidiary and US\$ 20,683 thousand in consolidated	Exchange variance + Libor	2% to 11.53% p.a.	20,809	35,239	48,412	58,872
BNDES	UMBND	4.5% p.a.	<u>4,344</u>	<u>3,039</u>	<u>17,336</u>	<u>13,522</u>
			127,779	98,660	259,272	201,652
Swap operations		80.95% of CDI and 100% of CDI (-) 6.4% p.a. to 1.5% p.a.	<u>19,862</u>	<u>11,265</u>	<u>30,517</u>	<u>20,170</u>
	Exchange variance		147,641	109,925	289,789	221,822
Current portion included in current liabilities			<u>42,952</u>	<u>20,150</u>	<u>126,494</u>	<u>60,867</u>
Noncurrent liabilities			<u>104,689</u>	<u>89,775</u>	<u>163,295</u>	<u>160,955</u>



# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

(In thousands of Reais)

The long-term installments have the following payment schedule:

Year of maturity:	<u>Parent company</u>		<u>Consolidated</u>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
2006	-	27,956	-	67,251
2007	17,191	12,276	37,951	31,206
2008	41,204	33,048	56,545	33,559
2009	16,186	6,594	28,510	14,894
2010 up to 2012	<u>30,108</u>	<u>9,901</u>	<u>40,289</u>	<u>14,045</u>
	<u>104,689</u>	<u>89,775</u>	<u>163,295</u>	<u>160,955</u>

The loans and financing are guaranteed by sureties and guarantees for the subsidiaries in the amount of R\$ 78,088 (R\$ 76,898 in 2004), a mortgage in the amount of R\$ 17,000 (R\$ 43,544 in 2004) in the parent company and R\$ 23,618 (R\$ 62,592 in 2004) in consolidated; assets given as guarantee and collateral in the amount of R\$ 18,867 (R\$ 13,340 in 2004) in the parent company and R\$ 91,655 (R\$ 101,016 in 2004) in consolidated.

### 11 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 of 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.

# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

(In thousands of Reais)

### 12 Special program for payment of taxes in installments - PAES

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:

	<b>Federal taxes</b>
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	( 929)
Total of the debts included in PAES	17,889
(-) Payments made until December 31, 2005	( 5,291)
+ Monetary updating until December 31, 2005	<u>3,820</u>
Balance of the debts at December 31, 2005	16,418
(-) Total of current liabilities	<u>( 2,189)</u>
Total of non current liabilities	<u>14,229</u>

# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

(In thousands of Reais)

### 13 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 current liabilities based on the opinion of its legal counsel for the cases in which loss is considered as probable.

#### a) Contingent liabilities

The following table demonstrates the contingent risks as of December 31, 2005, 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	1,129	268	290	3,046	1,047	922	5	39
b) tax	798	15,487	17,855	4,892	19,346	128,738	4,538	9,567
c) labor	454	1,942	274	1,506	2,611	353	97	394
d) social security	2,499	-	10,643	3,820	1,137	11,699	1,021	2,598
<b>Total :</b>	<b>4,880</b>	<b>17,697</b>	<b>29,062</b>	<b>13,264</b>	<b>24,141</b>	<b>141,712</b>	<b>5,661</b>	<b>12,598</b>

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 phase, and at the Judiciary Power.

# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

(In thousands of Reais)

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 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\$ 74,992, and the subsidiary Master Sistemas Automotivos Ltda an amount of R\$ 2,757 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 Service partially disallowed PIS credit compensation against COFINS and IPI debits in the value of R\$ 13,029 of the subsidiary Fras-le S.A., in spite of the existence of a final decision in *rem judicatam*
- c. IPI, PIS, COFINS 1995 and 1996 base period** – 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\$ 7,789.
- d. COFINS** – The Company was assessed by the Federal Revenue Service a value of R\$ 7,093 due to COFINS compensation against FINSOCIAL.
- e. PIS** – The Company was assessed by the Federal Revenue Service a value of R\$ 5,995 due to PIS assumed difference collection during the period from October 1988 until June 1996 arisen from ICMS exclusion from the calculation basis.
- f. Compensation based on IRPJ and CSLL negative balance** – The Company was assessed by the Federal Revenue Service in the value of R\$ 5,265 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.

# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

*(In thousands of Reais)*

- g. Income Tax and Social Contribution on Net Income 1995 and 1996 base period** – 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 Service disallowed and adjusted the Social Contribution on Net Income's taxable income and calculation basis. The value of proceeding is of R\$ 4,291.
- h. Social Contribution** – The subsidiary Fras-le S.A. was assessed by the Federal Revenue Service with the purpose of preventing tax credit expiration on values deposited in court as Social Contribution incurred upon income during the period 04 to 08/1999 and 03 to 12/2000 in the value of R\$ 3,392, with respect to the questioning of the tax rate instituted by Law 9718/98.
- i. IPI** – The subsidiary Fras-le S.A was assessed due to lack of IPI withdrawal or payment during the period from January 1997 until September 1997 in the value of R\$ 2,391. The subsidiary Fras-le S.A. presented challenge claiming nullity of the assessment tax notice due to absence of requirements for compensation request included in specific proceeding.

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

Social Security –INSS assessments under judgment at TRF. The main remote risk proceeding refers to collection of social contribution upon remuneration to autonomous workers considered by social security as employees, in the value of R\$ 10,597.

# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

(In thousands of Reais)

### b) Contingent assets

The statement as of December 31, 2005 containing information on contingent assets, in the opinion of the legal advisors and is presented below:

Assets	Parent company			Consolidated		
	Probable	Possible	Remote	Probable	Possible	Remote
a) tax	126	927	73	5,591	2,633	787
b) social security	265	23	-	814	228	20
<b>Total :</b>	<b>391</b>	<b>950</b>	<b>73</b>	<b>6,405</b>	<b>2,861</b>	<b>807</b>

- 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.

### a. Movements of lawsuits

	Consolidated				
	2004	2005			
	Opening balance	Additions to the provision	Used	Reversals	Closing balance
Civil	2,500	1,741	(689)	(506)	3,046
Labor	2,145	177	(74)	(742)	1,506
Tax	6,974	861	-	(2,943)	4,892
Social security	<u>2,391</u>	<u>2,661</u>	<u>-</u>	<u>(1,232)</u>	<u>3,820</u>
	<u>14,010</u>	<u>5,440</u>	<u>(763)</u>	<u>(5,423)</u>	<u>13,264</u>

# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

(In thousands of Reais)

### 14 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>2005</u>	
	Parent company	Consolidated
<b>Actuarial liability</b>		
Present value of actuarial obligations	(7,984)	(13,283)
Fair value of the plan's assets	7,819	13,007
Unrecognized actuarial (losses)	<u>(1,760)</u>	<u>(2,773)</u>
Net liability in the balance sheet	<u>(1,925)</u>	<u>(3,049)</u>

The composition of the result is as follows:

Accumulated service cost	(169)	(428)
Interest on obligation	(626)	(971)
Expected return on the plan's assets	624	974
Net actuarial gains recognized in the year	<u>58</u>	<u>97</u>
Total	<u>(113)</u>	<u>(328)</u>

# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

(In thousands of Reais)

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

	<u>2005</u>	
	<u>Parent company</u>	<u>Consolidated</u>
Net liability at beginning of year	(2,015)	(3,206)
Others	-	12
Net expense recognized in the statement of income/ shareholders' equity	( 113)	( 328)
Contributions paid	<u>203</u>	<u>473</u>
Net liability at end of year	<u>(1,925)</u>	<u>(3,049)</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	14,10 p.a.
Future salary increases	7,12 p.a.
Inflation rate	4,0 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.



# Randon S.A. Implementos e Participações

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## Notes to the financial statements

*(In thousands of Reais)*

### **15 Deferred income and social contribution taxes**

#### ***a. Deferred income***

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.

In accordance with CVM Instruction 371, of June 27, 2002, the Company based on its expectation of generating future taxable income determined by a technical valuation approved by management, recognized tax credits on income tax loss carry-forwards and the negative bases of social contribution tax from prior years, with no statutory limitation period and that can be offset against a maximum of 30% of annual taxable income. The deferred tax asset accounting value is periodically reviewed and projections are annually reviewed; in case there are relevant factors which might modify projections, they are reviewed during the fiscal year by the Company.

# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

(In thousands of Reais)

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

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Current assets:				
Tax loss carry-forwards	-	2,473	3,508	5,303
Negative basis of social contribution tax	1,600	2,569	3,194	4,027
Provision for commissions and freight	1,193	-	1,193	-
Allowance for doubtful accounts	1,094	-	2,215	10
Provision for loss of investment	74	-	298	-
Provision for guarantees	1,416	-	1,416	-
Swap/hedge operations	1,666	-	1,666	-
Cost from sale of land	602	-	602	-
Miscellaneous provisions	<u>574</u>	<u>-</u>	<u>1,351</u>	<u>653</u>
	<u>8,219</u>	<u>5,042</u>	<u>15,443</u>	<u>9,993</u>
Noncurrent assets:				
Allowance for doubtful accounts	-	1,193	90	1,663
Tax loss carry-forwards	-	-	1,180	1,180
Negative basis of social contribution tax	-	1,167	142	1,309
Provision for loss of investment	-	74	186	552
Provision for contingences	1,937	1,255	4,468	1,966
Provision for pension plan	655	685	655	990
Sundry provisions	-	766	536	766
Provision for guarantees	-	1,375	-	1,375
Provision for loss of investment	-	-	42	-
Cost from sale of land	220	-	220	-
Swap/hedge operations	<u>1,805</u>	<u>-</u>	<u>2,851</u>	<u>-</u>
	<u>4,617</u>	<u>6,515</u>	<u>10,370</u>	<u>9,801</u>
Current liabilities:				
Swap/hedge operations	-	-	1,014	-
Revenue from sale of land	1,043	-	1,043	-
Revenue from revaluation of building	92	-	92	-
Miscellaneous incomes	<u>-</u>	<u>-</u>	<u>9</u>	<u>-</u>
	<u>1,135</u>	<u>-</u>	<u>2,158</u>	<u>-</u>
Noncurrent liabilities:				
Non-incited accelerated depreciation	-	-	575	-
Miscellaneous incomes	-	-	17	-
Revaluation reserve	498	-	624	-
Revenue from revaluation of building	<u>383</u>	<u>-</u>	<u>382</u>	<u>-</u>
	<u>881</u>	<u>-</u>	<u>1,598</u>	<u>-</u>
Net deferred taxes	<u>10,820</u>	<u>11,557</u>	<u>22,057</u>	<u>19,794</u>

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## Notes to the financial statements

(In thousands of Reais)

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:

	<u>Parent company</u>		<u>Consolidated</u>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Year of maturity:				
2005	-	5,042	-	9,993
2006	7,085	6,515	13,285	9,801
2007	<u>3,735</u>	<u>-</u>	<u>8,772</u>	<u>-</u>
	<u>10,820</u>	<u>11,557</u>	<u>22,057</u>	<u>19,794</u>

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. Deferred taxes realization derived from temporary differences in the fiscal years mentioned above is subject to a final solution of the accounting estimates projected.

# Randon S.A. Implementos e Participações

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## Notes to the financial statements

(In thousands of Reais)

### *b. Reconciliation the tax expense*

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>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Profit before Income and Social Contribution Taxes	<u>143,160</u>	<u>159,095</u>	<u>229,775</u>	<u>261,763</u>
Combined statutory rates	34%	34%	34%	34%
Income and Social Contribution Taxes Combined statutory rates	48,674	54,092	78,124	88,999
Permanent additions: Nondeductible expenses	646	6,053	2,049	10,889
Permanent exclusions: Equity in income of subsidiaries	22,163	20,945	-	-
Deductions	5,105	7,697	17,115	18,805
Other items:				
Effect of changes in tax rates deferred	-	-	115	( 147)
Others	( 23)	( 286)	( 2,128)	( 1,221)
Income and Social Contribution Taxes on net income	<u>22,029</u>	<u>31,217</u>	<u>61,045</u>	<u>79,715</u>
Effective rate	<u>15.4%</u>	<u>19.6%</u>	<u>26.6%</u>	<u>30.5%</u>

# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

(In thousands of Reais)

### 16 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, 2005 subscribed and paid-in capital is represented by 150,523,635 (150,523,635 in 2004) nominative shares of which 52,592,196 (52,592,196 in 2004) are common shares and 97,931,439 (97,931,439 in 2004) 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.

- *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.

#### *c. 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.

# Randon S.A. Implementos e Participações

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(In thousands of Reais)

Dividends were calculated as follows:

Net income for the year	119,026
(-) Legal reserve	( 5,952)
Calculation basis	113,074
Minimum mandatory dividends 30%	33,922
(-) Interest on shareholders' equity paid	(24,817)
Withholding Income Tax	<u>3,723</u>
Net value credited	<u>12,828</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.

### 17 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\$ 24,817 (R\$ 16,332 in 2004) by using the benchmark interest rate (TJLP) in effect for the year. This interest was recorded under financial expenses, as required by tax legislation. For the purposes of these financial statements, this interest was eliminated from financial expenses for the year and was charged to retained earnings and credited to current liabilities.

Income and Social Contribution Taxes for the year decreased by R\$ 8,438 (R\$ 5,553 in 2004) as a result of the deduction of these taxes on interest on shareholders' equity.

# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

(In thousands of Reais)

### 18 Financial result

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<b>Financial incomes:</b>				
Exchange variance	28,410	15,480	52,948	34,657
Interests on incomes from short-term financial investments	1,959	4,998	8,590	9,919
Incomes from swap operations	2,515	1,837	3,959	3,152
Gains from hedge operations	6,722	-	21,522	-
Incomes from intercompany loans receivable	1,653	580	60	213
Other financial incomes	<u>9,616</u>	<u>8,434</u>	<u>14,927</u>	<u>11,019</u>
	<u>50,875</u>	<u>31,329</u>	<u>102,006</u>	<u>58,960</u>
<b>Financial expenses:</b>				
Exchange variance	(13,673)	(10,724)	(42,442)	(34,715)
Interest on financing	(8,881)	( 5,543)	(18,803)	(13,983)
Expenses from swap operations	(14,443)	(11,078)	(23,042)	(13,825)
Loss from hedge operations	(2,395)	-	(3,866)	-
Expenses from intercompany loans payable	(3,822)	( 2,233)	(2,263)	( 930)
Other financial expenses	<u>(4,170)</u>	<u>( 2,781)</u>	<u>(14,372)</u>	<u>(11,922)</u>
	<u>(47,384)</u>	<u>(32,359)</u>	<u>(104,788)</u>	<u>(75,375)</u>
Financial result	<u>(3,491)</u>	<u>(1,030)</u>	<u>(2,782)</u>	<u>(16,415)</u>

### 19 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.

# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

(In thousands of Reais)

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.

### 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, 2005 are shown below:

Balance	Parent company		Consolidated	
	Book value	Market value	Book value	Market value
Cash and banks	68,602	68,602	172,442	172,442
Intercompany loans receivable	2,381	2,381	-	-
Taxes recoverable	26,768	26,768	55,211	55,211
Deferred taxes	12,836	12,836	25,813	25,813
Investments:				
Valued at cost:				
Not quoted on the stock exchange	1,060	1,060	37,216	37,216
Valued by equity method:				
Not quoted on the stock exchange	158,162	158,162	-	-
Quoted on the stock exchange:				
Preferred	21,240	149,654	-	-
Loans and financing:				
In local currency	34,943	34,943	81,427	81,427
In foreign currency	92,836	92,836	177,845	177,845
Swap operations	19,862	18,065	30,517	28,207
Intercompany loans payable	24,583	24,583	12,857	12,857



# Randon S.A. Implementos e Participações

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## Notes to the financial statements

*(In thousands of Reais)*

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

- *Cash and financial investments*

Current accounts held in banks have market values similar to the book values.

For short-term financial investments, the market value was calculated based on the market quotations of these securities; when there were no quotations, they were based on the future cash flows, discounted at average available investment rates.

- *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.

# Randon S.A. Implementos e Participações

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## Notes to the financial statements

*(In thousands of Reais)*

- *Loans and financing*

The market values of loans and financing were calculated based on their present value calculated through the future cash flows and using interest rates applicable to instruments of similar nature, terms and risks, or based on the market quotations of these securities.

The market values of BNDES/FINAME 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.

The subsidiary Fras-le S.A. entered into an option operation in amount of US\$ 21 million, monthly due on January 31, 2006 until December 29, 2006, 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, from R\$ 2.27 to R\$ 2.52, and it will only have an obligation if the dollar rate is above the position ranging between R\$ 2.35 to R\$ 2.59. The dollar exchange rate intermediary to such positions does not generate obligation or right to either party.

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## Notes to the financial statements

*(In thousands of Reais)*

- *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.

*c. 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\$ 3,217 (parent company) and R\$ 8,089 (consolidated) (2004 - R\$ 3,509 and R\$ 8,732), which represents 2% (2004 – 3%) of the balance of the outstanding accounts receivable in parent company, and 3% (2004 – 3%) of the balance of the outstanding accounts receivable of consolidated.

*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 2005 with a negative variation of 11.82% (2004 – negative variation of 8.13%).

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## Notes to the financial statements

(In thousands of Reais)

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:

	<b>2005</b>	<b>2004</b>
A. Loans/financings in U.S. dollars thousand		
Parent company	39,662	31,910
Consolidated	75,979	57,211
B. Net assets in U.S. dollars thousand		
Parent company	18,898	10,020
Consolidated	28,312	20,877
C. Swap operations		
Parent company	8,485	4,244
Consolidated	13,038	7,599
D. Deficit calculated (A-B+C)		
Parent company	29,249	26,134
Consolidated	60,705	43,933

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

<u>Company</u>	<u>Assets index</u>	<u>Passive index</u>	<u>Financial incomes</u>	<u>Financial expenses</u>
Parent company	Exchange variance+ Libor + 2.65% p.a 5.9% p.a.	Exchange variance or 80.95% to 100% of CDI (-) 6.4% p.a. to 1.5% p.a.	<u>9,237</u>	<u>16,838</u>
Consolidated	Exchange variance+ Libor + 2.25% to 16% p.a.	Exchange variance or 80.95% to 103% of CDI (-) 6.8% p.a. to 1.5% p.a.	<u>25,481</u>	<u>26,908</u>

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## Notes to the financial statements

*(In thousands of Reais)*

### *e. Price risk*

Considering that exports represent 18.6% of the income in 2005 of the parent company and 21.3% of the consolidated, 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.

## **20 Insurance coverage (Unaudited)**

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.

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## Notes to the financial statements

(In thousands of Reais)

The main insurance coverage is as follows:

		<u>Consolidated</u>	
		<b>Total of indemnification limits</b>	
<b>Risk covered</b>		<b>2005</b>	<b>2004</b>
Buildings, inventories and engine	Fire, gale, electric damages and general risks	96,064	112,820
Vehicles	Body	8,668	4,751
Airplanes	RETA, LUC e Body	26,216	33,045
Personal accidents	Bodily injury	<u>7,911</u>	<u>6,527</u>
		<u>138,859</u>	<u>157,143</u>

### 21 Vendor operations

At December 31, 2005, the Company and its subsidiaries had outstanding vendor operations with its clients in the amount of R\$ 28,510 (R\$ 17,572 in 2004), in which the Company participates as intervening guarantor.

### 22 Employees' profit sharing plan

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 2005 was R\$ 7,483 (parent company) (R\$ 9,077 in 2004) and R\$ 19,679 (consolidated) (R\$ 20,886 in 2004).

# Randon S.A. Implementos e Participações

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## Notes to the financial statements

(In thousands of Reais)

### 23 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 is the following:

#### Parent company

Assets	Balance of contracted amounts	Charges	Remaining period in months	Purchase option/residual value
Computer equipment	1,206	100 to 103% of CDI + 0.13% to 0.18% p.m.	4 to 54 months	29
Machinery and equipments	4,280	CDI + 0% to 0.21% p.m.	15 to 59 months	42
Vehicles	<u>929</u>	CDI + 0% to 0.13% p.m.	12 to 56 months	<u>6</u>
	<u>6,415</u>			<u>77</u>

#### Consolidated

Assets	Balance of contracted amounts	Charges	Remaining period in months	Purchase option/residual value
Computer equipment	3,557	100% to 103% of CDI + 0% to 0.18% p.m. or 1.5% p.m.	4 to 54 months	56
Machinery and equipments	4,915	CDI + 0% to 0.21% p.m. or 1.4% a 2% p.m.	8 to 59 months	82
Vehicles	<u>1,396</u>	CDI + 0% to 0.16% p.m. or 1.44% p.m.	3 to 56 months	<u>19</u>
	<u>9,868</u>			<u>157</u>

# Randon S.A. Implementos e Participações

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## Notes to the financial statements

*(In thousands of Reais)*

### **24 Segment reporting – consolidated**

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 equipments and special vehicles segment: it refers to the consolidated result of the 2005 fiscal year of the companies Randon S.A. Implementos e Participações, Randon Argentina S.A., Randon Middle East and Randon Veículos Ltda., being the main products included in this segment the following: tows, semi-tows, railway cars, out-of-the-road trucks, digging machines, and other roadway implements and special vehicles.

Auto-parts and automotive systems segment: it refers to the consolidated result of the 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

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## Notes to the financial statements

(In thousands of Reais)

### a. Information by business segments

	Road and railroad equipment and special vehicles		Auto-parts and automotive systems		Services		Consolidated total	
	2005	2004	2005	2004	2005	2004	2005	2004
Revenues	1,189,418	910,631	1,235,843	1,115,778	42,072	41,577	2,467,333	2,067,986
Deductions	(247,870)	(195,207)	(279,727)	(233,272)	(3,593)	(3,216)	(531,190)	(431,695)
Net revenues	941,548	715,424	956,116	882,506	38,479	38,361	1,936,143	1,636,291
Cost of goods sold and services rendered	(747,714)	(511,156)	(693,451)	(590,548)	-	-	(1,441,165)	(1,101,704)
Gross profit	193,834	204,268	262,665	291,958	38,479	38,361	494,978	534,587
Operation expenses	(133,925)	(108,223)	(115,078)	(122,046)	(28,391)	(28,421)	(277,394)	(258,690)
Financial incomes (expenses), net	1,242	(3,340)	(5,335)	(13,669)	1,311	594	(2,782)	(16,415)
Operation income	61,151	92,705	142,252	156,243	11,399	10,534	214,802	259,482
Net income for the year	42,003	60,491	67,187	57,522	9,298	6,866	118,488	124,879
EBITDA – R\$	67,734	102,683	179,477	196,179	10,710	10,470	257,921	309,332
EBITDA – %	7.2%	14.4%	18.8%	22.2%	27.8%	27.3%	13.3%	18.9%
<b>Fixed assets</b>	101,273	78,525	183,358	157,068	1,443	1,626	286,074	237,219

*b. Net sales by geographic segments*

Geographic region	Road and railroad equipment and special vehicles		Auto-parts and automotive systems		Services		Consolidated total	
	2005	2004	2005	2004	2005	2004	2005	2004
Domestic market	730,439	562,209	718,906	663,686	38,479	38,361	1,487,824	1,264,256
Mercosur and Chile	141,090	110,005	29,591	25,234	-	-	170,681	135,239
Nafta	53	72	141,271	125,853	-	-	141,324	125,925
Europe	3	139	35,094	38,562	-	-	35,097	38,701
Africa	50,878	25,677	5,745	4,989	-	-	56,623	30,666
South and Central America	10,616	6,290	5,907	5,329	-	-	16,523	11,619
Middle East	5,128	7,749	3,210	6,690	-	-	8,338	14,439
Asia	-	-	3,904	4,252	-	-	3,904	4,252
Oceania	-	-	2,468	3,405	-	-	2,468	3,405
Others	<u>3,341</u>	<u>3,283</u>	<u>10,020</u>	<u>4,506</u>	<u>-</u>	<u>-</u>	<u>13,361</u>	<u>7,789</u>
Total	<u>941,548</u>	<u>715,424</u>	<u>956,116</u>	<u>882,506</u>	<u>38,479</u>	<u>38,361</u>	<u>1,936,143</u>	<u>1,636,291</u>

# Randon S.A. Implementos e Participações

(Publicly-held Company)

## Supplementary information

### Appendix I

#### Statements of cash flows - Indirect method

Years ended December 31, 2005 and 2004

(In thousands of Reais)

	Parent Company		Consolidated	
	2005	2004	2005	2004
<b>Cash flows from operating activities</b>				
<b>Net income for the year</b>	119,026	125,619	118,488	124,879
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	7,192	5,950	40,336	33,435
Cost of sale of fixed assets	5,120	5,319	9,292	10,051
Equity in income of subsidiaries	(65,185)	(61,602)	-	-
Minority interest	-	-	23,427	49,804
Provision for loss of investment	-	-	353	-
Exchange variation in foreign subsidiaries	-	-	177	191
Variation in loans and financing	4,518	12,120	25,270	15,657
<b>Profit and dividend received from subsidiaries</b>	41,455	23,228	-	-
<b>Changes in assets and liabilities</b>				
(Increase) decrease in others accounts receivable	(10,163)	1,979	(20,039)	12,320
(Increase) in accounts receivable	(46,223)	(39,602)	(30,027)	(92,419)
(Increase) in inventories	(20,859)	(38,054)	(6,722)	(101,503)
Increase in accounts payable to suppliers	7,174	14,214	1,606	42,427
Increase in other accounts payable and provisions	18,619	7,229	17,874	57,878
(Decrease) in Income and Social Contribution Taxes	-	(3,715)	(1,113)	(6,000)
<b>Net cash provided by operating activities</b>	<u>60,674</u>	<u>52,685</u>	<u>178,922</u>	<u>146,720</u>
<b>Cash flows from investment activities</b>				
Purchases of property, plant and equipment	(36,423)	(21,744)	(95,065)	(86,442)
Purchases of shares/quotas	(90)	(6,137)	(6,187)	(10,330)
Deferred charges	(478)	(404)	(4,865)	(2,066)
Revaluation of fixed assets	-	-	-	(1,488)
<b>Net cash (used in) investment activities</b>	<u>(36,991)</u>	<u>(28,285)</u>	<u>(106,117)</u>	<u>(100,326)</u>
<b>Cash flows from financing activities</b>				
Dividends paid	(21,887)	(27,516)	(20,471)	(30,751)
Interest on shareholders' equity	(20,878)	-	(18,823)	-
Proceeds from issuance of loans	125,922	39,063	178,132	60,588
Principal payments on loans	(83,433)	(35,415)	(110,616)	(48,398)
Proceeds from issuance of loans from parent company and subsidiaries	24,191	-	12,857	-
Interest paid on loans	(9,291)	(5,319)	(24,819)	(14,728)
	<u>14,624</u>	<u>(29,187)</u>	<u>16,260</u>	<u>(33,289)</u>
<b>Net cash provided by (used in) financing activities</b>	<u>38,307</u>	<u>(4,787)</u>	<u>89,065</u>	<u>13,105</u>
<b>Increase (decrease) in cash and cash equivalents</b>				
At beginning of year	30,295	35,082	83,377	70,272
At end of year	<u>68,602</u>	<u>30,295</u>	<u>172,442</u>	<u>83,377</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<u>38,307</u>	<u>(4,787)</u>	<u>89,065</u>	<u>13,105</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, 2005 and 2004

(In thousands of Reais)

	Parent Company		Consolidated	
	2005	2004	2005	2004
<b>Revenues</b>				
Sale of goods and services, (-) returns	1,109,125	869,353	2,440,083	1,985,516
Provision for doubtful accounts	292	(588)	15	4,067
Nonoperating income (expenses)	7,175	(274)	14,973	2,281
	<u>1,116,592</u>	<u>868,491</u>	<u>2,455,071</u>	<u>1,991,864</u>
<b>Inputs acquired from third parties (including ICMS and IPI taxes)</b>				
Raw materials consumed	796,828	609,771	1,507,675	1,092,548
Material, power, third party services and others operation expenses	99,471	62,878	298,026	337,797
	<u>896,299</u>	<u>672,649</u>	<u>1,805,701</u>	<u>1,430,345</u>
<b>Retentions</b>				
Depreciation and amortization	7,192	5,950	40,336	33,435
	<u>7,192</u>	<u>5,950</u>	<u>40,336</u>	<u>33,435</u>
<b>Added value produced by the Company</b>	<u>213,101</u>	<u>189,892</u>	<u>609,034</u>	<u>528,084</u>
<b>Transferred added value</b>				
Equity in net income of subsidiaries	65,185	61,602	-	-
Rent and royalties	948	941	948	941
Financial incomes	50,875	31,329	102,006	58,960
	<u>117,008</u>	<u>93,872</u>	<u>102,954</u>	<u>59,901</u>
<b>Added value to be distributed</b>	<u>330,109</u>	<u>283,764</u>	<u>711,988</u>	<u>587,985</u>
<b>Distribution of added value</b>				
Employees				
Payroll, benefits and related charges	90,852	74,391	216,403	184,861
Commissions on sales	1,769	1,542	2,151	2,377
Management remuneration and profit sharing	5,043	4,808	12,094	12,138
Employees' profit sharing	7,483	9,077	19,679	20,886
Retirement and pension plans	1,342	1,132	2,799	2,458
	<u>106,489</u>	<u>90,950</u>	<u>253,126</u>	<u>222,720</u>
Taxes				
Federal	49,499	30,845	188,159	115,907
State	1,480	246	34,082	41,331
Municipal	1,201	312	2,540	1,601
	<u>52,180</u>	<u>31,403</u>	<u>224,781</u>	<u>158,839</u>
Financiers				
Interest and financial expenses	47,384	32,359	104,788	75,375
Rent	5,030	3,433	10,267	6,172
	<u>52,414</u>	<u>35,792</u>	<u>115,055</u>	<u>81,547</u>
Interest on shareholders' equity and dividends	37,645	38,251	37,645	38,251
Retained earnings for the year	81,381	87,368	81,381	86,628
<b>Added value distributed</b>	<u>330,109</u>	<u>283,764</u>	<u>711,988</u>	<u>587,985</u>

See the accompanying notes to financial statements.

## **Opinion of the Audit Board**

The members of the Audit Board of Randon S/A.- Implementos e Participações, in compliance with the law – items II, III and VII of Article 163 – Law 6.404/76, have examined the Annual Report/2005, the Financial Statements audited by KPMG Auditores Independentes, the Explanatory Notes and the proposal to distribute net profit, all relative to the business period ended on December 31, 2005. The members, after hearing a partner-representative of such Auditors and administrators of the Company, have expressed the following opinion on these documents: the Report presents the main business deals and managing aspects of 2005; the Financial Statements represent the equity and financial standing of the Company on December 31, 2005, and the remuneration of the shareholders upon interest on Own Capital attributed to the mandatory dividends, paid in July 2005 and January 2006, and the proposed dividends, comply with the law and the Company`s by-laws. The Audit Board members have recommended the approval of these documents by the Ordinary General Meeting. Caxias do Sul, February 14, 2006.

Benilda Waschow  
Luiz Fernando Júlio  
Wellington Geraldo Silva  
Werner Bornholdt  
Zulmar Neves

# Randon S.A. Implementos e Participações

## **Board of Directors**

Raul Anselmo Randon - President  
David Abramo Randon - Vice-President  
João Luiz de Moraes – Board Member  
Ricardo Alves da Conceição – Board Member  
Ery José Bernardes - Board Member

## **Fiscal Council**

Wellington Geraldo Silva  
Luiz Fernando Júlio  
Benilda Waschow  
Zulmar Neves  
Werner Bornhold

## **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 Corporative and Investor Relations Manager**

Geraldo Santa Catharina

## **Controller Corporative Manager**

Maria Tereza Casagrande

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