

Randon

1st Quarter 2016 Earnings Results

May 13, 2016

Operator: Good afternoon and thank you for standing by. Welcome to the conference call of Randon SA Implementos and Participation to report the results of 1Q 16. Today here with us we have Mr. Daniel Randon, VP of Administration and Finance; Mr. Geraldo Santa Catharina, CFO and IRO; Mr. Hemerson Fernando de Souza, Planning and Investors Relations Manager.

This conference call is being recorded and all participants will be in listen-only mode during the company's presentation. After we are going to start the question-and-answer session when further instructions will be provided. Should any of you need any assistance during the conference call please request the help of an operator by pressing star zero.

This conference call is also being simultaneously broadcasted over webcast and can be accessed by at our website ri.randon.com.br where the slide pack is available. Participants may control the slides. The replay of this conference call will be available right after its end.

As a reminder... We remind all participants at the webcast that they can post questions to Randon that will be answered after by the RI Department.

Before proceeding we would like to clarify that statements made during this conference call relative to Randon business prospects, projections and financial and operational goals are based on assumptions of the company's management and are based on information currently available.

Forward-looking statements are not guarantee of performance because they involve risks and uncertainties and assumptions because they refer to future events and therefore depend on circumstances that may or may not occur.

Investors should understand that general economic conditions, industry conditions and other operational factors may affect the future performance of Randon and may lead to results that are materially different from those expressed in such forward-looking statements.

Now I would like to turn the conference over to Mr. Geraldo Santa Catharina, CFO and IRO who is going to start the presentation. Please Mr. Santa Catharina.

Mr. Geraldo Santa Catharina: Good afternoon to everyone. You are all welcome to Randon conference call to report the results and the main indicators of 1Q 16 and as initially said Daniel Randon, our VP and Hemerson de Souza, IRO are here present with me in this presentation and we are going to share the presentation.

As usual the main topics are the period's highlights and there is an overview of the market... Market overview, capital market and we are going to present the financial results and our outlook for the future months, and we are going to close our presentation as usual with time for questions and answers and I would like to invite you all to participate as you wish.

The year of 2016 started at the same pace as 2015, a weak market and with little visibility. In the first months of this year we did not have any evidence indicating a rapid recovery of the market. The economic and political crises are still the focus even though there were changes yesterday and we still have some uncertainty about the future and the level of confidence remains low.

To adapt our production to the scenario that is still valid today we go on adjusting our manufacturing capacity throughout the quarter and last year through downtime, long vacations and adjustments in labor.

And this quarter was also marked by the announcement of the sustation of manufacturing activities of Randon's manufacturing unit in Guarulhos - SP which has been in operation since 1965 manufacturing especially light products. The prolonged economic slowdown annulled the efforts of strict expense control and the reduction of shifts and that manufacturing unit that had been adopted since 2015.

In addition, the fierce competition scenario reduced prices and did not give us any other alternative other than shutdown the unit.

Even though the sales of trucks have dropped 18.7% compared to 4Q 15 the volumes sold in 1Q 16 were stable in most of our products when compared to the volumes sold in the last months of 2015. However I must also say that it is not possible to say that the stability is here to stay. Predictability is increasingly lower in the market of trucks and it is necessary to control very closely any market changes and obviously to make the necessary adjustments to adapt the company to current demand.

Randon has been exploring business opportunities in the foreign market using already consolidated channels overseas. This will also be clear over the next few quarters. In 1Q our results were not so good but I think that in the next quarters we will be seeing better results.

In addition to increasing our production our exports are one of our focus as we announced in previous quarters.

The rail area is a high even though the market that we are expecting for 2016 will be lower than 2015. The positive point is that new sale orders are being placed indicating good businesses for the current year. The adjustments implemented in 2015 are already showing results in 1Q 16 and this can be observed through the reduction of operational expenses and the improvement in our indebtedness level.

This quarter we also had a significant volume of nonrecurring expenses, a factor that we will address during this presentation.

I would like to turn the conference over to Hemerson for the presentation and then Daniel is going to conclude.

Mr. Hemerson Fernando de Souza: Good morning everyone, those of you who are listening to Randon's conference: those of you in our webcast in our website.

I am going to go straight to slide number four where we can see the volumes of production in sales of trucks, buses and trailers and semi-trailers in the country. Comparing to 1Q 15 the production of trucks had a drop of 35.2 in 1Q 16 and the manufacturing of semi-trailers dropped 9%.

Truck sales had a reduction of 32.1% and sales of semi-trailers dropped 13.1 as compared to the numbers announced in 1Q 15.

The first quarter of the year is traditionally affected by collective vacation, by Carnival and this year we also had new rules as for financing which has contributed to make our activities even more difficult. The system to file for loans through BNDES through the program Finame TJ LP became effective on the late February, interfering in the natural dynamics of sales, and sales that were already weak because of the economic slowdown.

Predictability of the market size for 2015 is very low and the main associations have been reviewing down their numbers.

On slide number five you can see the main numbers for the quarter. Total gross revenue without discounting any of the companies groups has reached 1 billion BRL, an increase of 2.6% as compared to the revenue of 1Q 15.

The consolidated net revenue in 1Q 16 totaled 734.6 million BRL 5.4% greater than the consolidated net revenue of 1Q 15.

Exports totaled US\$ 32.2 million in the quarter, a drop of almost 20% as compared to the same quarter in 2015 and then they were almost US\$ 40 million. The

reduction in exports is explained especially because of the reduction of sales of semi-trailers to some African countries which are going through economic difficulties because of the devaluation of oil and the expansion of CKD sales reducing the average amount of exported items because they are disassembled pieces. There are projects going on to expand the exports and to recover the businesses in many of those countries including the ones in Africa that we were mentioning.

The net bottom line total 9.6 million BRL of loss in 1Q 15 in contrast to a net profit of 557,000 BRL in 1Q 15. This 1Q concentrated many nonrecurring expenses which had a significant effect on the bottom line. I am going to try to explain each one of them along with Ebitda and adjusted Ebitda.

On slide number six you can see the chart showing nonrecurring expenses. The main launches were hedge accounting of 19.4 million BRL and the expenses with restructuring, 15.4 million BRL.

Additionally we had additional expenses with the shutting down of our São Paulo manufacturing unit, 5 million BRL were booked relative to provisions for dismissals which took place in April and also we had to write off intangible assets of 3.2 million BRL as oriented by accounting standards.

To give you an idea of the significance and the total of our nonrecurring expenses in the period was 41.8 million BRL.

Now going to slide number eight we have the main highlights where we added recurring expenses and their impacts. Adding hedge account to our consolidated net revenue we have 754 million BRL of adjusted net revenue instead of 334 as booked.

Excluding our expenses with restructuring and the provision for restructuring of Randon São Paulo from Cogs the cost of products sold adjusted is 587.7 million BRL with the reduction of 4.3 p.p. over the net revenue.

With these reductions our gross margin would grow from 17.8 to 21.1%.

Adjusted operating expenses totaled 109.5 million BRL, 14.5% over the adjusted consolidated net revenue.

Adding nonrecurring to the consolidated... Of 1Q 15 which was 46.5 we have an adjusted consolidated Ebitda of 88.3 million with and adjusted Ebitda margin of 11.7%.

Now going to slide number eight we will be talking a little bit about the business environment in 1Q. The pace of 1Q was a sequence of 4Q 15 as Geraldo has already mentioned. Production and manufacturing sales volumes are still dropping showing the times our country is going through with economic slowdown and political crisis.

Truck sales dropped 32.1% as compared to 1Q 15 and 18.7% as compared to 4Q 15. The sale of trailers was smaller 14%.

We have implemented strong adjustments in 2015 to adapt our company to new demands and these adjustments will remain until the market has positive indications or whenever there is an effective stability of volumes. When we speak of adjustments I am talking about people, expenses and processes.

We have been looking at all opportunities for improvement to preserve the company for us to go through this period of time and also to make our company more competitive. In real life this is the period of survival where cash liquidity and reduction of debt are our main focus.

The areas of replacement, exports and rail are still the positive highlights for the company. As we had already announced in previous quarters the delivery of railcars in 1Q 16 was quite high with 726 units. For other quarters of 2016 we expect smaller volumes but the market is demanding and new orders are being placed and negotiated.

The actions implemented in the area of replacement are already producing results in exports. Even though they had a drop in 1Q they are also presenting some improvement with some specific product lines.

And now we are going to present the overview for each business segment starting with trailers and semi-trailers on slide number nine. We closed 1Q 16 with 26.8% market share in the segments of semi-trailers with a slight recovery as compared to our share in 2015 which was 26.2%.

The environment does not yet permit rapid recovery of prices because of the large offer of products and the fierce competition; however the competition is more rational than in difficult times such as 2012 and also the beginning of 2015 just as an example.

Right now the market does not present any prospects of short-term recovery and neither in the midterm. The predictability is low even though the past few months have presented some stability in the placement of orders it is not yet possible to state that this pace will remain over the next few months.

Going to the next slide you have an overview of the market of railcars and special vehicles. The rail segment has been very important. We delivered 726 units in the first three months of the year of the Hopper type used especially for the transportation of bulk grain and “Gôndola” used for iron ore and byproducts.

Even though the Brazilian economic scenario is unfavorable the main rail customers are still investing to renew their feet and to increase capacity.

The segment of special vehicles on the other hand is one of the most deeply affected by the crisis. The backhoe, one of the main products in this segment used in civil construction, directly related to the growth of the country. Considering a scenario of crisis of confidence; economic slowdown; growing unemployment; high interest rates and inflation the investments in infrastructure that moved this market have been left aside worsening even further the situation of this sector.

Now going to slide number 11 we can see some points that demonstrate the difficulties of the auto parts industry. The production and sale of trucks in Brazil have shrunk even further this quarter, about 30%. With low manufacturing utilization OEMs may layoff and downtime and the company continues making the necessary adjustments to keep up with this drop in volume both with the adoption of long holidays and the reduction of our structure.

Our controlled company Fras-le had stable volumes as compared to 1Q 15 and also compared to 4Q 15. Imports and replacements to reinforce the results. We have been seeking to expand our sales of exports and replacement of other auto parts using already consolidated channels especially Fras-le.

If we calculated the average Ebitda margin of 1Q in the past five years we would have a margin of 14.5%. The Ebitda margin in 1Q 16 was 15.7% in spite of such a deteriorated scenario in the truck market. It was superior to the average.

This preservation of margin is a result of the measures that the company's management adopted.

On slide number 12 you can see some information about RAPT4, our preferred share and dividend payout and interest on equity. On March 31 2016 the quote of RAPT4 was 3.0 4 million devaluation of 6.2% compared to the value of March 31, 2015 and an appreciation of 24% as compared to the price of the bond in the end of 2015.

Average daily financial volumes traded had a reduction of 47.7% if compared to the volumes of 1Q 15.

Right below you can see the history of dividend payout and interest on equity.

On slide number 13 you can see the charts... The breakdown of our gross debt in 1Q 16. The consolidated gross debt is 68.3% in Brazilian currency and 31.7 in foreign currency, USDs and Argentinian Pesos.

On March 31 the total gross debt was 2.6 billion BRL. At the end of 2015 the debt was 3.1 billion BRLs meaning we had a reduction of 500 million BRL in these three months.

I would like to remind you that our main focus is to reduce the net debt because it is very important for us to keep the cash liquidity and if it is necessary to have a higher gross debt.

Now going to slide number 14 you can see the consolidated net debt without the numbers of the bank. With a gross debt of 2.4 billion and cash of 1.5 billion BRL the consolidated debt without Randon Bank is 900.5 million BRL. This amount is equivalent to 3.55x the adjusted Ebitda; using the accounting Ebitda for calculation we have 6.16x, that is the ratio.

Now I turn the conference over to Daniel our VP for his comments about the outlook for the next few months.

Mr. Daniel Randon: Good afternoon to everyone listening to our conference call. The numbers presented by Hemerson demonstrate how difficult the market is for Randon companies. Unfortunately our discourse sounds like a repetition; but the business environment is the same as we have had in the last months with weak production and sales without prospects of recovery of the market in the short term, lack of confidence for investments and so on.

Focus bulletin published earlier this week makes a forecast for the GDP of -3.86 for 2016 and positive by 0.5% in 2017 and political discussions seem to be far from ending.

The agricultural crop is performing well and we estimate the grain production this year will be 0.6% superior to the previous cycle according to the seventh crop calculation published by Conab. Even so the businesses involving agriculture are weak especially because of the lack of confidence to invest.

In order to go through this avalanche of negative aspects Randon has been reinventing itself. In addition to looking at new opportunities for revenues in different markets such as exports and the replacement market as already mentioned we have been reviewing all our expenses, processes and investments and adjusting them to the structure and adjusting the structure to demand. 1Q 16 concentrated approximately 20,000,000 BRL in expenses with restructuring.

As we reported the closing of 2015 we announced the shutdown of Manufacturing Randon São Paulo. We had to make this difficult decision of shutting down our manufacturing in this plant in spite of the many actions that we adopted to minimize the impact of the crisis that were not enough to make up for the low demand and low prices practiced in this segment. Possibly the expenses with restructuring will still affect the results of 2Q 16.

The main associations have been publishing forecasts for drop in the truck market in 2016 indicating that the next few months will not have a recovery; however, we have been noticing in our main indicators that the actions that we implemented in 2015 are already showing results of and the margins are not dropping in the same proportion as volumes. The adjusted Ebitda margin for example was 11.7%, which is a margin that is quite close to those the company had been reporting when the crisis was not so bad.

It was also possible to observe a drop in the level of adjusted leverage going from 4.24x down to 3.53x if we consider consolidated debt excluding Randon Bank. We have remained focused on the reduction of working capital, generation of cash and recovery of margins. In April the company announced its public offering: one of Fras-le amounting to 300 million BRL and one of Randon of 99,990,000 BRL.

On the next slide we will see more details about this public offer. Fras-le capital increase was done through public offering of stock in compliance with Resolution 476. This public offering was successfully completed on April 20, 2016 and we raised 300 million through the issuance of 92,592,593 common shares amounting... As the value of 3.24 BRL/share.

We can say that the operation was a success because the demand was quite superior to the amount of the emission.

Randon invested 158.1 million in this operation and now we hold 51.16% of Fras-le. This public offering also included the shareholders agreement with the investment fund GIF - Gávea - that subscribed 104.5 million BRL of the company's shares and now holding 14.82% of the social stock.

The funds coming from this public offering will be used for the acquisition of other companies in the industry of auto parts and it is applied to the automobile industry to reinforce our capital structure. We will announce to the market and a possible acquisitions.

On slide number 17 you have the details of Randon's capital increase. This increase will be done through a private offer of shares when only those who were shareholders on April 12, 2016 can subscribe. The offer proposes a capital

increase of 99,990,000 with the issuance of 14,685,819 ordinary shares and also preferred shares. The price for both types of shares is 2.27 BRL.

The capital increase has the objective of strengthening the capital structure of the company and to raise funds for the subscription of the controlled company Fras-le. The period for subscription rights went from April 12 to May 12. Next week we are going to announce the first numbers of our public offering and the subscription of non-acquired shares.

Our presentation has now ended. In the webcast the full slide pack is available to you with slides showing more details of financial and operational indicators. We are available to answer any questions or comments that you may have about all our indicators.

We would like to thank you for your attention and now I give room for our Q&A session when Geraldo, Hemerson and myself will be available to answer your questions. Thank you very much.

Q&A Session

Operator: Thank you. Ladies and gentlemen we will now going to start our question-and-answer session. If you want to ask a question please press star zero and if you want to take your question from the list please press star two.

Our first question comes from Banco Safra.

Mr. Lucas Marchiori: Hello good morning. Two things: first I would like you to explain the margin in auto parts. Hemerson mentioned a strong margin of 15.7% above 4Q and 1Q LY. I think there is some pressure of adjustment of costs and what about exports? Could you give us some color in the higher-margin for auto parts?

And secondly - I know it is early to ask this - just give us an idea of the market in terms of M&A and what you are studying, which geographies or some color on the types of M&A you are looking for.

Mr. Souza: Lucas this is Hemerson. I am going to answer the first part and then Daniel will answer your second question.

As to auto parts performance there are some points that are important for you to remember: we see a quite strong volume reduction from 2014 to 2015. We still

have a volume reduction but this has also led to some changes: first we wanted to gain higher share with customers where we had a smaller share such as...

Our competitors sometimes were importing to resell and they started buying from Randon and this helped us to increase our volumes in terms of selling parts to our competition.

Secondly we adjusted our manufacturing units to the size of the market and so all our reductions in structure and expenses and processes, everything that we have been doing ever since the end of 2014 are already indicating some positive signs.

Secondly we are exporting more in some of our units such as Master, Jost and we started sending parts to markets that were not usual.

In spite of the drops in exports YoY some of... We have started exporting and of course along the years we have been focusing on exporting in some cases with some more maturity.

And Fras-le of course is the exception of our companies. It has been growing; it has been growing this year too in terms of exports and replacement. Fras-le has provided good results and this benefits the auto parts businesses of the company as a whole. So a little bit more exports in our units we are more adapted to the size of the market and Fras-le with an exceptionally good performance right now, which sort of justifies why we increased the share of Fras-le in a public offering that we recently made.

The second part talking about M&A I am going to turn over to Daniel to answer.

Mr. Randon: Hi Lucas this is Daniel thank you for your participation and for your question. In 2014 Fras-le we had the IPO, unfortunately the pricing in February there was a drop of more than 20% and so it was not possible to have the IPO with the primary and secondary. Our strategy back then, the same strategy we have now in 2016, is still to focus in the long-term.

First we will be focusing in the global market to consolidate Fras-le's leadership in commercial vehicles in the world and we also have a project, we have been growing with commercial vehicles, selling parts to commercial vehicles; but we reinforced our growth through investment in partnerships and even acquisitions looking at the foreign market.

And in the domestic market Fras-le's vision is to complement its portfolio of products in the system that we call auto parts, especially the rolling system where we see opportunities for growth in terms of replacement. As a reminder today Randon and Fras-le together with the entire replacement part, spare parts, we are

the main independent sales channel. So we have a revenue of the aftermarket of approximately 400 million BRL.

We are practically the third top or the third largest in Brazil, in the replacement market in Brazil, and so we look at opportunities to increase the portfolio and through acquisitions we can increase this. It refers both to global positioning in terms of leader in commercial vehicles as well as opportunities in replacement and also with OEM.

Mr. Marchiori: Thank you.

Operator: Our next question comes from Rogério Araújo from UBS.

Mr. Rogério Araújo: Hello good afternoon thank you for the opportunity. I have two questions, the first one regarding exports. So you have a guidance to increase exports in USDs that is quite aggressive considering that in 1Q there was a drop in the dollar and as you said some African countries are going through difficulties.

Could you give us some more detail on what the company has been doing and what are you expecting for the upcoming quarters? And if the real appreciation of the BRL will change the conditions necessary for Randon to deliver the original guidance, just for us to know more what to expect going into the future.

Mr. Souza: Rogério this is Hemerson good afternoon. We have a feeling that yes, the volumes that we expect for the foreign market and not just in terms of exports; our guidance also concentrates manufacturing and sales that we make through the units overseas and so it is an estimation of our foreign revenues.

So you see that we will be keeping our numbers. There is no change in buyers in terms of changing our thoughts. We remain competitive and we have been accessing the market in order to keep export volumes as we planned.

And 1Q has been kind of strange. I agree with you there have been some commercial changes that were implemented with some customers especially in the United States and it reduces a bit the volume of shipments even to equate our inventory overseas.

And this is related to semi-trailers that we are shipping to Africa. We have slightly changed our system; we used to send some finished products to some countries and we started expanding the Ebitda of our... Increasing our CKD and this changes if we compare to what did we did in 1Q last year.

FX at 3.50 or 3.60 does not interfere much in our exports dynamics, in our ambition to export. As a reminder Randon's exports volume were with the dollar below the range of 3 BRL. We exported US\$ 250 million when the dollar was close to 2 BRL.

Of course this makes us more competitive, it improves our margin; but we have always exported and we are not going to change that. We have been noticing that some countries here in South America also devalued their currencies and this causes some pressure, commercial pressure but it does not change the focus of keeping our exports as a major opportunity, and we will go on like that and keep like that over the next few quarters in terms of keeping our guidance.

Mr. XXX: I would like to strengthen the answer: 70% of the exports in the country were in auto parts and this is a mathematical thing that is slightly more concentrated in the area of trailers and semi-trailers it challenges our exports and in the area of auto parts where we have the performance as expected.

Mr. Araújo: The second question regards the capitalization and possible acquisitions with the capital that you have raised. Do you have any target at advanced stage of negotiation or did you see that the market was at a favorable time for acquisitions considering the financial difficulties of some players then you decided to raise capital so that you are ready for any opportunities that might come up? I would like to have some more color in terms of timing.

Mr. Randon: Rogério this is Daniel. Some important points: in 2014 when we had a capital increase we had some ongoing conversations for acquisitions and the level... And there was some material fact that was published but in the end the business did not come through.

So we have been talking for a few years, but always with the care of adding a fair value to the capital. Many companies that are average sized or controlling companies, so sometimes it is difficult to have a fair valuation. There are some ongoing projects but none of them at the final phase I have to say.

We are working. The most difficult thing that you see in an acquisition, unless the company is undergoing major difficulties financially speaking and which is not we are looking at today, and it is faster; but today our perception we have conversations, it has been going on for a while but right now there is nothing in a final phase.

So the company has been mapping. There are some important targets and they will approximate... It has better targets with clearer offers.

Mr. Araújo: So at first your idea is to buy a smaller company to improve the financial costs of this company, to use Fras-le distribution channels to sell their

products with some cost reduction? Is this your idea or is your idea to increase your penetration overseas?

Mr. Randon: Well we have been looking at the two things. So as I said first the challenge of working in some markets is no with the culture, the local culture, even though Fras-le has a track record of more than 50 years of exports and especially over the past five and six years has been present in foreign markets - but when we are going to test something more aggressive sometimes we need to find more partners.

So in the commercial market we want to find companies that will not represent 15% or 20% of our revenues as compared with Fras-le but some synergies especially in terms of BackOffice and also in terms of commercial distribution.

Mr. Araújo: Thank you very much.

Operator: Our next question is by Vagner Salaverri.

Mr. Vagner Salaverri: Good afternoon to everyone. How is the market of large trucks? So what you are telling now this year the customers that used to buy or have many customers left the market? What is going on and what is your positioning in terms of aggressiveness in the market this quarter?

The second question is to understand and considering that you have a long track record in the market, you are a market leader not just in terms of market growth and so you have gone through crises in Brazil and which are the indicators that you are monitoring? Is it confidence? What are you monitoring for the recovery of the market?

Mr. Santa Catharina: Vagner thank you for your question, this is Geraldo. So I was observing the number of orders that were placed from January last year until March this year. Behavior is very similar in terms of units but it is a sort of stable.

Even in the other ones that there was a down trend and apart from that the pulverization of customers as well as the share of the internal and foreign market, the domestic and foreign market. That is why we saw a kind of repetitive; yes there is some stability and maybe we have reached the bottom - but there is a reasonable feeling and this is the first observation: keeping the picture last year and this year.

As to indicators and indicators... You are asking about indicators of the recovery, of the economy pick up? That was what you are asking? Well Vagner I just wanted to say something: we are at a level of stability and you have a specific question. It is not just large customers; we have been seeking retails, small orders, and small

volumes in the change... This is a change in the company's profile in terms of recovering our relationship with smaller customers.

Over the past few years because of packages and incentives our salespeople, the representatives of our distributors are more focused on businesses and large businesses were always our focus. But we also want to focus there and we have a premium in terms of value perception with all our customers.

In terms of indicators as Daniel said and I would like to complement there are some things that are important to note: confidence certainly is one of the main indicators related to transportation and investments and also related to the sale of trailers.

We have been looking at that and so the confidence at the levels that we have now throughout the speech here. So in some industries there is... We have a prospect of recovering the fleet and this will take place whenever there is some indication that the country can start growing again.

So at the complex political time we are going through we do not know whether conditions will be created to adjust the country bias of growth changing it to a positive bias. So this is something we have been monitoring. It is nothing major but it will be stable, and this is also very important for us.

When we look at auto parts and the relationship with countries that we already have considering the more favorable FX rate for exports we can see that it is possible to take advantage of the basis and the partners that we already have to increase our sales and then we would be sort of detached from the market.

I do not know Daniel if you want to complement?

Mr. Randon: So usually we look into the future to define the prospects. The political scenario really plasters everybody in terms of being afraid of investing. There are some positive indicators even with the prospect of drop in interest rates and we are looking at 2017 with a positive GDP, so business and looking into the future.

Of course in some industries there is demand for buying; but there slightly more cautious because of the time of high interest rates, political uncertainty. So the developments over the next few weeks in terms of the impeachment of the president will be important to analyze the scenario and be carefully reviewing everything together with the economists and the market agents and we will be listening to our customers.

Some customers have even wanted to increase and to go on renewing their fleets; but ever since yesterday there is a drop in interest rates and the possible recovery of a fiscal adjustment and control of inflation. So there seems to be a slightly more positive scenario looming on the horizon.

So I do not see any super offer of products; over the past few years there was a sharp drop in demand from companies. So we do not see a very fast recovery over the next few months - but we think it will start showing opportunities with slightly higher confidence in the country.

Mr. Salaverri: Thank you.

Operator: Our next question comes from Paulo Valaci from Citibank.

Mr. Paulo Valaci: Good afternoon thank you for letting me ask questions, first about auto parts. There was a mismatch between the demand for breaks and other products; is there any specific reason underlying that and should we expect the same thing over the next few quarters?

The second is about Randon Bank. Could you talk about the quality of your portfolio today and your expected default rate and provisions for upcoming quarters?

Mr. Santa Catharina: Paulo thank you for your question this is Geraldo, I am going to answer the second one. Banco Randon is currently with more or less 400 billion assets in credits of which 240 million approximately are related to Finame financing, long-term loans and the rest short term financing with our main distributors and customers in some suppliers.

It is a quite good portfolio and it represents very well the curve that we call collection and default of Randon Group. It is within the parameters of the range over the past 10 years between 25% and 35% of receivables. There is always some delay going from 1 to 90 days. Today we are at the lower range at 25% of late payments, or overdue payments.

And Randon Bank is more solid because the credit analysis and the guarantees that are required are quite stringent and so the level of default rate is not a concern to us. It is within normal range and so this is not an issue for Randon.

In this manner we understand that and we are monitoring some specific cases with some suppliers with problems and some specific customers with problems; but they are not part of Randon's portfolio.

Daniel is going to answer you about the other part.

Mr. Randon: So this is related to the dynamics of each business. So sometimes we sell more for exports or replacements, there has not been any changes. Now if you look at suspension systems and wheel systems this is more difficult; this is more related to OEM and depending over the past decades we have been quite favored by having customers that were gaining market share. Right now our... We have more share with customers that are losing market share and so this is slightly more relevant especially for a company that sells suspensions and wheel systems.

In the area of coupling and breaks we have more sales to our competitors in the area of trailers and semi-trailers and we are meeting more of the market than we used to serve in the past and this helps us.

And there is no other explanation. It depends on the business; sometimes one goes up and the other goes down and so it is a unique feature of each business line. I do not know if I was clear...

Mr. Valaci: Yes you were clear thank you.

Operator: Our next question comes from Bernardo Carneiro from Brasil Plural.

Mr. Bernardo Carneiro: Good morning Daniel, Hemerson and Geraldo. I have two questions, the first one is about the improvement in working capital especially in inventory and receivables that you reported in 1Q and that was significant.

Will there be anything in 2Q and 3Q? How much of that has already been booked and how much is there to free more cash and improve cash generation?

Mr. Santa Catharina.: Bernardo working capital improved in 1Q because we concentrated our efforts both in 4Q LY and 1Q TY to isolate our inventory. Today our inventory of trailers is almost normal at the level of 30 days and we would like it to be 20 days; but I cannot promise that we will deliver that are very soon because it depends very much on the composition of or inventory in terms of mix.

There has also been an effect of FX variation in our inventory especially the ones that are overseas in Frasil North America and we want to reduce the consolidated inventory days to go back to the numbers that we used to have in 2010 - 2012.

So during the year we want to free working capital, 150 million BRL - but this is a superficial... This is just the ballpark number and we are working hard to try to get there. This depends very much on the market dynamics; but maybe the market decides to react and pick up even with some isolated customers because of a new political scenario. Whenever there is a growth of production that is kind of fast usually working capital goes up.

And the also in terms of customers we tried to concentrate the financing in the traditional banking system and also in Randon Bank; but obviously the way things are going considering more stringent credit policies we are being forced to fund directly some things. We are trying not to give up in that area, this is one of the guidelines that we have at corporate level but this is not always possible.

And I must say that considering working capital right now there are some very strong ingredients that at the end of the month there is a batch of railcars that we need to receive and then they are significant amounts that end up affecting the working capital.

And lastly and the curve of receivables that impact working capital there is always the participation of Finame accounts in at least for two or three years there has been volatility in this release of payments of BNDES within the dynamics that should be 20 days or 30 days to receive and sometimes it takes as long as 45 days and then it is released in tranches and so all of this ends up affecting the normality of our working capital.

Mr. Carneiro: Thank you very much for your answer. My other question Geraldo is about the railcar market. In January you had... There was a leap almost and you had very strong revenues from railcars and you said that your portfolio of orders from the rail industry is strong.

So how long do you think the rail market will remain strong? Do think this is going to carry over into 2017? It is relevant as you said in 1Q it was 175 million BRL in your revenues and so I would like to have some more color in terms of how sustainable these railcar orders are. So will the market go back to normal next year or will it remain very strong next year too?

Mr. Souza: Bernardo this is Hemerson. We have a good vision that the rail market has a stability of 3500 to 4000 every year. It has been like that with rare exceptions, maybe 2008 and 2006 there were some peaks when we sold more units but then there were consequences in the following years with slightly smaller demand.

But so the total market of 3500 and 4000 is a normal market. It can be reinforced by two or three things: number one we have renewal processes of concessions, our new concessions or new investments that may be made to increase the rail network that might require and give us more opportunities for the production of railcars.

The second part is renewal. We have a very old Park of products in operation today. I think that the more recent market some interlocutors and customers in the

recent market made this very clear. Yes there are possibilities of increasing purchases.

So we are okay and with think that this volume will remain at least over the next few years and this really justifies our intention of having a production basis that is not exclusively dedicated; but slightly closer to railways. Our plant in Araraquara today is idle and so its completion... We interrupted its completion.

Once we have more confidence that the market will pick up and go back to basis that would be similar to what we have seen in the past we will put this in operation and then I am not just talking about railcars but also rail equipment.

So even though production volume is not the same we are going to have considerable... We have already firm orders in production already and we also have reasonable prospects that 2017 may go with the speed that is equivalent to what we have today - but in fact we still need to advance so that we have more numbers and we can have a more assertive response the market.

Mr. Santa Catharina: An additional information: so this year we had demand for BNDES in spite of the difficulties and so at their request we gathered layers in the market operating in rail, rail wagons or railcar manufacturers gathering all players to talk because this has been a priority area for the government for a long time, for 18 years this has been a priority and this has been a genuine interest of somehow given support with slightly more dilated budget for the expansion of the rail network in Brazil.

Whether this will generate results in the short term we do not know for sure; but in the mid-and long-term this will have some positive effects.

Mr. Carneiro: Thank you very much for your answers.

Operator: We are now closing our question-and-answer session. I would like to turn the conference over to Mr. Daniel Randon for his closing remarks. Please Mr. Randon.

Mr. Daniel Randon: Once again I would like to thank you all for your participation and once again I would like to say that we are available if you have any questions to ask afterwards. Please get in touch with our investor relations department to ask your questions.

Thank you all very much and see you next quarter.

Operator: The conference call of Randon has now ended. We thank you for your participation and have a good day, thank you for using Chorus Call.

