

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

**Financial statements**  
**December 31, 2006 and 2005**

**(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, 2006 and 2005

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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, 2006 and 2005 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 Frás-le Argentina S.A. and Frás-le North America, Inc., for the year ended December 31, 2006, were examined by other independent auditors and our opinion, with respect to the amounts of these investments, which total R\$ 94,558 thousand, and the positive equity in the earnings of these subsidiaries in the amount of R\$ 37,570 thousand 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, 2006 and 2005, 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 for the years ended December 31, 2006 and 2005 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 aforementioned financial statements and, in our opinion, are presented fairly, in all material respects, in relation to the aforementioned financial statements, taken as a whole.

February 08, 2007

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, 2006 and 2005

(In thousands of Reais)

Assets	Note	Parent company		Consolidated		Liabilities	Note	Parent company		Consolidated	
		2006	2005	2006	2005			2006	2005	2006	2005
<b>Current assets</b>											
Cash and banks	5	112,016	68,602	183,221	172,442	Loans and financing	12	30,746	42,952	80,857	126,494
Short term securities	6	33,238	757	33,238	3,711	Accounts payable to suppliers		36,777	37,014	98,799	96,617
Trade accounts receivable	7	161,068	152,146	322,577	284,933	Advance payment to customers		27,938	48,369	29,365	48,580
Inventories	8	107,592	108,687	227,946	227,933	Clients per goods to be delivered		29,219	18,745	29,230	18,745
Taxes recoverable		34,607	21,722	57,793	38,671	Taxes payable		7,126	6,138	17,703	17,750
Prepaid expenses		564	486	1,192	2,360	Salaries and related charges		10,155	9,656	28,337	25,563
Deferred Income and Social						Dividends	18	11,961	12,895	17,082	16,245
Contribution Taxes	17	7,361	8,219	16,656	15,443	Interest on shareholders' equity	19	14,071	11,569	21,299	19,309
Rights due to consortium resources	13	-	-	31,031	26,330	Employees and management participation	24	10,372	8,238	24,596	19,855
Other accounts		18,695	19,495	11,739	16,032	Deferred Income and Social					
						Contribution Taxes	17	497	1,135	1,486	2,158
		<u>475,141</u>	<u>380,114</u>	<u>885,393</u>	<u>787,855</u>	Income and Social Contribution Taxes		-	-	747	1,050
<b>Noncurrent assets</b>											
<b>Long term assets</b>											
Related parties	9	1,866	2,549	124	168	Obligations due to consortium resources	13	-	-	31,031	26,330
Consortium for resale		11,082	11,077	26,639	23,381	Commissions		6,109	2,914	7,564	5,231
Deferred Income and Social						Related parties	9	2,422	1,614	2,422	1,614
Contribution Taxes	17	4,373	4,617	9,875	10,370	Other accounts		<u>9,350</u>	<u>7,842</u>	<u>23,257</u>	<u>25,713</u>
Recoverable taxes		10,663	5,046	27,132	16,540			<u>196,743</u>	<u>209,081</u>	<u>413,775</u>	<u>451,254</u>
Court deposits	15	4,802	4,651	9,113	8,918	<b>Noncurrent liabilities</b>					
Other accounts		11	1,529	2,023	3,140	<b>Long term liabilities</b>					
		<u>32,797</u>	<u>29,469</u>	<u>74,906</u>	<u>62,517</u>	Loans and financing	12	126,110	104,689	195,992	163,295
<b>Permanent assets</b>											
Investments	10	240,214	180,462	25,226	23,620	Taxes and contributions payable	14	-	-	11,703	14,229
Property, plant and equipment	11	143,585	93,603	395,20	286,074	Related parties	9	33,498	27,521	18,793	15,795
Deferred charges		1,592	1,501	11,397	8,807	Deferred Income and Social					
		<u>385,391</u>	<u>275,566</u>	<u>431,823</u>	<u>318,501</u>	Contribution Taxes	17	955	881	1,139	1,598
						Provision for contingencies	15	4,372	3,870	9,388	9,584
						Benefits to employees	16	1,526	1,925	2,391	3,049
						Other accounts		<u>2,751</u>	<u>1,268</u>	<u>8,887</u>	<u>3,454</u>
		<u>893,329</u>	<u>685,149</u>	<u>1,392,122</u>	<u>1,168,873</u>			<u>169,212</u>	<u>140,154</u>	<u>248,293</u>	<u>211,004</u>
						<b>Minority interest</b>					
								<u>-</u>	<u>-</u>	<u>204,364</u>	<u>171,776</u>
						<b>Shareholders' equity</b>					
						Capital	18	279,000	180,000	279,000	180,000
						Profit reserves		240,237	155,914	238,553	154,839
						Revaluation reserve		8,137	-	8,137	-
								<u>527,374</u>	<u>335,914</u>	<u>525,690</u>	<u>334,839</u>
								<u>893,329</u>	<u>685,149</u>	<u>1,392,122</u>	<u>1,168,873</u>

See the accompanying notes to financial statements.

# Randon S.A. Implementos e Participações

(Publicly-held Company)

## Statements of income

Years ended December 31, 2006 and 2005

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

	Note	Parent company		Consolidated	
		2006	2005	2006	2005
<b>Revenues</b>					
Sale of goods and services		1,195,886	1,117,271	2,524,101	2,467,333
<b>Deductions</b>					
Sales taxes		(231,047)	(219,235)	(474,391)	(500,870)
Returns and discounts		(11,894)	(8,146)	(28,669)	(30,320)
		<u>(242,941)</u>	<u>(227,381)</u>	<u>(503,060)</u>	<u>(531,190)</u>
<b>Net revenues</b>		952,945	889,890	2,021,041	1,936,143
<b>Cost of goods sold and services rendered</b>		<u>(743,674)</u>	<u>(702,964)</u>	<u>(1,493,894)</u>	<u>(1,441,165)</u>
<b>Gross profit</b>		209,271	186,926	527,147	494,978
<b>Operating (expenses) income</b>					
Selling expenses		(82,532)	(73,447)	(170,304)	(165,945)
Administrative and general		(39,241)	(33,520)	(91,828)	(86,056)
Management remuneration		(3,113)	(2,938)	(8,574)	(7,970)
Financial expenses	20	(53,313)	(47,384)	(107,635)	(104,788)
Financial income	20	56,584	50,875	110,915	102,006
Equity in income of subsidiaries	10	73,294	65,185	-	-
Others operating expenses, net		(5,730)	(9,712)	(5,501)	(17,423)
		<u>(54,051)</u>	<u>(50,941)</u>	<u>(272,927)</u>	<u>(280,176)</u>
<b>Operating income</b>		155,220	135,985	254,220	214,802
Nonoperating income		<u>935</u>	<u>7,175</u>	<u>1,967</u>	<u>14,973</u>
<b>Net income before income and social contribution taxes and profit sharing</b>		156,155	143,160	256,187	229,775
Income and Social Contribution Taxes	17	(19,660)	(22,029)	(62,447)	(61,045)
Directors profit sharing		<u>(2,505)</u>	<u>(2,105)</u>	<u>(5,740)</u>	<u>(4,124)</u>
<b>Net income before minority interest</b>		133,990	119,026	188,000	164,606
<b>Minority interest</b>		<u>-</u>	<u>-</u>	<u>(54,617)</u>	<u>(46,118)</u>
<b>Net income for the year</b>		<u>133,990</u>	<u>119,026</u>	<u>133,383</u>	<u>118,488</u>
<b>Net income per share - R\$</b>		<u>0.8244</u>	<u>0.7907</u>		
<b>Number of shares at year-end</b>		<u>162,523,635</u>	<u>150,523,635</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, 2006 and 2005

(In thousands of Reais)

Parent company	Capital	Revaluation Reserve	Profit Reserves			Retained earnings accumulated	Total
			Legal	Reserve for investment and working capital	Tresuary shares		
<b>Balances at January 1, 2005</b>	109,265	-	14,531	130,737	-	-	254,533
Capital increase from profit reserve	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
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 treasury stocks	-	-	-	-	(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)
<b>Balances at December 31, 2006</b>	<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>

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, 2006 and 2005

(In thousands of Reais)

	Parent Company		Consolidated	
	2006	2005	2006	2005
<b>Sources of funds</b>				
<b>Operations</b>				
Net income for the year	133,990	119,026	133,383	118,488
<b>Items not affecting working capital</b>				
Depreciation and amortization	8,179	7,192	43,912	40,336
Residual cost on disposal of fixed assets	976	5,120	2,341	9,292
Equity in income of subsidiaries	(73,294)	(65,185)	-	-
Equity in income of other companys in subsidiaries	-	-	(1,741)	-
Provision for loss of investment	-	-	-	353
Amortization in goodwill invested in subsidiaries	3,023	-	-	-
Monetary variation of noncurrent items	(1,611)	(2,757)	(155)	(1,011)
Exchange variation in foreign subsidiaries	-	-	126	177
Minority interest	-	-	32,588	23,427
<b>Resources from operations</b>	<b>71,263</b>	<b>63,396</b>	<b>210,454</b>	<b>191,062</b>
<b>From shareholders`</b>				
Capital increase in cash	99,000	-	99,000	-
<b>From third parties</b>				
Increase in noncurrent liabilities	32,266	46,178	34,689	22,286
Decrease in noncurrent assets	-	4,474	-	-
Interest and dividends received from subsidiaries	40,763	41,455	-	-
	<u>243,292</u>	<u>155,503</u>	<u>344,143</u>	<u>213,348</u>
<b>Applications of funds</b>				
Acquisition of property, plant and equipment	60,616	36,423	144,616	95,065
Additions in deferred charges	345	478	4,543	4,865
Purchase of share and quotas	19,780	90	70	6,187
Increase in noncurrent assets	5,503	-	10,214	4,792
Acquisition of treasury shares	6,852	-	6,852	-
Interest on equity reserve - Law nº 9.249/95	30,926	24,817	30,926	24,817
Proposed dividends	11,905	12,828	11,905	12,828
	<u>135,927</u>	<u>74,636</u>	<u>209,126</u>	<u>148,554</u>
<b>Increase in working capital</b>	<b>107,365</b>	<b>80,867</b>	<b>135,017</b>	<b>64,794</b>
<b>Changes in working capital</b>				
<b>Current assets</b>				
At end of year	475,141	380,114	885,393	787,855
At beginning of year	380,114	260,088	787,855	646,794
	<u>95,027</u>	<u>120,026</u>	<u>97,538</u>	<u>141,061</u>
<b>Current liabilities</b>				
At end of year	196,743	209,081	413,775	451,254
At beginning of year	209,081	169,922	451,254	374,987
	<u>(12,338)</u>	<u>39,159</u>	<u>(37,479)</u>	<u>76,267</u>
	<u>107,365</u>	<u>80,867</u>	<u>135,017</u>	<u>64,794</u>

See the accompanying notes to financial statements.



# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

December 31, 2006 and 2005

(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.

#### *a) Primary and secondary public distributions*

The Company, the selling shareholders identified in the Definitive Prospectus of Primary Public Distribution of Common and Preferred Shares and of Secondary Public Distribution of Preferred Shares Issued by the Company, dated April 27, 2006, and Banco Santander Brasil S.A., leading coordinator, communicated the beginning of the primary public distribution of 2,000,000 (two million) common shares and 10,000,000 (ten million) preferred shares issued by the Company and secondary public distribution of 16,509,116 (sixteen million, five hundred and nine thousand, one hundred and sixteen) of the company's book-entry registered, preferred shares with no par value at the price of R\$ 8.25 (eight reais and twenty-five centavos).

The total obtained in the transaction represented the amount of R\$ 235,200, of which R\$ 99,000 refers to the primary offer and R\$ 136,200 to the secondary offer. Accordingly, the capital was subscribed, on April 27, 2006, within the authorized limit, in the amount of R\$ 99,000, which passed from R\$ 180,000 to R\$ 279,000, and from the previous position of 150,523,635 shares to 162,523,635 shares.

#### *b) Establishment of a subsidiary*

On September 1, 2006, the company paid in capital in an amount corresponding to R\$ 6,600 in the company Castertech Fundação e Tecnologia Ltda., which holds 99.99% of the capital, through the transfer of a real estate property that it owned. In 2006 the paid-in capital in this company was R\$ 21,269.

# Randon S.A. Implementos e Participações

**(Publicly-held company)**

## Notes to the financial statements

*(In thousands of Reais)*

The business purpose of the subsidiary that was established is: a) the metallurgic industry of cast parts; b) the selling, importing and exporting of products, blocks, parts, pieces, components, systems and materials, directly or indirectly related to its industrial activity, and c) the rendering of technical, administrative and advisory services related to the abovementioned activities.

### **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.

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

#### ***a. Segment reporting***

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.

#### ***b. 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.

# Randon S.A. Implementos e Participações

**(Publicly-held company)**

## Notes to the financial statements

*(In thousands of Reais)*

### *c. Statements of added value*

The Management, voluntarily, is presenting the statements of added value, prepared in accordance with Circular-Notice/CVM/SNC/SEP/01/06 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 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.

- ***Trade account receivable***

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

# Randon S.A. Implementos e Participações

**(Publicly-held company)**

## Notes to the financial statements

*(In thousands of Reais)*

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.

- *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.

# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

(In thousands of Reais)

- *Fixed assets*

Recorded at the cost of acquisition, formation or construction. Depreciation is calculated using the straight-line method at rates described in Note 11, 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.

- *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.

# Randon S.A. Implementos e Participações

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## Notes to the financial statements

*(In thousands of Reais)*

- *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 n° 371/00.

- *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 the 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			
	2006		2005	
	Direct	Indirect	Direct	Indirect
Randon Argentina S.A. (a)	99.99	-	99.99	-
Randon Middle East (b)	100.00	-	100.00	-
Randon Automotive Ltda. (d)	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. (c)	99.99	-	-	-
Fras-le S.A.	45.22	-	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
Fras-le Mexico S de RL de CV (a)	-	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.

(c) Subsidiary starting operations in September 01, 2006.

(d) Foreign subsidiary starting operations in October 30, 2006.

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

	<u>Net income</u>		<u>Shareholders' equity</u>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Parent company	<u>133,990</u>	<u>119,026</u>	<u>527,374</u>	<u>335,914</u>
Elimination of income earned by the parent company in transactions with subsidiaries, net of Income and Social Contribution	<u>( 607)</u>	<u>( 538)</u>	<u>( 1,684)</u>	<u>( 1,075)</u>
Consolidated	<u>133,383</u>	<u>118,488</u>	<u>525,690</u>	<u>334,839</u>

# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

(In thousands of Reais)

### 5 Cash and banks

	<u>Parent company</u>		<u>Consolidated</u>	
	2006	2005	2006	2005
Cash and banks	2,832	11,202	17,553	19,629
Interest earning bank deposits	<u>109,184</u>	<u>57,400</u>	<u>165,668</u>	<u>152,813</u>
	<u>112,016</u>	<u>68,602</u>	<u>183,221</u>	<u>172,442</u>

Interest earning bank deposits refer substantially to Banks Deposits Certificates and Fixed Income Funds, remunerated at rates which vary from 98.0% to 100.8% of the Interbank Deposit Certificate – CDI.

### 6 Short term securities

Type	Remuneration	<u>Parent company</u>		<u>Consolidated</u>	
		2006	2005	2006	2005
CDB	100.5% of the CDI	16,388	-	16,388	-
Debentures	101.1% of the CDI	16,397	-	16,397	-
Hedge operations	Exchange variation	<u>453</u>	<u>757</u>	<u>453</u>	<u>3,711</u>
		<u>33,238</u>	<u>757</u>	<u>33,238</u>	<u>3,711</u>

# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

(In thousands of Reais)

### 7 Trade accounts receivable

	<u>Parent company</u>		<u>Consolidated</u>	
	2006	2005	2006	2005
Current:				
Domestic customers	143,171	124,760	271,190	229,224
Foreign customers	25,698	35,915	101,533	99,202
Subsidiaries	13,940	17,090	-	-
Less:				
Vendor	( 18,498)	( 22,402)	( 22,206)	( 28,510)
Trade bills discounted	( 22)	-	( 19,288)	( 6,894)
Allowance for doubtful accounts	( 3,221)	( 3,217)	( 8,652)	( 8,089)
	<u>161,068</u>	<u>152,146</u>	<u>322,577</u>	<u>284,933</u>

### 8 Inventories

	<u>Parent company</u>		<u>Consolidated</u>	
	2006	2005	2006	2005
Finished goods	30,131	33,266	55,367	57,290
Work in process	36,872	28,691	55,215	45,823
Direct materials and components	26,307	33,238	84,683	92,949
Miscellaneous materials	8,791	10,399	22,905	23,382
Inventory obsolescence provision	(519)	(467)	(1,210)	(858)
Advances to suppliers	3,994	1,276	8,227	5,157
Imports in transit	<u>2,016</u>	<u>2,284</u>	<u>2,759</u>	<u>4,190</u>
	<u>107,592</u>	<u>108,687</u>	<u>227,946</u>	<u>227,933</u>

# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

(In thousands of Reais)

### 9 Related parties transactions

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

The main asset and liability balances at December 31, 2006 and 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, 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	DRAMD Particip. e Adm. Ltda.	Ravímia Corretora de Seguros Ltda.	Fras-le Argentina S.A.	Other related parties (a)	2006	2005
<b>Assets</b>														
Accounts receivable from sales	134	348	475	8	632	12,320	23	-	-	-	-	-	13,940	17,090
Advances to subsidiaries	-	-	1	-	11	-	-	-	-	-	-	-	12	35
Intercompany loans receivable	-	981	-	-	761	-	-	-	-	-	-	124	1,866	2,549
<b>Liabilities</b>														
Accounts payable purchase	-	-	(72)	-	234	-	-	-	-	-	-	-	162	226
Advances from subsidiaries	6	-	22	-	1	-	-	-	-	-	-	-	29	10
Intercompany loans payable	28	-	7,780	6,897	-	-	-	-	15,052	1,116	-	5,047	35,920	29,135
<b>Income</b>														
Income from products and services	3,466	3,620	1,178	4,248	9,665	27,166	1,136	-	-	-	430	-	50,909	60,517
Purchase of products and services	-	10,328	29,194	2,731	118,801	-	-	198	-	-	-	-	161,252	180,077
Financial incomes	395	109	-	9	12	-	-	-	-	-	-	19	544	1,653
Financial expenses	1	1	946	334	551	-	-	-	2,710	100	-	701	5,344	3,822

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

# 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. 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, 2006 and 2005, 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>2006</b>	<b>2005</b>
Randon Veículos Ltda.	Sureties	976	9,383
Master Sistemas Automotivos Ltda.	Sureties and bonds	19,696	17,261
Jost Brasil Sistemas Automotivos Ltda.	Sureties	389	907
Fras-le S.A.	Sureties and bonds	17,146	27,471
Randon Argentina S/A	Bonds	5,058	-
Suspensys Sistemas Automotivos Ltda.	Sureties, bonds and fiduciary property	<u>24,254</u>	<u>24,172</u>
		<u>67,519</u>	<u>79,194</u>

# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

(In thousands of Reais)

### 10 Investments

#### a. Composition of balances

	<u>Parent company</u>		<u>Consolidated</u>	
	2006	2005	2006	2005
Investments in subsidiaries	239,232	179,402	-	-
Other companies' interest in subsidiaries	-	-	22,285	20,544
Other investments	1,804	1,882	4,660	5,210
Provision for devaluation of investments stated at historical cost	(822)	(822)	(1,719)	(2,226)
Goodwill not absorbed in the consolidation	<u>-</u>	<u>-</u>	<u>-</u>	<u>92</u>
	<u>240,214</u>	<u>180,462</u>	<u>25,226</u>	<u>23,620</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>Castertech Fundição e Tecnologia Ltda.</b>	<b>Randon Middle East</b>	<b>Randon Automotive Ltda.</b>	<b>Fras-le Argentina S.A.</b>	<b>Total</b>
Balances at December 31, 2005	60,060	16,847	45,235	11,931	18,895	21,599	4,746	-	89	-	-	179,402
- Capital increased	1,642	-	3,943	-	-	-	-	21,269	-	67	378	27,299
- Interest in capital received and dividends	(6,036)	(14,307)	(7,389)	(4,834)	(1,389)	(6,650)	-	-	-	-	(158)	(40,763)
- Equity in income of subsidiaries	18,529	15,710	19,010	5,879	5,466	8,157	392	-	54	(32)	129	73,294
Balances at December 31, 2006	<u>74,195</u>	<u>18,250</u>	<u>60,799</u>	<u>12,976</u>	<u>22,972</u>	<u>23,106</u>	<u>5,138</u>	<u>21,269</u>	<u>143</u>	<u>35</u>	<u>349</u>	<u>239,232</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) and (b)	Master Sistemas Automotivos Ltda. (a) and (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	Randon Middle East	Randon Automotive Ltda.	Fras-le Argentina S.A. (a)	Parent company	2006	2005
Capital	65,000	34,233	27,996	5,690	15,000	5,950	36,748	21,269	64	65	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	164,263	86,686	119,422	26,530	22,977	23,206	5,138	21,269	143	35	5,823			
Net income (loss) for the year	40,782	35,079	36,926	11,709	5,442	8,192	549	-	65	(30)	2,353			
Equity in income of subsidiaries	18,529	15,710	19,010	5,879	5,466	8,157	392	-	54	(32)	129	73,294	65,185	
Value of investments 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	179,402	

(a) Information examined by other independent auditors;

(b) It does not include unearned income in inventories: Fras-le S.A (R\$ 88), Suspensys Sistemas Automotivos Ltda. (R\$ 1,320), Master Sistemas Automotivos Ltda. (R\$ 106), Jost Brasil Sistemas Automotivos Ltda. (R\$ 555) and Randon Veículos Ltda. (R\$ 4).



# 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\$ 13,173 which until December 31, 2006 (R\$ 13,738 in 2005), 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\$ 27,590 in 2006 (R\$ 27,717 in 2005).

# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

(In thousands of Reais)

### 11 Property, plant and equipment

#### a. Composition of balances

	Average rate annual of depreciation % p.a.	Parent company				Consolidated			
		2006		2005		2006		2005	
		Cost	Depreciation	Net	Net	Cost	Depreciation	Net	Net
Buildings	4	62,827	(25,366)	37,461	25,984	132,484	(44,057)	88,427	72,405
Machinery and equipment	10	55,898	(30,600)	25,298	18,718	349,712	(209,448)	140,264	109,450
Molds	10	7,553	(3,576)	3,977	3,528	69,670	(35,543)	34,127	29,054
Furniture and fixtures	10	5,874	(3,423)	2,451	2,068	19,660	(11,157)	8,503	8,010
Vehicles	21	7,314	(5,544)	1,770	1,499	11,597	(8,844)	2,753	2,145
Computer equipment	20	4,817	(3,655)	1,162	1,280	14,490	(10,949)	3,541	3,948
Land		24,255	-	24,255	22,426	37,242	-	37,242	27,514
Others		3,310	-	3,310	3,010	3,310	-	3,310	3,014
Fixed assets in progress		36,075	-	36,075	12,581	44,671	-	44,671	21,853
Imports in transit		3,306	-	3,306	45	5,704	-	5,704	445
Advances to suppliers		2,872	-	2,872	854	20,914	-	20,914	3,348
		<u>214,101</u>	<u>(72,164)</u>	<u>141,937</u>	<u>91,993</u>	<u>709,454</u>	<u>(319,998)</u>	<u>389,456</u>	<u>281,186</u>
Intangible									
Trademarks and patents		209	-	209	204	224	-	224	214
Software	20	5,157	(3,718)	1,439	1,406	14,513	(8,993)	5,520	4,674
		<u>5,366</u>	<u>(3,718)</u>	<u>1,648</u>	<u>1,610</u>	<u>14,737</u>	<u>(8,993)</u>	<u>5,744</u>	<u>4,888</u>
		<u>219,467</u>	<u>(75,882)</u>	<u>143,585</u>	<u>93,603</u>	<u>724,191</u>	<u>(328,991)</u>	<u>395,200</u>	<u>286,074</u>

# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

(In thousands of Reais)

### b. Movement of cost

	Consolidated				
	2005	2006			
	Cost	Additions	Write-offs	Others	Cost
Tangible					
Buildings	111,845	4,736	(1,470)	17,373	132,484
Machinery and equipment	293,944	30,815	(1,698)	26,651	349,712
Molds	59,447	3,614	(306)	6,915	69,670
Furniture and fixtures	18,001	1,503	(194)	350	19,660
Vehicles	10,591	1,535	(408)	(121)	11,597
Computer equipment	14,173	990	(802)	129	14,490
Land	27,514	10,786	(926)	(132)	37,242
Fixed assets in progress	21,853	61,752	(273)	(38,661)	44,671
Others	3,014	420	(120)	(4)	3,310
Imports in transit	445	6,278	-	(1,019)	5,704
Advances to suppliers	3,348	30,456	(48)	(12,842)	20,914
	<u>564,175</u>	<u>152,885</u>	<u>(6,245)</u>	<u>(1,361)</u>	<u>709,454</u>
Intangible					
Trademarks and patents	214	5	-	5	224
Software	12,942	2,268	(1,054)	357	14,513
	<u>13,156</u>	<u>2,273</u>	<u>(1,054)</u>	<u>362</u>	<u>14,737</u>
	<u>577,331</u>	<u>155,158</u>	<u>(7,299)</u>	<u>(999)</u>	<u>724,191</u>

Fixed assets fully depreciated in use in 2006 correspond to the amount of R\$ 34,189 (R\$ 37,757 in 2005) for parent company, and R\$ 181,478 (R\$ 168,579 in 2005) for consolidated.

# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

(In thousands of Reais)

### 12 Loans and financing

	Index	Interest	Parent company		Consolidated	
			2006	2005	2006	2005
Local currency:						
FINAME	URTJLP / TJLP	2.5% to 8% p.a.	201	497	3,558	3,663
FINEP	TJLP	3% to 5% p.a.	17,119	12,995	42,331	23,026
Bank loans	TJLP	2.5% to 4.2% p.a.	8,914	4,121	14,040	4,131
BNDES	URTJLP / TJLP	2.5 % to 5.4% p.a.	39,332	17,330	72,305	50,607
Foreign currency:						
Advances on exchange contracts of prepayment for exportation of US\$ 22,289 thousand in parent company and US\$ 34,376 thousand in consolidated	Exchange variance + Libor	2.65% to 5.9% p.a.	47,653	67,683	73,496	112,097
Financing of US\$ 10,762 thousand in subsidiary and US\$ 18,472 thousand in consolidated	Exchange variance + Libor	0.75% to 6.17% p.a.	23,009	20,809	39,493	48,412
Banks loans of US\$ 2,399 thousand in consolidated	Exchange variance	11.5% p.a.	-	-	5,130	-
BNDES	UMBND / Exchange variance	2.5 % to 4.5% p.a.	<u>5,941</u>	<u>4,344</u>	<u>10,378</u>	<u>17,336</u>
			142,169	127,779	260,731	259,272
Swap operations	Exchange variance	100% to 103% of CDI (-) 6.4% p.a. to (-) 3.5% p.a.	<u>14,687</u>	<u>19,862</u>	<u>16,118</u>	<u>30,517</u>
			156,856	147,641	276,849	289,789
Current portion included in current liabilities			<u>30,746</u>	<u>42,952</u>	<u>80,857</u>	<u>126,494</u>
Noncurrent liabilities			<u>126,110</u>	<u>104,689</u>	<u>195,992</u>	<u>163,295</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:

	<b>Parent company</b>	<b>Consolidated</b>
Year of maturity::	<b>2006</b>	<b>2006</b>
2008	42,914	68,911
2009	22,840	41,308
2010	22,549	35,964
2011	18,861	26,540
2012 to 2015	<u>18,946</u>	<u>23,269</u>
	<u>126,110</u>	<u>195,992</u>

The loans and financing are guaranteed by sureties and guarantees for the subsidiaries in the amount of R\$ 66,252 (R\$ 78,088 in 2005), a mortgage in the amount of R\$ 17,000 (R\$ 17,000 in 2005) in the parent company and R\$ 37,736 (R\$ 23,618 in 2005) in consolidated; assets given as guarantee and collateral in the amount of R\$ 19,673 (R\$ 18,867 in 2005) in the parent company and R\$ 131,175 (R\$ 91,655 in 2005) in consolidated; promissory notes and guarantee letters in the amount of R\$ 86,701 (R\$ 67,705 in 2005) in parent company and R\$ 187,722 (R\$ 69,289 in 2005) in consolidated.

### **13 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 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)

### 14 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	(1,768)
Total of the debts included in PAES	<u>17,050</u>
(-)Payments made until December 31, 2006	(6,587)
+ Monetary updating until December 31, 2006	<u>3,368</u>
Balance of the debts at December 31, 2006	13,831
(-) Total of current liabilities	( 2,128)
Total of noncurrent liabilities	<u>11,703</u>

# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

(In thousands of Reais)

### 15 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.

#### a. Contingent liabilities

The following table demonstrates the contingent risks (loss) as of December 31, 2006, 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	1,272	291	647	1,945	1,315	1,146	5	54
b) tax	890	24,740	12,994	3,005	30,057	155,549	4,520	7,450
c) labor	426	1,340	403	1,604	2,591	454	266	380
d) social security	2,794	338	23,965	4,339	3,727	25,203	1,021	2,734
<b>Total :</b>	<b>5,382</b>	<b>26,709</b>	<b>38,009</b>	<b>10,893</b>	<b>37,690</b>	<b>182,352</b>	<b>5,812</b>	<b>10,618</b>
Court deposit	(1,010)	-	-	(1,505)	-	-	(1,010)	(1,505)
<b>Net total</b>	<b>4,372</b>	<b>-</b>	<b>-</b>	<b>9,388</b>	<b>-</b>	<b>-</b>	<b>4,802</b>	<b>9,113</b>

The Company offset the amount of R\$ 1,010 in the Parent Company (R\$ 1,010 in 2005) and R\$ 1,505 in the consolidated (R\$ 3,680 in 2005) referring to legal proceedings with the same amount referring to judicial deposits of the same nature.

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.

# 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 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\$ 85,706, and the subsidiary Master Sistemas Automotivos Ltda an amount of R\$ 3,119 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\$ 14,062 of the subsidiary Fras-le S.A., in spite of the existence of a final decision in *res judicata*
- c. **Export premium credit – BEFIEX** – The Company was assessed for additional tax by the Federal Revenue Department in the updated amount of R\$ 9,892 in an export process for the use of BEFIEX-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\$ 8,510.
- e. **COFINS** – The Company was assessed by the Federal Revenue Department in the amount of R\$ 8,505 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 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



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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\$ 7,137 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\$ 4,688.
- 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\$ 4,637. 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. Social Contribution** – The subsidiary Fras-le S.A. was assessed by the Federal Revenue Department 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\$ 3,706, with respect to the questioning of the tax rate instituted by Law 9718/98.

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- k. 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\$ 2,591. 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;

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\$ 17,096. 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\$ 4,715.

### **b. Contingent assets**

The statement as of December 31, 2006 containing information on contingent assets (gain), in the opinion of the legal advisors and is presented below:

Assets	Parent company			Consolidated		
	Probable	Possible	Remote	Probable	Possible	Remote
Contingent						
a) tax	271	2,541	288	5,872	4,618	1,467
b) social security	705	40	-	861	211	-
<b>Total :</b>	<u>976</u>	<u>2,581</u>	<u>288</u>	<u>6,733</u>	<u>4,829</u>	<u>1,467</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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### c. Movements of lawsuits

	Consolidated				
	2005	2006			
	Opening balance	Additions to the provision	Used	Reversals	Closing balance
Civil	3,046	446	(1,507)	(40)	1,945
Labor	1,506	534	(370)	(66)	1,604
Tax	4,892	363	(2,250)		3,005
Social security	<u>3,820</u>	<u>519</u>	<u>-</u>	<u>-</u>	<u>4,339</u>
	<u>13,264</u>	<u>1,862</u>	<u>(4,127)</u>	<u>(106)</u>	<u>10,893</u>

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### 16 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>2006</u>	
	<b>Parent company</b>	<b>Consolidated</b>
<b>Actuarial liability</b>		
Present value of actuarial obligations	(8,778)	(13,617)
Fair value of the plan's assets	10,303	15,983
Unrecognized actuarial (losses)	<u>(3,051)</u>	<u>(4,757)</u>
Net liability in the balance sheet	<u>(1,526)</u>	<u>(2,391)</u>

The composition of the result is as follows:

Accumulated service cost	(215)	(512)
Interest on obligation	(701)	(1,165)
Expected return on the plan's assets	1,065	1,778
Net actuarial gains recognized in the year	<u>45</u>	<u>66</u>
Total	<u>194</u>	<u>167</u>

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

	<u>2006</u>	
	<b>Parent company</b>	<b>Consolidated</b>
Net liability at beginning of year	(1,925)	(3,049)
Net expense recognized in the statement of income/ shareholders' equity	194	167
Contributions paid	<u>205</u>	<u>491</u>
Net liability at end of year	<u>(1,526)</u>	<u>(2,391)</u>

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

	<b>%</b>
Discount rate at December 31	9.20 p.a.
Expected return on the plan's assets at December 31	12.80 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.

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### **17 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.

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 above is subject to a final solution of the accounting estimates projected.

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(In thousands of Reais)

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

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current assets:				
Tax loss carry-forwards	-	-	3,508	3,508
Negative basis of social contribution tax	-	1,600	1,594	3,194
Provision for commissions and freight	2,317	1,193	2,934	1,193
Allowance for doubtful accounts	1,095	1,094	2,045	2,215
Provision for loss of investment	74	74	81	298
Provision for guarantees	1,500	1,416	1,778	1,416
Swap/hedge operations	1,586	1,666	1,563	1,666
Cost from sale of land	220	602	220	602
Miscellaneous provisions	<u>569</u>	<u>574</u>	<u>2,933</u>	<u>1,351</u>
	<u>7,361</u>	<u>8,219</u>	<u>16,656</u>	<u>15,443</u>
Noncurrent assets:				
Allowance for doubtful accounts	-	-	54	90
Tax loss carry-forwards	-	-	1,180	1,180
Negative basis of social contribution tax	-	-	142	142
Provision for loss of investment	-	-	-	228
Provision for contingences	2,114	1,937	3,686	4,468
Provision for pension plan	519	655	753	655
Sundry provisions	-	-	1,027	536
Cost from sale of land	-	220	-	220
Swap/hedge operations	<u>1,740</u>	<u>1,805</u>	<u>3,033</u>	<u>2,851</u>
	<u>4,373</u>	<u>4,617</u>	<u>9,875</u>	<u>10,370</u>
Current liabilities:				
Swap/hedge operations	-	-	990	1,014
Revenue from sale of land	382	1,043	381	1,043
Revenue from revaluation of building	92	92	115	92
Miscellaneous incomes	<u>23</u>	<u>-</u>	<u>-</u>	<u>9</u>
	<u>497</u>	<u>1,135</u>	<u>1,486</u>	<u>2,158</u>
Noncurrent liabilities:				
Non-incited accelerated depreciation	-	-	69	575
Miscellaneous incomes	-	-	115	17
Revaluation reserve	548	498	955	624
Revenue from revaluation of building	<u>407</u>	<u>383</u>	<u>-</u>	<u>382</u>
	<u>955</u>	<u>881</u>	<u>1,139</u>	<u>1,598</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:

	<u>Parent company</u>	<u>Consolidated</u>
Year of maturity:	<b>2006</b>	<b>2006</b>
2007	6,864	15,170
2008	<u>3,418</u>	<u>8,736</u>
	<u>10,282</u>	<u>23,906</u>

### **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>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Profit before Income and Social Contribution Taxes	<u>156,155</u>	<u>143,160</u>	<u>256,187</u>	<u>229,775</u>
Combined statutory rates	34%	34%	34%	34%
Income and Social Contribution Taxes Combined statutory rates	53,093	48,674	87,104	78,124
Permanent additions:				
Nondeductible expenses	1,536	646	2,542	2,049
Permanent exclusions:				
Equity in income of subsidiaries	(24,920)	(22,163)	-	-
Interest on shareholders' equity	(6,036)	(3,767)	(14,439)	(12,699)
Deductions	(3,893)	(1,338)	(11,875)	(4,416)
Other items:				



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	<u>Parent company</u>		<u>Consolidated</u>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Effect of changes in tax rates deferred	-	-	-	115
Others	(120)	( 23)	(885)	( 2,128)
Income and Social Contribution				
Taxes on net income	<u>19,660</u>	<u>22,029</u>	<u>62,447</u>	<u>61,045</u>
Effective rate	<u>12.6%</u>	<u>15.4%</u>	<u>24.4%</u>	<u>26.6%</u>

### 18 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, 2006 subscribed and paid-in capital is represented by 162,523,635 (150,523,635 in 2005) nominative shares of which 54,592,196 (52,592,196 in 2005) are common shares and 107,931,439 (97,931,439 in 2005) 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, 2006, 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	( 23)
(-) Income and social contribution taxes	( <u>571</u> )
Total revaluation reserve	<u>8,137</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, 2006.

- *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.

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### *c. Treasury shares*

On July 26, 2006, the Board of Directors, considering that established in item “p” of Article 21 of the bylaws and attending 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 preferred shares of its own 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 27, 2006.

The shares were acquired at the price quoted on the stock market at a weighted average cost of R\$ 6.86 (six reais, eight-six centavos) per share, and the maximum cost was R\$ 7.35 (seven reais, thirty-five centavos) and the minimum cost was R\$ 6.38 (six reais, thirty-eight centavos).

The market value of the treasury shares, based on the last stock market quotation on December 31, 2006, is R\$ 9,600.

### *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.

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Dividends were calculated as follows:

Net income for the year	133,990
(+) Realization of reserves	16
(-) Legal reserve	(6,700)
Calculation basis	127,306
Minimum mandatory dividends 30%	38,192
(-) Interest on shareholders' equity paid	(30,926)
Withholding Income Tax	<u>4,639</u>
Net value credited	<u>11,905</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.

### 19 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\$ 30,926 (R\$ 24,817 in 2005) 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\$ 10,515 (R\$ 8,438 in 2005) as a result of the deduction of these taxes on interest on shareholders' equity.

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### 20 Financial result

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b>Financial incomes:</b>				
Exchange variance	23,399	28,410	53,208	52,948
Interests on incomes from short-term financial investments	11,174	1,959	20,631	8,590
Incomes from swap operations	2,723	2,515	4,057	3,959
Gains from hedge operations	6,986	6,722	16,882	21,522
Incomes from intercompany loans receivable	544	1,653	19	60
Other financial incomes	<u>11,758</u>	<u>9,616</u>	<u>16,118</u>	<u>14,927</u>
	<u>56,584</u>	<u>50,875</u>	<u>110,915</u>	<u>102,006</u>
<b>Financial expenses:</b>				
Exchange variance	(19,306)	(13,673)	(45,451)	(42,442)
Interest on financing	(9,439)	(8,881)	(19,578)	(18,803)
Expenses from swap operations	(9,032)	(14,443)	(12,976)	(23,042)
Loss from hedge operations	(5,363)	(2,395)	(9,426)	(3,866)
Expenses from intercompany loans payable	(5,344)	(3,822)	(3,702)	(2,263)
Other financial expenses	<u>(4,829)</u>	<u>(4,170)</u>	<u>(16,502)</u>	<u>(14,372)</u>
	<u>(53,313)</u>	<u>(47,384)</u>	<u>(107,635)</u>	<u>(104,788)</u>
Financial result	<u>3,271</u>	<u>3,491</u>	<u>3,280</u>	<u>(2,782)</u>

### 21 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.

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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, 2006 are shown below:

Balance	Parent company		Consolidated	
	Book value	Market value	Book value	Market value
Cash and banks	112,016	112,016	183,221	183,221
Short term securities	33,238	33,245	33,238	33,245
Intercompany loans receivable	1,866	1,866	124	124
Taxes recoverable	45,270	45,270	84,925	84,925
Deferred tax assets	11,734	11,734	26,531	26,531
Investments:				
Valued at cost:	982	982	25,226	25,226
Not quoted on the stock exchange				
Valued by equity method:				
Not quoted on the stock exchange	221,386	221,386	-	-
Quoted on the stock exchange:				
Preferred	17,846	44,915	-	-
Loans and financing:				
In local currency	65,566	65,566	132,234	132,234
In foreign currency	76,603	76,603	128,497	128,497
Swap operations	14,687	13,883	16,118	15,314
Deferred tax liabilities	1,452	1,452	2,625	2,625
Intercompany loans payable	35,920	35,920	21,215	21,215

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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.

- *Interbank funds applied*

The market value of the interbank funds applied 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.

### ***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\$ 3,221 (parent company) and R\$ 8,652 (consolidated) (2005 - R\$ 3,217 and R\$ 8,089), which represents 2% (2005 – 2%) of the balance of the outstanding accounts receivable in parent company, and 3% (2005 – 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 2006 with a negative variation of 8.7% (2005 – negative variation of 11.8%).

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>2006</b>	<b>2005</b>
A. Loans/financings in U.S. dollars thousand		
Parent company	35,829	39,662
Consolidated	60,101	75,979
B. Net assets in U.S. dollars thousand		
Parent company	19,694	18,898
Consolidated	45,872	28,312
C. Swap operations		
Parent company	6,870	8,485
Consolidated	7,539	13,038
D. Deficit calculated (A-B+C)		
Parent company	23,005	29,249
Consolidated	21,768	60,705

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(In thousands of Reais)

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 + 4.3% p.a. to 4.7% p.a.	Exchange variance or 100% of CDI (-) 5.3% p.a. to (-) 3.5% p.a.	<u>9,709</u>	<u>14,395</u>
Consolidated	Exchange variance+ Libor + 4.3% to 4.7% p.a.	Exchange variance or 100% to 103% of CDI (-) 6.4% p.a. to (-) 3.5% p.a.	<u>20,939</u>	<u>22,402</u>

The subsidiary Fras-le S.A. entered into an option operation in amount of US\$ 18 million, monthly due on January 15, 2007 until December 29, 2007, 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\$ 2.16 to R\$ 2.26, and it will only have an obligation if the dollar rate is above the position ranging between R\$ 2.212 to R\$ 2.3518. The dollar exchange rate intermediary to such positions does not generate obligation or right to either party.

### ***e. Price risk***

Considering that exports represent 19.5% of the income in 2006 of the parent company and 22.9% 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.

# Randon S.A. Implementos e Participações

**(Publicly-held company)**

## Notes to the financial statements

*(In thousands of Reais)*

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 the option for converting shares***

In the parent company, the loan agreement “C” signed with the IFC, with final maturity on October 15, 2008, in the amount of R\$ 6,414, recorded in noncurrent 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 2,396,480 preferred shares for settlement of the loan in the amount of R\$ 23,006 at values as of December 31, 2006.

# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

(In thousands of Reais)

### 22 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:

		<b>Consolidated</b>	
		<b>Total of</b>	
		<b>indemnification</b>	
		<b>limits</b>	
	<b>Risk covered</b>	<b>2006</b>	<b>2005</b>
Buildings, inventories and engine	Fire, gale, electric damages and general risks	90,110	96,064
Vehicles	Body	7,910	8,668
Airplanes	RETA, LUC e Body	23,946	26,216
Exportation credit	Commercials and politics	27,794	-
Personal accidents	Bodily injury	<u>6,821</u>	<u>7,911</u>
		<u>156,581</u>	<u>138,859</u>

### 23 Vendor operations

At December 31, 2006, the Company and its subsidiaries had outstanding vendor operations with its clients in the amount of R\$ 22,206 (R\$ 28,510 in 2005), in which the Company participates as intervening guarantor.

# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

(In thousands of Reais)

### 24 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 2006 was R\$ 10,695 (R\$ 7,483 in 2005) in parent company and R\$ 24,732 (R\$ 19,679 in 2005) in consolidated.

### 25 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, 2006 and 2005 is the following:

Parent company Assets	Remaining period in months	Charges	Balance of contracted amounts		Purchase option / residual value	
			2006	2005	2006	2005
Computer equipments	13 to 42 months	100% to 103% of CDI + 0.13% to 0.18% p.m.	620	1,206	18	29
Machinery and equipments	3 to 56 months	CDI + 0% to 0.21% p.m.	6,303	4,280	72	42
Vehicles	2 to 45 months	CDI + 0% to 0.13% p.m.	731	929	9	6
			<u>7,654</u>	<u>6,415</u>	<u>99</u>	<u>77</u>
<b>Consolidated</b>						
Assets	Remaining period in months	Charges	Balance of contracted amounts		Purchase option / residual value	
			2006	2005	2006	2005
Computer equipments	11 to 42 months	100% to 103% of CDI + de 0% to 0.18% p.m. or 1.5% a.m	1,737	3,557	46	56
Machinery and equipments	2 to 56 months	CDI + 0% to 0.21% p.m. or 1.4% to 2% p.m.	6,832	4,915	86	82
Vehicles	1 to 45 months	CDI + 0% to 0.13% p.m. or 1.44% p.m.	1,499	1,396	18	19
			<u>10,068</u>	<u>9,868</u>	<u>150</u>	<u>157</u>

# Randon S.A. Implementos e Participações

(Publicly-held company)

## **Board of Directors**

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

## **Fiscal Council**

Sérgio Ricardo Miranda Nazaré  
Jessé Souto Amatal  
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 Corporate and Investor Relations Manager**

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

(Publicly-held Company)

## Supplementary information

### Appendix I

#### Statements of cash flows - Indirect method

Years ended December 31, 2006 and 2005

(In thousands of Reais)

	Parent Company		Consolidated	
	2006	2005	2006	2005
<b>Cash flows from operating activities</b>				
<b>Net income for the year</b>	133,990	119,026	133,383	118,488
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	8,179	7,192	43,912	40,336
Cost of sale of fixed assets	976	5,120	2,341	9,292
Equity in income	(73,294)	(65,185)	-	-
Equity in income from other companies in subsidiaries	-	-	(1,741)	-
Amortization of goodwill of investments in subsidiaries	3,023	-	-	-
Minority interest	-	-	32,588	23,427
Provision for loss of investment	-	-	-	353
Exchange variation in foreign subsidiaries	-	-	126	177
Variation in loans and financing	18,136	4,518	10,986	25,270
<b>Profit and dividend received from subsidiaries</b>	40,763	41,455	-	-
<b>Changes in assets and liabilities</b>				
(Increase) decrease in others accounts receivable	(47,114)	(10,163)	(61,491)	(20,039)
(Increase) in accounts receivable	(8,922)	(46,223)	(37,644)	(30,027)
(Increase) in inventories	1,095	(20,859)	(13)	(6,722)
Increase (decrease) in accounts payable to suppliers	(237)	7,174	2,182	1,606
Increase in other accounts payable and provisions	(5,216)	16,308	(1,793)	15,563
(Decrease) in Income and Social Contribution Taxes	-	-	(303)	(1,113)
<b>Net cash provided by operating activities</b>	<u>71,379</u>	<u>58,363</u>	<u>122,533</u>	<u>176,611</u>
<b>Cash flows from investment activities</b>				
Purchases of property, plant and equipment	(60,616)	(36,423)	(144,616)	(95,065)
Purchases of shares and quotas	(19,780)	(90)	(70)	(6,187)
Deferred charges	(345)	(478)	(4,543)	(4,865)
Acquisition of treasury shares	(6,852)	-	(6,852)	-
<b>Net cash (used in) investment activities</b>	<u>(87,593)</u>	<u>(36,991)</u>	<u>(156,081)</u>	<u>(106,117)</u>
<b>Cash flows from financing activities</b>				
Capital increased in cash	99,000	-	99,000	-
Dividends paid	(12,815)	(21,887)	(11,068)	(20,471)
Interest on shareholders' equity	(25,224)	(20,878)	(24,494)	(18,823)
Proceeds from issuance of loans	83,285	125,922	286,890	178,132
Principal payments on loans	(81,914)	(83,433)	(294,725)	(110,616)
Proceeds from issuance of loans from parent company and subsidiaries	5,977	24,191	3,204	12,857
Loans taken with other related parties	1,611	2,311	1,611	2,311
Interest paid on loans	(10,292)	(9,291)	(16,091)	(24,819)
<b>Net cash provided by financing activities</b>	<u>59,628</u>	<u>16,935</u>	<u>44,327</u>	<u>18,571</u>
	43,414	38,307	10,779	89,065
<b>Increase in cash and cash equivalents</b>				
At beginning of year	68,602	30,295	172,442	83,377
At end of year	<u>112,016</u>	<u>68,602</u>	<u>183,221</u>	<u>172,442</u>
<b>Increase in cash and cash equivalents</b>	<u>43,414</u>	<u>38,307</u>	<u>10,779</u>	<u>89,065</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, 2006 and 2005

(In thousands of Reals)

	Parent Company		Consolidated	
	2006	2005	2006	2005
<b>Revenues</b>				
Sale of goods and services, (-) returns	1,183,992	1,109,125	2,495,432	2,440,083
Provision for doubtful accounts	(4)	292	(1,068)	15
Nonoperating income	935	7,175	1,967	14,973
	<u>1,184,923</u>	<u>1,116,592</u>	<u>2,496,331</u>	<u>2,455,071</u>
<b>Inputs acquired from third parties (including ICMS and IPI taxes)</b>				
Raw materials consumed	832,625	796,828	1,463,467	1,461,557
Material, power, third party services and others operation expenses	101,430	99,471	272,661	298,026
	<u>934,055</u>	<u>896,299</u>	<u>1736,128</u>	<u>1759,583</u>
<b>Retentions</b>				
Depreciation and amortization	8,179	7,192	43,912	40,336
	<u>242,689</u>	<u>213,101</u>	<u>716,291</u>	<u>655,152</u>
<b>Added value produced by the Company</b>				
<b>Transferred added value</b>				
Equity in net income of subsidiaries	73,294	65,185	-	-
Rent and royalties	358	948	391	948
Financial incomes	56,584	50,875	110,915	102,006
	<u>130,236</u>	<u>117,008</u>	<u>111,306</u>	<u>102,954</u>
<b>Added value to be distributed</b>	<u>372,925</u>	<u>330,109</u>	<u>827,597</u>	<u>758,106</u>
<b>Distribution of added value</b>				
<b>Employees</b>				
Payroll, benefits and related charges	98,538	90,852	234,201	216,403
Commissions on sales	1,455	1,769	1,613	2,151
Management remuneration and profit sharing	5,618	5,043	14,314	12,094
Employees' profit sharing	10,695	7,483	24,732	19,679
Retirement and pension plans	1,270	1,342	2,668	2,799
	<u>117,576</u>	<u>106,489</u>	<u>277,528</u>	<u>253,126</u>
<b>Taxes</b>				
Federal	53,717	49,499	195,255	188,159
State	8,061	1,480	46,745	34,082
Municipal	1,100	1,201	2,616	2,540
	<u>62,878</u>	<u>52,180</u>	<u>244,616</u>	<u>224,781</u>
<b>Financiers</b>				
Interest and financial expenses	53,313	47,384	107,635	104,788
Rent	5,168	5,030	9,818	10,267
	<u>58,481</u>	<u>52,414</u>	<u>117,453</u>	<u>115,055</u>
Minority interest	-	-	54,617	46,118
Interest on shareholders' equity and dividends	42,831	37,645	42,831	37,645
Retained earnings for the year	<u>91,159</u>	<u>81,381</u>	<u>90,552</u>	<u>81,381</u>
<b>Added value distributed</b>	<u>372,925</u>	<u>330,109</u>	<u>827,597</u>	<u>758,106</u>

See the accompanying notes to financial statements.



# Randon S.A. Implementos e Participações

**(Publicly-held company)**

## Supplementary information

*(In thousands of Reais)*

### **Appendix III**

#### **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 results of the 2006 and 2005 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: 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 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

(In thousands of Reais)

### a. Information by business segments

	Road and railroad equipment and special vehicles		Auto-parts and automotive systems		Services		Consolidated total	
	2006	2005	2006	2005	2006	2005	2006	2005
Revenues	1,269,693	1,189,418	1,214,874	1,235,843	39,534	42,072	2,524,101	2,467,333
Deductions	(259,782)	(247,870)	(239,698)	(279,727)	(3,580)	(3,593)	(503,060)	(531,190)
Net revenues	1,009,911	941,548	975,176	956,116	35,954	38,479	2,021,041	1,936,143
Cost of goods sold and services rendered	(789,425)	(747,714)	(704,469)	(693,451)	-	-	(1,493,894)	(1,441,165)
Gross profit	220,486	193,834	270,707	262,665	35,954	38,479	527,147	494,978
Operation expenses	(145,805)	(133,925)	(105,845)	(115,078)	(24,557)	(28,391)	(276,207)	(277,394)
Financial incomes (expenses), net	<u>2,667</u>	<u>1,242</u>	<u>(483)</u>	<u>(5,335)</u>	<u>1,096</u>	<u>1,311</u>	<u>3,280</u>	<u>(2,782)</u>
Operation income	<u>77,348</u>	<u>61,151</u>	<u>164,379</u>	<u>142,252</u>	<u>12,493</u>	<u>11,399</u>	<u>254,220</u>	<u>214,802</u>
Net income for the year	<u>55,427</u>	<u>42,003</u>	<u>69,046</u>	<u>67,187</u>	<u>8,910</u>	<u>9,298</u>	<u>133,383</u>	<u>118,488</u>
<b>Fixed assets</b>	151,504	101,273	242,471	183,358	1,225	1,443	395,200	286,074

# Randon S.A. Implementos e Participações

(Publicly-held company)

## Notes to the financial statements

(In thousands of Reais)

### *b. Net sales by geographic segments*

Geographic region	Road and railroad equipment and special vehicles		Auto-parts and automotive systems		Services		Consolidated total	
	2006	2005	2006	2005	2006	2005	2006	2005
Domestic market	804,316	730,439	717,688	718,906	35,954	38,479	1,557,958	1,487,824
Mercosur and								
Chile	104,080	141,090	34,088	29,591	-	-	138,168	170,681
NAFTA	1,570	53	148,562	141,271	-	-	150,132	141,324
Europe	696	3	35,503	35,094	-	-	36,199	35,097
Africa	74,647	50,878	6,599	5,745	-	-	81,246	56,623
South and								
Central								
America	18,175	10,616	7,083	5,907	-	-	25,258	16,523
Middle East	1,068	5,128	3,844	3,210	-	-	4,912	8,338
Asia	-	-	10,457	3,904	-	-	10,457	3,904
Oceania	-	-	2,032	2,468	-	-	2,032	2,468
Others	5,359	3,341	9,320	10,020	-	-	14,679	13,361
<b>Total</b>	<b><u>1,009,911</u></b>	<b><u>941,548</u></b>	<b><u>975,176</u></b>	<b><u>956,116</u></b>	<b><u>35,954</u></b>	<b><u>38,479</u></b>	<b><u>2,021,041</u></b>	<b><u>1,936,143</u></b>

### **Audit Board Opinion**

In compliance with items II, III and VII items of article 163 of the Law no. 6.404/76), in the condition of members of the Audit Board of Randon S.A. Implementos e Participações, we have examined the 2006 Management Report, the audited Financial Statements and its explanatory notes, as well as the dividends distribution proposal included in the financial statements for the fiscal period ended December 31, 2006. Based on our examination and on the Independent Auditors` Opinion, we express our opinion about such Management Documents by stating that the Report: includes the business transactions and the main administrative facts of the just-ended fiscal period; the Financial Statements represent, in all relevant aspects, the net equity and financial standing of the Company on the referred date; and the shareholders remuneration proposal upon interest on existent capital attributed to dividends that have already been paid, and to dividends to be paid, complies with the by-laws of the Company. Therefore, we recommend the approval of these documents by the Ordinary General Meeting. Caxias do Sul, February 15, 2007.

Benilda Waschow

Jessé Souto Amaral

Sérgio Ricardo Miranda Nazaré

Werner Bornholdt

Zulmar Neves