International Conference Call

Randon

2nd Quarter 2016 Earnings Results

August 12, 2016

Operator: Good afternoon and thank you for waiting. Welcome to Randon's 2Q and 1H 16 results conference call. Today we have Mr. Daniel Raul Randon, VP of Administration; Geraldo Santa Catharina, Financial and Investor Relations Director and Hemerson Fernando de Souza, Planning and Investor Relations Manager and the RI team.

This event is being recorded and all participants will be in listen only mode during the company's presentation. After Randon's remarks there will be a Q&A session. At that time further instructions will be given. Should any participant need assistance during this call please press star zero to reach the operator.

This event is also being broadcast live via webcast and may be accessed through Randon's website at ri.randon.com.br where the presentation is also available. Participants may view the slides in any order they wish. The replay will be available shortly after the event is concluded.

Those following the presentation via webcast may pose their questions on our website and they will be answered by the IR team after the conference is finished.

Before proceeding let me mention that forward-looking statements are based on the beliefs and assumptions of Randon management and on information currently available to the company. They involve risks and uncertainties because they relate to future events and therefore depend on circumstances that may or may not occur.

Investors and analysts should understand that conditions related to microeconomic conditions, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

Now I will turn the conference over to Mr. Geraldo Santa Catharina, Financial and Investor Relations Director. Mr. Santa Catharina you have the floor.

Mr. Geraldo Santa Catharina: Good afternoon everyone. We will be describing 2Q 16 and 1H 16. Information has been made available as of late yesterday after the market is closed and we are here to answer any questions you may have.

Hemerson and I will share the presentation and then Mr. Randon will make his comments before Q&A.

I would like to start by saying that we all know the financial situation of the country has been under a lot of stress after the economic slowdown. The economic pickup has been taking longer than we expected. We had to change and adapt to this new reality then. We started off by saying that our main objectives were to reduce debt and increase cash flow and based on the numbers you will see decisions made are already helping as improve our indicators.

The market has been a downward trend and the company's management is more effective both in managing resources and also in the speed in taking decisions. In order to ensure survival we must focus on cost reduction and adapt our structure and to reinvent ourselves every day in a very dynamic markets such as ours.

Let us move on to slide number four and I will talk about the market indicators comparing data with those of 2015 and corresponding quarters. The economic slowdown that started last year is not over yet unfortunately. The truck market had volumes that were a lot under those they were considered to be stabilized dropping further and the King numbers are similar to those of the 90s.

But the comparison between 2015 and 2016 indicates a drop or a decrease. In 1H 16 the market has managed to stabilized somewhat. There was a 7% increase in sales when we compare the same semester in truck production increased by 7% in the same period. Companies have announced inventory reductions that indicate that the slowdown is beginning to be stabilized and we can see a market recovery as soon as the market recovers its confidence levels.

On slide four I would like to talk about the numbers of the quarter. For 2Q 16 total gross revenue amounted to 984.2 million BRL, a 3.1% decrease when compared to 2Q 15.

Consolidated net revenue amounted to 696.8 million, 5.2% smaller than that of 2Q 15.

Exports amounted to US$ 42 million, a 10.9% increase when compared to the same market. We reached 37.9 million. We are of course estimated more businesses abroad being closer to customers, to foreign customers. Of course we depend on external factors: the exchange rate, the commodity prices and the economies of these countries that purchase our products.

The net result was 6.9 profit of 2Q 16, 274,000… In 2Q 15.

For 2Q 16 consolidated Ebitda amounted to 75 million BRL and the margin was 10.8%. When we compare that to 2Q 15 Ebitda grew 60.1% and the margin was 4.4 percentage points.

The same numbers for the semester growth in net revenues maintained at the same level, less than 1% variation. Despite lower sales volumes this semester we reached a record high of railcars: 1.156 units were delivered, 47% more than last year so that contributed positively to our results.

For 2H railcars should be smaller taking into account the orders. The accrued for the year is a loss of 2.7 million BRL and the Ebitda is 121 million BRL. There were nonrecurring events and the nonrecurring events impacted these indicators in a very significant fashion when we consider Ebitda.

On slide six we have a chart indicating nonrecurring expenses for 1H TY. They amounted to 52.9 million BRL, mostly restructuring demanded 30.7 million BRL and the hedge accounting effects amounted to 20 million.

Adding nonrecurring events to Ebitda for the semester we would have had an adjusted Ebitda of 174 million BRL with the margin of 12%, somewhat closer taking into account the adjustments of nonrecurring expenses taking into account the smaller values we have had before.

On slide seven we have our adjusted statements of income. Nonrecurring amounted 11.1 million BRL, almost 100% on expenses of restructuring CPV amounting 10.7 million BRL.

Ebitda was 75.3 million BRL and adjusted 86.4 million. The Ebitda margin went from 10.8 to 12.4%.

In 1HTY net revenues decreased by 20 million BRL owing to the hedging account it would have been 1.5 billion. So that impacts the net revenues and also the Ebitda.

CPV was impacted by 26.6 million BRL given this restructuring and the adjusted CPV would amount to 1.1 billion.

Adjusted operational expenses was 116, 3.1 million nonrecurring on restructuring and 3.2 million with the write-off of intangible assets in São Paulo.

With all the adjustments Ebitda went from 121 to 174 million BRL and the Ebitda margin went from 11.5 to 12% as previously described.

On slide eight this is the business environment. Despite the fact that there are some signs of stabilization this is some sort of stabilization at the lowest historical level: truck production went down 20.4% and sales were 30.4% smaller; but trailers and semi-trailers had 11% reduction and 14.7% less in sales.

Higher confidence levels are better and there is some optimism. Every communication means, newspapers, we have seen an amount, an important amount of positive information that could be the drivers behind this optimism that, of course, impacts the confidence level of market agents.

Challenges are there for Random for the next semesters. We have been working hard to expand our businesses to make the company more competitive. In implements can talk about the introduction of the F line, a more attractive product line.

In terms of oral parts we are trying to expand our sales for replenishment and exports to be less dependent on sales to OEMs and we are trying to establish new partnerships, new sales channels.

Randon has been adapting to this new market size. We are better prepared to face new challenges but we have to keep our eye on the ball to make quick decisions. It has been a continuous learning experience. Randon is undoubtedly different today and we can state that it is a better company.

Process analyses help to do more with less. It is something we take care of on a regular basis. Market analyses, how it behaves vis-à-vis economic difficulties. We have been paying much closer attention to detail now.

And we are working hard internally and we are expecting more positive signs from the marketplace.

I would like to give the floor now to Hemerson to continue with our presentation.

Mr. Hemerson Fernando de Souza: Thank you Geraldo good afternoon everyone. Let me give you an overview of every business segment and you can follow the information on slide nine.

Trailers and semi-trailers sales have increased a little bit when we compared to 2Q 15: 2696 units were sold in 2Q, 2633 were sold in 2Q 15, a 2.4% increase in a market that has been decreasing 16.2% when we compare the same periods.

That, of course, impacted Randon's market share from 25.6 to 28.2% in 2Q when you compare to 2QLY, a 2.6%… Percentage points gain. There is no indication however that we can say that things will remain the same throughout the rest of the year.

Competition in trailers and semi-trailers has been fierce and prices are very low. That is a hurdle for their recovery and ours too.

In 2016 sales of semi-trailers amounted to 29,600 and units and our expectations this year is that it should be between 24 and 25,000. That means a drop of between 20% to 25% for 2016.

It is a tough environment but Randon has been very disciplined in terms of expenses and investments and we have made the necessary adjustments. The challenge is to keep our guard up to face difficulties of the scenario to maintain our market share and margins at least.

On slide 10 this is our rail freight cars and specialty vehicles. As it has been said by Geraldo freight cars played an important role in the vehicles segment. Sales of railcars contributed to the consolidated results and we have been able to better use our installed capacity. Despite sales volumes were lower in 2Q 430 units were delivered, 12% increase when you compare SQ 15.

The rail industry has become more important, more prevalent in our transportation matrix and so rail freight cars have maintained a very good level. Randon is a benchmark in this industry because we have included metrics and processes similar to those used in semi-trailers.

For the next semesters we have a form order portfolio and we have been asked for quotations. In 1S 16 sales were more concentrated in this 1HTY and so sales should be smaller in 2H.

Specialty vehicles are on the downward trend. That depends on infrastructure investments and government projects. Backhoes market is going down. It is at least 25% of what it used to be. It is just one quarter of the size we compare the 2012, 2013. Sales of these vehicles decreased almost 60% this year compared to last year. 2016 is an election year. The public sector is limited to start new bidding processes.

Political definitions that are taking place right now may have impacted the segment positively. There are several projects under way, new products are underway and we may expand our exports in this segment.

On slide 11 let me now talk about the auto parts industry. Based on our expectations the minimum level has already been reached and now we have reached a plateau, maybe a small increase when we compare 2Q to 2QLY.

It is too early to celebrate because our installed capacity is way bigger than our production; but the market has been optimistic about 2H and June and July truck productions announced by Anfavea recently indicates that we have higher production volumes for trucks than those of the first months of the year.

Export markets and replenishment have helped in those results and the expansion of these segments is one of the focuses of this division to be less dependent on OEMs and the domestic market. The auto parts division has been adjusted to meet the needs of the current demand. The Ebitda margin was 19.7% compared to 9.6 of SQ LY.

Gross margin has already increased by six percentage points reaching 27.3% this semester.

Net revenues are similar in those two years and indicators are positive given the initiatives of last year: corporate purchasing and the new way to manage the business using a matrix management system also reducing costs and expenses just like Geraldo said.

On slide 12 you can see the chart of the price daily liquidity in Rapt4. In June 30th Rapt4 was 3.25, similar price of June 30th, 2015 at 3.22 and the average volumes were down by 32.1% reaching 4 million BRL on a daily basis.

During this quarter we have increased our capital. On June 29 we have announced the results of the offer and 62.2 million BRL.

On slide 13 we have the gross debt rate down and the consolidated working capital. 2.4 billion BRL was our debt, 31.3% in foreign currency at 3.21 exchange rate for the semester it amounts to 230 million BRL in foreign currency.

These were the accounts that impacted our CCG: 1.1 billion to 815 million, 346 million smaller. Most significant gains were in the accounts 121 million customers; and inventory reduction in 155 million.

On slide 14 we have the chart for the consolidated net debt without Randon bank. Net debt was 2.2 billion for 1H and the availabilities amounted to 1.8 billion BRL. In 1H the net debt without the Randon bank amounted to 382 million. The indebtedness amounted to 1.31%... 1.31x adjusted Ebitda that was 285 million LTM. Not including nonrecurring to Ebitda the indebtedness is 2.23x the accounting Ebitda LTM.

I would like to give the floor now to Daniel Randon for his final remarks.

Mr. Daniel Randon: Good afternoon every one of those of you attending our conference. You know that the Brazilian GDP will be negative for this year. The

Focus Report has indicated a better GDP. The latest bulletin indicated -3.23 GDP and 1.1% for 2017.

The interim government has taken some measures that are taking effect. That indicates a positive GDP for 2017.

Indicators that measure confidence level do not show optimism; but the latest results show that there is more confidence. That has not promoted effective changes yet; but as the country grows there is more need for transportation and automatically trucks, trailers and semi-trailers divisions will be positively impacted.

Likewise these segments suffered the most with the economic slowdown. They have shown sharper and faster declines. Their recoveries on the other side… On the other hand are going to be the first. The grains production is smaller, 8.9% smaller than… When compared to the previous period, 189.3 million tons will be produced in grains according to Conab. The smaller agricultural production can be explained by the weather conditions. There was a drought that affected grain production. It is a fact that it is not favorable, the business outlook is not favorable and there are no concrete factors that can help us believe in the short term improvement; we have good expectations on the other hand, something you cannot measure.

That is why Randon has been adjusting itself to face these challenges the best way we can: we have reviewed our structuring processes; we changed the way we manage the business; we have reduced expenses and investments to focus on the long-term results reducing the debt and increasing cash flow.

I would like to point out a few of the things that happened in 2Q 16 and this is something that is positive to the company, we have concluded with a consolidated net debt of 658.1 million BRL and if we were to remove Randon banks results the net debt is 386.3 million BRL. In December 2015 this debt was 1.1 billion BRL.

We have managed to reduce that debt by 687 million BRL. It is based on two main factors: we have reduced NCG and we have offered stocks of both Randon…

Our leverage was 1.35x adjusted Ebitda and in late 2015 it was 4.24x.

I would like to point out that reducing working capital by 341 million BRL for 1H all controlled companies have worked with their customers and suppliers reviewing due dates and reducing inventory levels dramatically.

Finally I would like to say that we have improved our margins despite the revenue has been maintained flat. Ebitda for 2Q 16 has reached 75.3 million BRL, Ebitda margin of 10.8%. For the same period last year our margin was 6.4%.

If we were to analyze these numbers adjusted to the nonrecurring we have 12.4% margin for 2Q and 7.4% 2Q 15. We have improved by five percentage points. We have reduced CPV and operational expenses… Operating expenses and we have managed to do more with less.

That is the spirit. We have a new challenge every month both to sell and to manage and as I said the business environment is not favorable. We are committed to face and come out winners from each one of these challenges and learn their corresponding lessons.

On slide 16 this is our reviewed guidance. When we estimated the numbers for 2016 in late 2015 we were conservative and we expected smaller sales volumes and production of trucks and implements when compared to the numbers of 2015. The market was even worse and the associations that issue numbers, Anfavea, Anfir and Fenabrave saying that the drop is even more expressive.

The exchange rate was 4.00 BRL/USD and now we are back to 3.30. These two factors impact these numbers and we must announce an adjusted guidance, reviewed numbers for 2016: total gross revenues 4 billion BRL; consolidated net revenue of 2.9 billion BRL; revenues from abroad 260 billion and imports was US$ 45 million. Investments guidance has remained the same, 60 million BRL.

Let me move on now to slide 17. As of last year we have announced nonrecurring effects separately. They are concentrated in two expenses: hedge accounting and restructuring. The work force has been adjusted to market demand, nonrecurring from restructuring are going to be smaller.

Hedge accounting has been tagged to investments in USDs and as these installments are due we have negative impact on sales exports to foreign markets. So we had smaller exchange rates and they are due in March and September of every year impacting nonrecurring more expressively.

This contract will be concluded in March 2020 and so we are going to have nonrecurring expenses in 1Q and 3Q every year.

For 3Q 16 we have two other nonrecurring events: we are going to lower the assets in São Paulo and we are going to provision for dealers on judicial recovery.

This is the end of our presentation. On the webcast you have more slides in our website with more indicators. Now we are available for questions and comments for every one of these indicators. I would like to thank you for attending and we are now going to start our Q&A session. Geraldo, Hemerson and myself will be available.

Q&A Session

Operator: Ladies and gentlemen we will now begin the Q&A session. If you have a question please press star one and if you would like to remove yourself from the questioning queue press star two.

Mr. Wagner Salaverry from Quantitas.

Mr. Wagner Salaverry: Good morning, congratulations on the company's results. I have two questions: considering your order volumes for the numbers you have in the mid-August the Ebit margin for implements was almost zero for 1H. What is your take for the second half of the year? Can you improve the margin for implements? Is it because costs or prices? My question is about implements and what about auto-parts margin for 2Q? Do you think they are stable?

And my second question is about Pedro Ferro left the company. I think he was very important, very relevant in restructuring the company. I would like to better understand what is going to happen to the executive committee. Are you going to change it? Are you going to address Pedro's leaving the company?

Mr. Souza: This is Hemerson. Let me answer the first part of the question and the question about Pedro will be answered by Daniel. Wagner I think we have been clear. Daniel has tried to explain the business environment. It is not favorable. Despite the very consistent results of 2Q we are faced with major challenges and the number one challenge is in implements.

For 2H we have fewer railcars, about 1600 maybe a little bit more; 1600 from orders and we have delivered most of them in 1H. We have about 400 to 500 units to be produced in 2H, half of what we did in 1H.

And on top of that we decided to shut down the Guarulhos plant. We are selling a few assets, old machines, we have to reassess for those assets, accounting value and real value are going to impact the company negatively.

And I have also said… We have also said that we must pay attention to delinquency. We have a distributor that is now in judicial recovery but we may not lose that money; but we have to go through the accounting and take that into account in our balance sheet.

It is a tough environment in a nutshell and of course with the negative economic backdrop, about 2000 units on a monthly basis only, we are having a hard time maintaining the 30% market share. Prices are under a lot of pressure.

I do not know whether Geraldo would like to talk about it. In auto-parts I think it is more stable despite a less favorable exchange rate we have seen some sales volumes increase and we are well-established, we have opportunities for new businesses.

This has helped us in becoming more optimistic in that sense. This is not only for Fras-Le; the other, Suspensys, Master, other controlled companies had shown more robust results based on all the adjustments we have made.

I do not know whether Daniel or Geraldo would like… Otherwise they can talk about Pedro Ferro.

Mr. Randon: Wagner thank you for attending this is Daniel, let me talk about Pedro Ferro. Pedro has helped us extensively especially in auto-parts. We have reviewed our governance with McKinsey and even with REI restructuring the committee by divisions and he has helped us… Or he helped us dramatically in the management system.

Meritocracy, a leaner structure; 80 - 20 productivity he has worked from day one and we can see the positive results. His subordinates at the time and all the other colleagues have now embraced the methodology.

And there is a third element and he has helped make auto-parts division more international. When it comes to internationalization he will be leaving the company as of September and he will be rendering consulting services especially focusing on the North American, European and Asian markets because of his expertise and because of some projects that he initiated and should be taking over too.

But we would like to thank Pedro Ferro for his work and due to personal reasons he is going back to the US. I think his family has already moved back to the US and his projects will be on the part of consulting services and private equity.

He will remain working in the marketplace and he will be contributing to Randon Corporation as a consultant and of course looking over the international business and we are already hiring a consulting company assessing executive directors and trying to identify some gaps. We are assessing all of our executives and of course candidates from outside to replace Pedro Ferro.

I will be the interim COO in auto-parts but we have already started the passing of the baton if I may, even not being an executive at Fras-Le; but I am very sure, I am positive that all the executives in charge of the P&L are all motivated with the planning that we have here.

We are hiring a foreign consulting company trying to identify who the best replacement for Pedro Ferro would be. It is a very important position. The executive committee has gone through some reductions because of the different model paying more emphasis on COO, Pedro, Gazzi; it is a leaner executive committee. Pedro is leaving and a new replacement will be joining in, we believe we may find someone by year-end.

Mr. Salaverry: Thank you.

Mr. Randon: Thank you Wagner.

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

Mr. Bernardo Carneiro: Good afternoon everyone congratulations on your results and especially the reduction in working capital and inventory control. This is something that was outstanding.

I actually have two questions; one is about the inventory level reduction, controlling financial schemes to your customers. Do you think there is more room to reduce capital even further or do you believe that you have reached the maximum level of your working capital for the rest of the year? That is the first question.

Mr. Santa Catharina: Bernardo this is Geraldo. We have to take into account that exchange rate has helped us reduce our debt; it has helped to reduce the debt and the size of our inventory because we have inventory in Fras-Le North America that are affected directly by FX.

In the past 30 days there is room for some reduction. In terms of days with working capital we are not as affected as we were in 2010, 2011, it was easier to plan production when we were operating at full capacity.

With this idleness we have today it is even harder to maintain the same performance level we had back then. In terms of the total working capital as we have additional demand based on historical records we have to finance customers and we have to expand our inventories, and we were careful enough to provision in our cash flow projections.

To make a long story short there is room to reduce working capital and it has more to do with efficiency, which is limited, and the possibility to increase working capital is connected to larger demand.

Mr. Carneiro: my second question is about the fact that you have reduced the investment levels to reduce your cash and reduce your net debt; but you may need to invest the depreciation. In 1H you invested one third of the appreciation and I believe that in 2017 you may have to increase your investment levels to at least cover that depreciation.

What is your investment planning? Is there any risks of having problem in one product line and you may require more investment? Can you talk about Capex for next year?

Mr. Randon: This is Daniel thank you for attending our call. If you look at recent years Randon has been investing a lot in capacity, in implements in Master, Fras-Le.

NR 12. here in the south of the country we had to adjust on a short-term basis given local reasons. NR 12 demanded a lot of investment, something that will not be required in future years.

When you think about capacity increase there is not much demand now and that reduces, even NR 12 we may have a little bit more next year to conclude that entire process to adapt and adjust or machines.

So Randon works with investments that are smaller than depreciation and there is no problem and we can even improve processes. This has been our focus and with our managers we are trying to review processes and some investments in automation that can give more productivity and competitiveness and not requiring a lot of investments.

And we have considered alienating some nonoperational assets that may even reduce depreciation even further. Of course we believe that this is a very unusual year, this is a survival year; we do not know how big the hole is going to be in this economic crisis but anyway - but at no point in time we felt that we are outdated even having investments under 100 million.

So our take Bernardo we may have to invest a little bit more next year, we are going to give the guidance of January next year; however we feel that we may not need… We will not need a lot of investments. Our facilities are updated and we are looking for alternatives to do more with less and get better return our capital.

And of course Fernando there is something else I am not considering, which is acquisitions. In the case of Fras-Le where we have Gávea we have opportunities of new businesses, new acquisitions. I was just talking about depreciation of our current assets.

Mr. Carneiro: Yes that is right and that would be my next question, a question about Fras-Le. The company has a lot of cash in its balance sheet, investors and the market is waiting for that acquisition.

Have you mapped some new acquisitions? Do think we can have that acquisition in 2016?

Mr. Randon: Back in 2014 we were trying to increase our capital with primary and secondary. The project indicated a growth of Fras-Le in the domestic market and even the aftermarket in Brazil of supplementary lines, and looking abroad Fras-Le would be consolidating in commercial vehicles.

Because of the economic slowdown the project had to be put in the back burner and with the investments and more cash we have resumed those contacts but nothing has been decided yet. We are working hard to have some strategic acquisitions that can provide appropriate return on the capital.

Mr. Carneiro: Thank you very much good afternoon.

Operator: Our next question comes from Daniel Magalhães from Credit Suisse.

Mr. Daniel Magalhães: Good afternoon, congratulations on your results and thank you for taking my question. Actually I have two; one is a follow-up on the auto parts margin. I have a perception that Fras-Le had stable margins in 1Q and 2Q and the best in Randon was caused by the other companies in the segment.

I would like to better understand the margin. Is my assumption correct? With this leaner cost structure do you think that auto-parts can have recurring margins above 20% once heavy vehicles production takes off Brazil?

Mr. Souza: This is Hemerson, Daniel. Thank you for your question. We are positive and our decisions during the lowest economic slowdown of course we had to improve margins by reducing expenses.

But we made an additional sacrifice if I may and once the market picks up some of the decisions we made it may not help us keep in the lead; but we have tightened in every way possible and some decisions were even postponed - but we will have to make them.

So I believe that the margin levels we have today even with smaller volumes are significant already and these are margin volumes that are feasible in our industry and they are backed by two things: more replenishment sales. Replenishing has played a more relevant role recently, we had a better performance in exports for several reasons and we can export in units, Jost, Suspensys. Some export levels are being recovered and our supply team has made a very good job in maintaining costs inflation. As of now we are limited in being effective in cost management as much. So I cannot say that we can improve a lot more or improve our margin dramatically; as auto parts are sold to OEMs more often margins are smaller, so overall numbers are going to be squeezed even further.

Mr. XXX: Let me just complement. The installed capacity for trucks is about 200,000 units/year and we are at 60,000. We believe that once the economy stabilizes we could go back to 120,000 units - but it may take 3 to 4 years to get there. It is too early to say that we can improve margins accordingly given the installed capacity; the idleness is above demand today.

So we have to be careful. We cannot translate to results and margins any demand increase; all the efforts made were dedicated to survival; cash generation; reducing our debt but maintaining margins is something else.

Mr. Magalhães: Thank you very much my second question is about this. Are there any raw materials increase for 2H, steel for example? Can you transfer that over to product prices completely?

Mr. XXX: Well unfortunately yes. We do expect some price increases and let me go back to I said before. We managed to control raw material increases. We learned a lot from the corporate supply team but there is this inflation scenario especially in the steel industry and that will impact our costs. We have looked for other suppliers, concentrated more in a few suppliers but there will be an impact.

The expectation is to transfer that over to our prices. We would not increase and not even decrease our margins; but costs come through the elevator and prices have to go up through the stairs. There may be some mismatches along the way there.

Mr. Magalhães: Thank you very much.

Operator: The next question comes from Mr. Paulo Valaci from Citibank.

Mr. Paulo Valaci: Thank you. My question is about the exports levels especially for auto parts. There was major improvement in 2Q and what is the expectation for the rest of the year? Have you included a more appreciated exchange rate level? How would that impact exports?

And my second question if I may is about leverage. There is a potential to improve working capital even further. Margin expectations should be stable throughout the rest of the year; how is the leverage level for the company in this scenario?

Mr. Santa Catharina: Let me talk about exports Paulo. We will be joining efforts answering your questions, this is Geraldo. Randon has been analyzing these charts between 2012 to 2016 and it has been going on a downward trend especially in a period in which FX was favorable between 2013 and 2015 from 1.60 it went all the way up to 4.00 BRL.

Some markets have recovered especially in the auto industry, Nafta for example for Fras-Le; and in the other markets for semi-trailers they have several problems: countries credit; customer credit; delivery problems; when you sell to a customer that has a good credit, he has a letter of credit but you cannot exercise it. You have several problems, delinquency levels.

Anyway in some regions of the world we have had several problems impacting our exports; but FX has appreciated significantly: it is about 15%, 20% depreciation in a matter of six months.

In that regard we should concentrate in other alternatives: new regions, new distribution channels, new ways of selling - but it is very complicated to be an exporter from Brazil.

And then I will talk about leverage, I have some more information to give you.

Mr. Souza: Just adding to what Geraldo said we have several problems and South American countries, some African countries due to the demand of semi-trailers and trailers because of their economic situation. We know that our partners in South America except for Chile all of them have a hard time establishing demand.

In Africa commodities have not given them any hope no matter how much we have increased our sales teams. Our focus has been on exports but we have had smaller sales than expected.

We are just readjusting our expectations, that is what we have been doing. We may have some good surprises along the way but we do not think they are going to be that favorable in order to change dramatically the situation.

Mr. Santa Catharina: As to leverage first of let me say that some investors have said that we have revolutionized in one semester. Actually it took 18 months but results were concentrated in 1H because of working capital and the more favorable exchange rate and credit capital reducing investments, of course, have helped us in this historic achievement if I may: leverage below 1x in 2014; above 6x and we are under 2x by June.

It is an extraordinary feat. At the same time we are going to have a hard time repeating it and the number one challenge is to maintain what we have achieved.

As the market picks up, as we improve our gross cash generation, I believe that the debt/Ebitda ratio will improve and will be closer to those historic levels.

When it comes to the exchange rate the USD it may go down, it may go up; currently there is a downward bias, it is at 3.15, 3.17 today. We have taken an additional measure; exports are weaker we have reduced our debt in USDs, 20% of our debt inventory has been decreased so that we can hedge that position. So we have taken that precautionary measure on a regular basis.

The situation is good in that sense. Our leverage is manageable completely. Shareholders, banks likewise have embraced that and our leverage level is supported by a debt maturation that is about or beyond 2020 and so it is enough to pay our debts in time as we say, and we have cash flow that is ready for 2016 and almost 17, expecting finally a market recovery so that we can reduce credit line courses and so we can go back to extending the debt. But the pressure has been taken care of by now.

Mr. Valaci: That is very clear thank you so much.

Operator: Next question comes from Mr. Lucas Barbosa from UBS.

Mr. Lucas Barbosa: Good afternoon Daniel thank you and congratulations on your results. My question is about a follow-up of one of the questions that has already been asked, it is about auto parts profitability. Was there any positive nonrecurring event with the BRL depreciation next year? Do you think we can have very good margins for the next semester and the next year? That is it, thank you.

Mr. Souza: Thank you Lucas this is Hemerson. The exchange rate has helped. There is no… The only nonrecurring a negative and we had to adapt our restructuring they would help the margin even further.

But overall the exchange rate is something that can make the situation more complex. Between 20% and 25% of sales in this industry have to do with exports. We have managed to adapt our capacity to demand especially in terms of personnel, where we are well adapted.

Assets are overestimated based on the market we have. In 2011 we had 216,000 trucks and this year it is going to be something like 65,000 - it is one third, one third volume we produced in the past and we have access to manufacture many more.

But as I said there is nothing to indicate that margins will be better and we are not concerned about it, that is going to be smaller. There are things we can do to try to maintain those margins in auto parts.

For implements there are other complicating factors as I said before but we are paying close attention to do whatever we can to minimize this impact. I do not know whether I answered your question but anyway this is our take.

Mr. Barbosa: Yes it did answer my question thank you. Let me just follow up on it: in the auto parts companies was one that had any profitability increase or did they all improve profitability overall?

Mr. Souza: Well they have all responded well, all of them improved yes.

Mr. Barbosa: Thank you very much.

Operator: This concludes today's Q&A session. I would like to give the floor to Mr. Daniel Randon for his final remarks. Mr. Randon you have the floor.

Mr. Randon: Once again I would like to thank you for attending. We are available to answer any questions you may have. Please get in touch with our IR department.

Thank you, have a nice weekend, see you next time.

Operator: This concludes Randon's audio conference today. Thank you very much, have a good afternoon and thank you for using Chorus Call.