



**International Conference Call
TUPY S/A
First Quarter 2016 Earnings Results
May 12th, 2016**

Operator: Good morning, thank you very much for holding. You are most welcome to the results presentation from the first quarter of 2016 from Tupy.

All participants are connected only as listeners and later we will open for a Q&A session when instructions will be given for you to participate.

If you need the help of an operator during the teleconference, please press star 0. This teleconference is being recorded. The company would like to remind you that this event is also being simultaneously broadcasted via webcast through the Internet and you can access via: www.tupy.com.br/ir where you will find the presentation.

The presentation of slides will be controlled by yourselves. Right after the finish, we will have the tapes recorded and the webcast participants will be able to register via website questions over to Tupy.

The company clarifies that occasional statements made during this teleconference about expectations, operational goals, financial goals related to Tupy businesses are expectations based on the administration forecast for the future of the company. These expectations are highly dependent on market conditions, national and international markets, the general financial performance of the countries, so they are subject to change.

With us are Mr. Luis Tarquínio, company CEO, and Thiago Struminski, Vice-President for Finance and Administration and Director for Investor Relations.

Mr. Tarquínio will present the financial results for the company for the quarter along with Mr. Struminski, and both will reply to questions that you may eventually have.

Please, Mr. Tarquínio, you can move forward.

Mr. Tarquínio: Morning everyone. I would like to clarify just opening and thanking you for being here with us this morning.

Actually, Thiago will make the presentation of results as Investor Relations Director and basically I am here to welcome you and once again our thanks for your esteemed presence here during our teleconference for first quarter results.

So after this initial opening I am going to hand the floor over to Thiago.

Mr. Thiago Struminski: Thank you very much Tarquínio. We move on with the highlights of this quarter. The sales volume reached 120,000 tons; 7% lower than the same period of 2015. Revenues increased 9% totaling 860 million. Gross margins 156 million; 16.9 margin over revenues. Adjusted Ebitda reached 133 million; a 15.5% margin. Net income 17 million; margin of 2% and Capex reached 29 million; reduction of 30% also when compared to the same period of 2015.

Slide number 3 brings 120,000 tons; 7% lower than the same period in 2015. The performance again was hit hard due to the decrease of sales in the domestic market with a reduction of 25%. It was 0.2% reduction of the international market due to the agricultural machines and mining sectors.

The domestic market represented 22% of the volume of that quarter while the external market foreign market 78%. The automotive volume we find a positive evolution in our portfolio of products; 19% of the components were machined compared to 16% of the same period in 2015 and 16% correspond to CGI compared to the same period of 2015.

The next slide number 4 presents the evolution of revenues; 9% reaching 806 million. The domestic market in the same way presented a decrease of 20.3% and the external market grew 18%, representing in that quarter 84% of sales. From the point of view of application, 56% of income coming from commercial vehicles, 24% off road, 21% passenger cars and 5% from hydraulics.

Slide number 5 shows the original diversification of revenues. Tupy revenues in the first quarter of 2016: 61% came from the NAFTA region, 18% from South America and Central America, especially Brazil, 15% from Europe and 6% from the Asia, Africa and Australia.

Slide number 6 details the automotive domestic market revenue per application. In a unanimous way, we were impacted by the Brazilian economic environment and also due to payroll. The revenues for products for the chain showed a 32% decrease, commercial vehicle 20% and off road 24% decrease.

Slide number 7 shows the revenue per application in the foreign market: Passenger cars increased 43% due to the good performance of the European and North American markets and the performance of new products as well. Light commercial vehicles increasing 34% compared to the same period of last year, the portfolio was benefited by the high increase of pickups and SUVs, especially in the North American market.



Medium and heavy commercial vehicles grew 3% in a high comparative basis and also the stock compositions in the first semester of 2015. The off road revenue remained stable compared to the first quarter last year showing a bit of the weakness and the lack of recovery of the global markets for the agricultural machines and mining industry.

So if on one hand the foreign markets revenue were benefited by the devaluation of the real compared to the dollar and the euro, it had a negative effect due the reduction of the “*Reintegra*” tax bracket due to the decrease of metallic commodities price that exercise an effect over sales prices.

Slide number 8 presents our revenues from the hydraulic segment, representing in this quarter 5% of the total. The domestic market showed a 1% decrease and the foreign market some sales did not repeat and we had a decline in 15%, especially in North America and Middle East.

Slide number 9 detailing the cogs in operational expenses for the first quarter. CPV reached 714 million; 12% higher. Most of those costs were impacted by the devaluation of the real compared to the dollar and the Mexican peso.

46% of CPV was expenditure with raw material increasing 12%, 24% related to labor that grew 21% due to the lack of skills of diluting fixed costs that quarter and also a bit of the stocking process, 8% is for electric energy; an increase in 21% due to the expansion of distribution costs and also its result of liquidity of our exceeding capacity in the market.

And the variation of other costs, the gross margin was 16.9%. The variation of 21% of operational expenses reflects from the exchange rate devaluation and amortization of our ERP.

The next slide, number 10, shows as a result of all of the factors previously mentioned, adjusted Ebitda for Tupy was 133 million; 15.5% margin. Bearing in mind that this was a quarter that we had collective layoffs and it diluted a bit of the fixed costs. So the net profit was 17 million; 71% inferior compared to the first quarter of last year besides the factors that we mentioned before the presentation, also the reversion of financial results for the company due to the exchange rate variation over the asset, active assets position of the company.

Slide number 11 we show the main accounts for working capital in the first quarter of the year when compared to the fourth quarter of 2015, also due to the devaluation of the real compared to the dollar. We had it reduction of Accounts Receivable and in stocks, also affected by the stocking after implementation of our ERP and what we call the collective vacation, the temporary layoffs. So we stayed relatively stable.



Slide number 12 shows that the first quarter of 2016 the total of investments reached 29 million; a 30% inferior than the same period in 2015 in terms of the company's investments program. The main investments were related to transferring of machining to Mexico, transferring of finishing of the Mauá to Joinville, and also the productive capacity sustainability in the company.

The next slide, number 13, showing the free cash flow of the first quarter of 2016: 40.7 million, the improvement in the indicators in the last quarters reflect a bit of that discipline in executing investments and also the reduction of stocks respectively.

Slide number 14 represents the debt structure, the final debt March 2016 our cash position of 1.5 billion corresponds to 8-year of amortization of our gross debt and concentrated on a long-term. It's a very comfortable position that we have; about 69% of the of our debt are under foreign currency and the rest is domestic currency, which corresponds to our business profile.

Still worthy to mentioned that the greatest share of this debt corresponds to our bond maturing in 2024.

Due to the best average remuneration 66% of this cash is in local currency and 34% in foreign currency and we closed the quarter with the net debt adjusted Ebitda with 1.32 times; it's a very comfortable position to execute our strategy.

So those are the main factors that we would like to point out in this quarter. We close our presentation and hand the floor now to the questions and answers session, please.

Question and Answer Session

Operator: Ladies and gentlemen, we will begin and now the Q&A session. In order to ask a question, please press star one. And to delete your question from the list press star 2.

This teleconference is exclusively for investors and professionals from the investment market.

Our first question is from Bernardo Carneiro, Brasil Plural.

Mr. Carneiro: Morning everyone. I have 2 questions. First is about the performance in the foreign market.

We see that the company is doing very well in the light and passenger vehicles segment, but heavy-duty, medium and heavy vehicles we noticed the impact of the weaker exchange rate did not help, we had a decrease in dollar of over 30% off road and also commercial vehicle.

So I'd like for you to explain a bit more why the revenue when considered in dollar in these 2 segments abroad is decreasing. That's the first question.

Mr. Struminski: Thank you Bernardo. It's important to point out a bit of the effect of the revenues that this quarter is a moment (I'm sorry to use this, but) we were "caught on the wrong foot". The prices in dollar suffered with the devaluation of the third and fourth quarter, they were low in dollar in the first quarter so we will have the compensation of that.

On the other hand, in effect purely of demand for commercial vehicles we had the recomposition of stock effect last year, very important especially in commercial vehicles, medium and heavy commercials, and off road it's a result of performance of clients in terms of commodity prices and so forth.

Mr. Carneiro: Okay, so your price in medium and heavy commercial, your price in dollar now is below from the price of third and fourth quarters of last year, is that what you're saying?

Mr. Struminski: Exactly. They were low in dollar, an effect of delay in the layover of these contracts.

Mr. Carneiro: Second question: A positive surprise the improvement in cash flow, Accounts Receivables, stock. I understand that with the effect of the exchange rate in the end of the quarter, the last day of March, was a bit more significant, real more valued so that points to your Receivables in your favor, so you have less reais. But the company is really in an effort or reducing stocks versus last year due to the implementation of the ERP.

So what can you say about the second and third quarters, the next two quarters? We will have an improvement in cash flow still especially in stock and Receivables? Or is it going to... Is that the end?

You know, you published on the chart it in terms of days. What can you talk about the cycle of cash flow, please? Thank you.

Mr. Struminski: The data show days of stock significant reduction, they decreased from 66 to 45 days. We believe there is not so much more room to decrease more than that. We are at a good level. We might even go a bit higher due to this or that client. I think we are at an optimal level.

When we look at the cash flow or cash conversion circle as a whole, there was this effect, the demand of the internal domestic market slowed down a bit, there is a replenishment of stocks in a safer way, we decreased the level production, we had the collective vacation or temporary vacation, especially in the hydraulics area of the plant, we have an initiative collegiate initiative to pay in advance suppliers supporting... with the support of certain banks helping to put that figure together.

So in a general way, the trend is for the figure to be relatively stable depending on the exchange rate, so let's see how it goes for the next quarter.

Mr. Carneiro: Thank you very much Thiago.

Operator: Our next question comes from Mr. Lucas Marchiori, from Safra Bank.

Mr. Marchiori: Morning folks. First I would like to know if the production lines transferring program is already over here from Brazil to Mexico and if there is anything else that you are transferring throughout the year.

And second about the margin, you explained a bit, but if you could give us a bit more details, you mentioned that there was a bit of collective vacations, decreasing productions in the first quarter, so it makes sense to think about the margin for the rest of the year? So that's what I have.

Mr. Struminski: So when we look at the transferring process it is something a bit more dynamic than what it was in the past, we are in a process, an important process of transferring not just the fusion, but the machinery. This is still in process, not just this melting, but the machining.

It's a relevant process and other initiatives still under quarters, not just to Mexico, but among plants in Brazil to explore the best costs, cash cost for each one of the lines.

In terms of the margin, obviously if you compare to the performance of last few years, we have gone without any bps we've gone from 15.5, 16.3 last year we finished with over 17.

I think the effect especially in reduction of volume and the exchange rate at this level, it's difficult to believe that we will be able to repeat the margins from last year.

So the trend is that in an environment that we find ourselves today in contraction of volumes and the exchange FX as it is today, we are stabilizing our average margin around 16.5 or something like that.

Mr. Marchiori: Wonderful, thank you very much Thiago.

Operator: Our next question comes from Mr. Eric McKee, from Lazard.

Mr. McKee: Hello, thank you. My question was also about that, about the margins and... if we compare the cost of raw material over net revenue this quarter went really down a bit of a 38%.

Is this a stable level or not? And with the expectation of maybe an improvement compared to the first quarter in terms of margins, where would it come from? From energy, from labor? Where would the improvement come from per se?

Mr. Struminski: About raw materials, we ended up following the performance of the market. Just bearing in mind our main raw material is steel, so that's another relevant... steel waste, so it's very significant in the cost and so it's linked to the sales price. So, of course, there is a delay, but the margin should remain stable whether going up or down.

So the trend for raw material is to go up a bit so, anyway, we are going to be able to get this price over to cost so we will have margins grow, so we are going to be able to pass along the cost.

About other effects, I think engineering we have a contract, a fixed contract in electric energy we have a long-term contract, megawatt hour is already determined so there is no possibility for variation, the difference from this year to last year was that there was a gap last year that helped us between that price and the PLD that would generate additional cash for us, and this year it is upside down; the PLD is much below our contract, so we had loss in liquidating those amounts.

So those are the effects of materials and energy as we have to get margin increase. In first of April now we started co-participation in our health plan, we can also see in April we've seen an effect already, we are adjusting always the production in terms of the demand to try to reach this gap that we are missing out when the exchange rate is coming down and the lower volumes as well.

Mr. McKee: I'm sorry, I couldn't hear the last part of your previous answer where you expected or where the margin would recover to what level?

Mr. Struminski: Could you repeat the question please?

Mr. McKee: In your previous answer for the previous question you mentioned a level of margin that you expected. I couldn't hear you.

Mr. Struminski: Last question my point was that last year we were performing higher margins than what we presented on this quarter. We came historically 16.5-17, even a bit higher, and in this quarter due to the FX volume we had difficulty to replenish the historical margins.

This will be a challenge for the coming quarters.

But of course, we have a number of programs to have that done. I mentioned one example of the introduction of co-participation in our health insurance, health plan costs and it was much higher than the average inflation – the medical inflation is much higher than the general inflation – and that will help us get a bit more margin, a bit more breath in the margin.

Mr. McKee: So assuming that things do not change so much until the end of the year, so the margin would stay about at the same level of first quarter or a bit better, a bit worse?

Mr. Struminski: Difficult to make this kind of statement, you know, considering the exchange rate, but if things don't change too much I will go back to our historical margins; it has been around 15,5, 15%.

Bearing in mind the volume is very much below which we had before, so our expectation is that if there is no uptake again we will try to at least reach the historical margin, which is around 15%, 15.5.

Mr. McKee: Thank you very much.

Operator: Our next question comes from Mr. Juan Tavares, from Citigroup.

Mr. Tavares: Hi, thank you good morning everyone. I guess my first question is if you can give us some visibility on how your customers and clients are regionally, how are you seeing the outlook for demand over the next few quarters per your backlog?

And then second, if you can comment a bit about your cash flow, you are showing some improvement here in free cash flow and deleveraging continues. I'm wondering how do you see the potential use of cash over the next year; are there still opportunities out there for M&A or how likely could we see an extraordinary dividend? Thank you.

Mr. Struminski: Thank you Juan. From the revenues point of view, I think it's clear; we are following the foreign market. Passenger cars as a rule we went a bit lower than the market in general because, besides the performance, we have some major clients that are missing out on their shares and some components that are migrating into aluminum.

Still in Brazil, commercial vehicles we've got the benefit of indirect exports via some clients, so we end up being a bit more benefited than the market, but the

performance is really bad. Off road same thing, and hydraulics we are basically aligned to the market.

In the foreign market the trend as a whole for light, light commercial, our mix favors us whether due to the performance of certain products that are ramping up or in the pickups markets and SUV markets, so the trend is for us to grow a bit above the market.

Europe our performance is very much related to the market of... luxury market, it's a bit higher than the general market average and it should go relatively well, and off road we are still following directly the trend of the performance of our clients; Caterpillar, John Deere, Komatsu, so we are directly exposed or in line with the market.

Now, regarding our capital allocation policy, evidently you may have noticed that there was a process of, you know, most of our debts are in dollar so the indicators of Ebitda came to 1.32; very sensitive when compared to other quarters. That's no news; we have a basic strategy of seeking out an acquisition to compose our movement in the markets of engine blocks.

If we feel blocks and heads, if we feel that these acquisitions will not happen we will have to sit down and decide the best way to have a capital structure that is compatible with the company.

So if deleveraging is too low and we cannot see an M&A potential we will have to sit down and discuss the dividends policy or some other alternatives that is on the table.

Operator: If there are any questions, please, press start one. Thank you.

Our next question comes from Mr. Lucas Marchiori, from Safra Bank.

Mr. Marchiori: Hello Thiago, thank you very much. Just a bit of a follow-up. When you compare the conformance from the domestic segment, the heavy segment is a bit better. I think it's got a bit to do with the exports, some participants in our market.

I'd like to get your view more of, you know, from the industry point of view. Have you felt that in the exports and about what percentage? Just so we can have an idea of the domestic heavy vehicles segment.

Mr. Struminski: When we look at the figures by themselves, the quarter the exports of trucks have not increased, even decrease a bit quarter compared to quarter. But locally, this or that client has been able to increase a bit of their market share, so 2 clients of ours started exporting more.

It's difficult to say if that's going to be a trend; it will probably take some time, the plants in Brazil as they become more competitive. But it's sort of a slow process and I don't believe it will make such a significant difference in the short term.

Mr. Marchiori: Wonderful, thank you.

Operator: Excuse us, if there are any more questions, please press star one.

Excuse me, we are finishing the Tupy teleconference. I'd like to have the final words for Mr. Tarquínio for final considerations.

Mr. Tarquínio: Well, I think Thiago has pointed out the main elements, so even in the answers, so I'd like to go back to a few, especially the balance instruments that we have for... which benefit us.

In terms of the domestic market conditions, very much adverse in terms of the commercial vehicles and part of passenger vehicles due to the market conditions, and also the way our portfolio is structured comparing also the market share of the clients who are part of our portfolio.

The positive scenario in North America is still moving forward, especially in our positioning, either in segments where we are positioned, like pickups and SUVs.

Also something that, let's say, in the past we were demanded, we received questions and we explained elements related to cash flow, especially due to the moving over from old ERP to the new one, and we worked in that sense, even last year with 2 collective vacations, in the first quarter of this year we also had collective vacations in localized areas not related to powertrain, to the engine blocks and cylinder heads, but also segments of the company which naturally harmed the fixed cost dilution and showing a bit of a loss. So we suffered in terms of results of that element.

So cash generation strong again, but again, we are working and keeping those reserves to work with the company's strategy, we are still working on that even though we can't come and go public announcing something that is really palpable, but we are still working on the strategy of going after acquisitions.

The basis of our faith and trust in that as a tool of generating value to the company; that has not changed in any way and we are going to seek out.

I think those are the main points we would like very much and sincerely for the Brazilian market to recover itself, to pick it back up, but we don't see that as something that is in the short-term to happen; it is something more for the medium, long-term with a number of transformations that may change the expectations of



economic agents, especially those who invest in capital assets, which is our main focus.

So we consider it is a good result when facing the scenario... the current scenario and we have a major challenge ahead of keeping the company's results less affected in an environment that is not the best in Brazil.

But on the other hand, we have something like a shock absorber of the effects and the impacts in our business with our foreign businesses.

So this is a summary, we have to work hard with other elements that are at our reach to manage, especially the fixed costs, production costs. Now the variables we follow the market, so we don't have a negative view, as Thiago said, talked about our historical margins being very resilient, and we will do everything that we can to keep and stay at those levels.

So we don't begin as well as we began last year in a general way, but at the end of the day we have to keep our faith and keep working towards that end.

So once again I'd like to thank all of you for being present, and as you know our Investor Relations Department is permanently at your disposal, even for clarifications that might not have generated any questions maybe during this call, but we wish all of you a good afternoon so that we may all have a productive, profitable weekend and continue working as we do here at Tupy. Thank you very much.

Operator: Tupy teleconference is finished. We thank you all for participating. Have a wonderful day. Thank you very much.