TUPY. Global reference in castings

2Q14 Highlights

Net income grows 120.4% despite challenging scenario in domestic market. EBITDA margin stable.

Conference Call

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- **Sales volume:** 148.3 thousand tons – 10.3% lower than 2Q13, due to the retraction in domestic market.
- **Revenues:** R$758.6 million – 4.9% decrease in relation to same quarter in 2013.
- **Gross profit:** R$128.1 million – 16.9% margin over revenues – 0.8 p.p. lower than 2Q13.
- **Net profit:** R$23.3 million – 3.1% over revenues – 120.4% increase over 2Q13.
- **Adjusted EBITDA:** R$111.7 million – 6.4% decrease compared to 2Q13 and equivalent to 14.7% of revenues in 2Q14.
- **Investments:** R$52.2 million – 43.9% increase compared to 2Q13, in line with the 2014 investment plan.
- **Cash flow from operations:** R$69.6 million – 5.6% decrease in comparison with 2Q13, in line with the adjusted EBITDA variation.

SUMMARY OF RESULTS

	Consolidated (R$ Thousands)					
SUMMARY	**2Q14**	**2Q13**	**% Δ**	**1H14**	**1H13**	**% Δ**
Revenues	**758,558**	**797,450**	**-4.9%**	**1,563,597**	**1,499,201**	**4.3%**
Cost of goods sold	(630,504)	(656,511)	-4.0%	(1,286,592)	(1,243,993)	3.4%
Gross profit	**128,054**	**140,939**	**-9.1%**	**277,005**	**255,208**	**8.5%**
% over revenues	16.9%	17.7%		17.7%	17.0%	
Operating expenses	(56,784)	(57,549)	-1.3%	(111,943)	(109,721)	2.0%
Other net operating expenses	(23,458)	(20,759)	13.0%	(49,972)	(37,228)	34.2%
Income before financial result	**47,812**	**62,631**	**-23.7%**	**115,090**	**108,259**	**6.3%**
% over revenues	6.3%	7.9%		7.4%	7.2%	
Net financial result	(8,231)	(50,408)	-83.7%	(24,825)	(77,228)	-67.9%
Net income before income taxes	**39,581**	**12,223**	**223.8%**	**90,265**	**31,031**	**190.9%**
% over revenues	5.2%	1.5%		5.8%	2.1%	
Income tax and social contribution	(16,238)	(1,631)	895.6%	(36,822)	(596)	6,078.2%
Net income	**23,343**	**10,592**	**120.4%**	**53,443**	**30,435**	**75.6%**
% over revenues	3.1%	1.3%		3.4%	2.0%	
EBITDA (according to CVM 527/12 instruction)	**102,645**	**113,026**	**-9.2%**	**224,543**	**205,828**	**9.1%**
% over revenues	13.5%	14.2%		14.4%	13.7%	
Adjusted EBITDA	**111,725**	**119,414**	**-6.4%**	**245,148**	**215,782**	**13.6%**
% over revenues	14.7%	15.0%		15.7%	14.4%	
Average exchange rate (R$/US$)	**2.226**	**2.116**	**5.2%**	**2.283**	**2.054**	**11.1%**

SALES VOLUME

Consolidated (Tonnes)

	2Q14	2Q13	% Δ	1H14	1H13	% Δ
Domestic market	**39,164**	**57,371**	**-31.7%**	**86,174**	**107,472**	**-19.8%**
Automotive	32,916	49,207	-33.1%	73,184	92,363	-20.8%
Hydraulics	6,248	8,164	-23.5%	12,990	15,109	-14.0%
Foreign market	**109,183**	**107,944**	**1.1%**	**218,244**	**210,590**	**3.6%**
Automotive	103,629	103,453	0.2%	208,295	202,166	3.0%
Hydraulics	5,554	4,491	23.7%	9,949	8,424	18.1%
Total sales volume	**148,347**	**165,315**	**-10.3%**	**304,418**	**318,062**	**-4.3%**

The sales volume decreased 10.3% compared to 2Q13 due to the 31.7% retraction in sales to the domestic market in the period, as a reflex of the decrease in sales and production of vehicles in all segments in Brazil, as well as the demand reduction for capital goods. On the other hand, foreign markets presented moderated 1.1% growth impacted mainly by inventories adjustment in passenger cars segment in North America, still a consequence of the severe winter during the 1Q14. The hydraulics segment presented a highly positive performance, with a 23.7% growth.

REVENUES

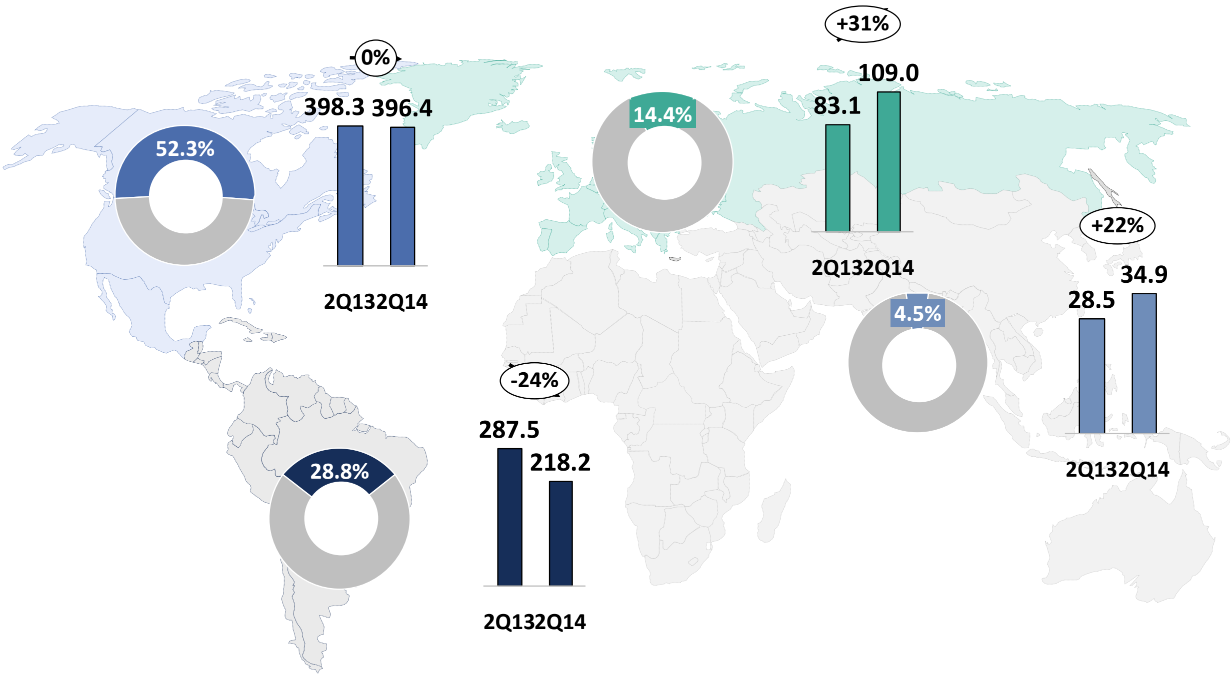
Revenues presented a 4.9% decrease in comparison with 2Q13. As a reflex of the sales volume, the revenues from domestic market decreased 25.5%, partially offset by the 6.1% growth in foreign markets.

Consolidated (R$ Thousands)

	2Q14	2Q13	% Δ	1H14	1H13	% Δ
Revenues	**758,558**	**797,450**	**-4.9%**	**1,563,597**	**1,499,201**	**4.3%**
Domestic market	206,870	277,576	-25.5%	441,120	513,094	-14.0%
% Share	27.3%	34.8%		28.2%	34.2%	
Foreign market	551,688	519,874	6.1%	1,122,477	986,107	13.8%
% Share	72.7%	65.2%		71.8%	65.8%	

During 2Q14, North America was responsible for 52.3% of Tupy's revenues. In turn, South and Central America accounted for 28.8% and Europe for 14.4%. The remaining 4.5% came from Asia, Africa and Oceania.

Revenues by market and performance the period



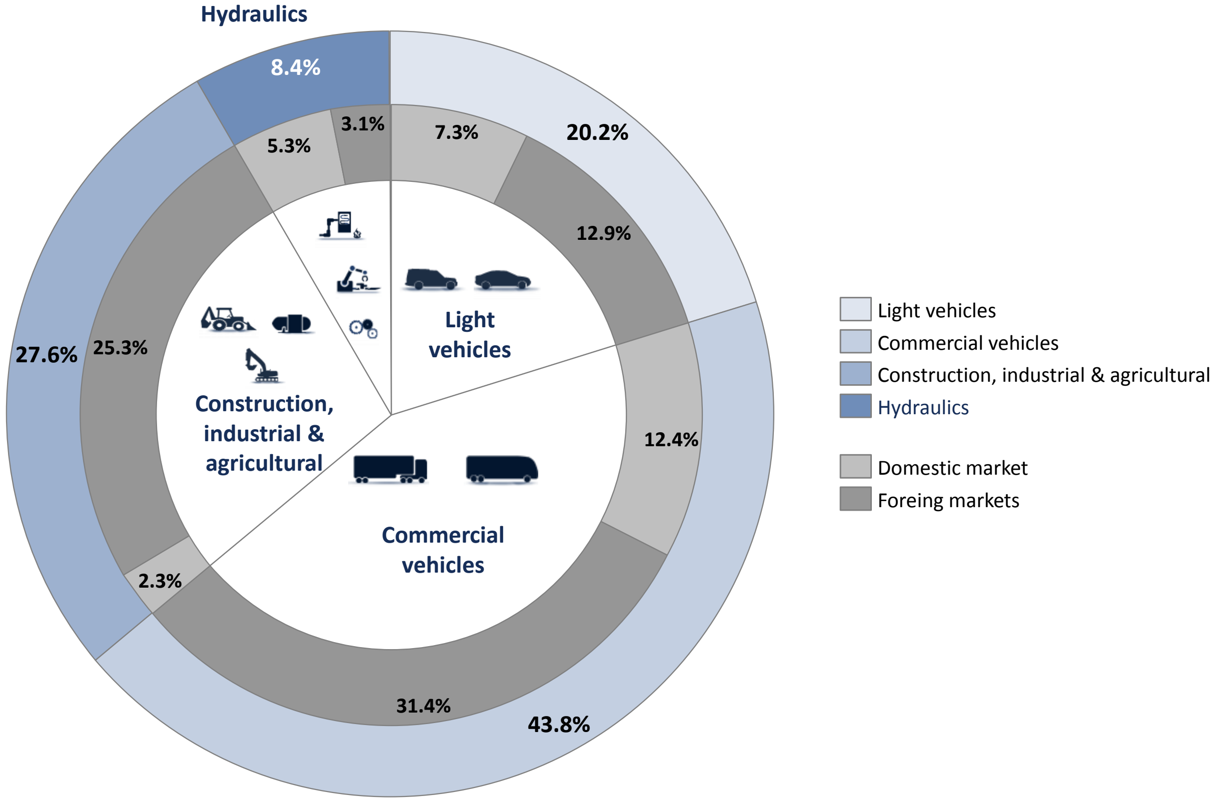
During the reference period, 91.6% of the Company's revenues arose from the automotive segment, in line with the 91.8% verified in 2Q13.

We positively highlight during 2Q14, the revenues from the application of our products in construction, industrial and agricultural machinery that presented a 10.2% growth. In addition, the hydraulics segment (iron pipe fittings, steel shots and cast iron bars) in the foreign market posted strong growth of 35.1%.

On the other hand, the performance was negatively affected by the domestic market, specifically and in higher proportion in light vehicles, and in a lower extent in commercial vehicles, construction, industrial and agricultural machinery.

Revenues breakdown by market and application

	Consolidated (R$ Thousands)					
REVENUES BY MARKET AND APPLICATION	**2Q14**	**2Q13**	**% Δ**	**1H14**	**1H13**	**% Δ**
Revenues	**758,558**	**797,450**	**-4.9%**	**1,563,597**	**1,499,201**	**4.3%**
Domestic market	**206,870**	**277,576**	**-25.5%**	**441,120**	**513,094**	**-14.0%**
Automotive	**166,306**	**229,332**	**-27.5%**	**360,669**	**424,285**	**-15.0%**
Light vehicles	54,820	93,266	-41.2%	131,068	176,426	-25.7%
Commercial vehicles	93,863	115,475	-18.7%	195,104	207,334	-5.9%
Construction, industrial & agricultural	17,623	20,591	-14.4%	34,497	40,525	-14.9%
Hydraulics	**40,564**	**48,244**	**-15.9%**	**80,451**	**88,809**	**-9.4%**
Foreign market	**551,688**	**519,874**	**6.1%**	**1,122,477**	**986,107**	**13.8%**
Automotive	**528,339**	**502,590**	**5.1%**	**1,080,789**	**953,530**	**13.3%**
Light vehicles	98,051	98,869	-0.8%	197,693	188,582	4.8%
Commercial vehicles	238,414	229,553	3.9%	486,366	428,953	13.4%
Construction, industrial & agricultural	191,874	174,168	10.2%	396,730	335,995	18.1%
Hydraulics	**23,349**	**17,284**	**35.1%**	**41,688**	**32,577**	**28.0%**



In some cases, the same product is used in passenger and commercial vehicles, or construction, industrial and agricultural machinery; therefore, it is not possible to measure their application precisely. Thus, we adopt assumptions of division between applications, considering our best inference.

DOMESTIC MARKET

Light Vehicles (7.3% of 2Q14 revenues)

According to ANFAVEA data, in 2Q14, light vehicle production decreased 23.5% and Brazilian exports fell by 37.0% in comparison with 2Q13. On its turn, the total sales of light vehicles in 2Q14 decreased 12.1% in the same comparison base.

(Units)

	2Q14	2Q13	% Δ	1H14	1H13	% Δ
Production						
Passenger cars	567,207	747,772	-24.1%	1,154,081	1,394,668	-17.3%
Light commercial	165,845	210,824	-21.3%	316,774	372,953	-15.1%
Light vehicles	**733,052**	**958,596**	**-23.5%**	**1,470,855**	**1,767,621**	**-16.8%**
Sales						
Passenger cars	607,066	712,630	-14.8%	1,190,330	1,394,668	-14.7%
Light commercial	202,474	208,388	-2.8%	316,774	372,953	-15.1%
Light vehicles	**809,540**	**921,018**	**-12.1%**	**1,507,104**	**1,767,621**	**-14.7%**
Exports						
Passenger cars	64,470	109,698	-41.2%	110,057	186,138	-40.9%
Light commercial	24,759	31,947	-22.5%	46,684	60,922	-23.4%
Light vehicles	**89,229**	**141,645**	**-37.0%**	**156,741**	**247,060**	**-36.6%**

Source: ANFAVEA.

We understand that the decrease in light vehicles sales in the domestic market was a consequence of the impact in decisive variables to consumption, such as: (i) reduction in consumer confidence, reflex of the current macroeconomic and politic scenario; (ii) restriction in the offering of automotive credit; and (iii) the lower number of business days in June due to the World Cup. On top of that, the economic and political crisis in Argentina contributed to the maintenance of high inventory levels, leading the OEMs to adopt measures to hold production such as furloughs, not usual in this time of the year; volunteer dismissal programs; slowdown in components orders; among others.

In addition to market issues, the application in light vehicles was impacted by a project phase out due to the shift to aluminum, in line with our expectations.

In such context, in 2Q14, revenues from the application of our products in light vehicles in the domestic market represented 7.3% of the Company's revenues. In the comparison with 2Q13, there was a 41.2% reduction in revenues arising from this type of application.

Commercial Vehicles (12.4% of 2Q14)

As per ANFAVEA data, the production and sales of commercial vehicles in 2Q14 presented a 30.6% and 14.6% decrease respectively, in comparison with 2Q13.

(Units)

	2Q14	2Q13	% Δ	1H14	1H13	% Δ
Production						
Trucks						
Semi-light	614	1,179	-47.9%	1,256	2,184	-42.5%
Light	5,964	9,164	-34.9%	14,258	16,604	-14.1%
Medium	1,782	3,515	-49.3%	4,790	6,464	-25.9%
Semi-heavy	13,426	19,431	-30.9%	27,953	36,390	-23.2%
Heavy	11,776	17,234	-31.7%	27,738	31,964	-13.2%
Total trucks	**33,562**	**50,523**	**-33.6%**	**75,995**	**93,606**	**-18.8%**
Buses	9,580	11,663	-17.9%	19,199	21,596	-11.1%
Commercial vehicles	**43,142**	**62,186**	**-30.6%**	**95,194**	**115,202**	**-17.4%**
Trucks						
Semi-light						
Light	839	1,364	-38.5%	1,885	3,151	-40.2%
Medium	7,053	9,056	-22.1%	12,186	19,320	-36.9%
Semi-heavy	2,060	2,816	-26.8%	5,247	7,139	-26.5%
Heavy	11,510	12,119	-5.0%	21,537	27,620	-22.0%
Total trucks	12,719	14,306	-11.1%	23,772	31,915	-25.5%
Trucks	**34,181**	**39,661**	**-13.8%**	**64,627**	**89,145**	**-27.5%**
Buses	6,445	7,911	-18.5%	13,397	18,398	-27.2%
Commercial vehicles	**40,626**	**47,572**	**-14.6%**	**78,024**	**107,543**	**-27.4%**

Source: ANFAVEA.

As seen in light vehicles, the current macroeconomic and politic scenario also influenced the market performance of commercial vehicles in 2Q14, strongly affected by the reduction in the business confidence. The reduction in sales, together with high inventories, contributed to the adjustments in production levels of the OEMs during the period, with similar behavior to the light vehicles OEMs, resulting in furloughs and reduced the components' order rhythm.

In this scenario, revenues from the application of our products in commercial vehicles in the domestic market represented 12.4% of the Company's revenues in 2Q14. The revenues from this application presented an 18.7% decrease compared to 2Q13.

Construction, Industrial and Agricultural (2.3% of 2Q14 revenues)

According to ANFAVEA data, the production and sales of agricultural machinery in 2Q14 decreased 19.5% and 19.0%, respectively, if compared to 2Q13.

(Units)

	2Q14	2Q13	% Δ	1H14	1H13	% Δ
Production						
Wheeled tractors	17,061	20,728	-17.7%	31,408	37,614	-16.5%
Crawler tractors	773	591	30.8%	1,501	1,072	40.0%
Motorized planters	284	399	-28.8%	738	710	3.9%
Harvesters	1,306	1,663	-21.5%	3,556	4,509	-21.1%
Backhoes	1,462	2,565	-43.0%	3,204	4,472	-28.4%
Agricultural machinery	**20,886**	**25,946**	**-19.5%**	**40,407**	**48,377**	**-16.5%**
Sales						
Wheeled tractors	15,394	18,064	-14.8%	26,733	32,545	-17.9%
Crawler tractors	216	262	-17.6%	407	455	-10.5%
Motorized planters	379	394	-3.8%	714	734	-2.7%
Harvesters	889	1,397	-36.4%	2,901	3,929	-26.2%
Backhoes	1,117	2,087	-46.5%	2,146	3,471	-38.2%
Agricultural machinery	**17,995**	**22,204**	**-19.0%**	**32,901**	**41,134**	**-20.0%**

Source: ANFAVEA

The performance of the agricultural machinery market in 2Q14 reflects high comparison basis due to the fleet modernization promoted by farmers in the past years, considering the successive record agricultural crops. On top of that, the backhoes performance is connected to the high purchase volume concluded by the federal government in 2013, in the scope of the second stage of the Growth Acceleration Program (PAC 2). As seen in the light and commercial vehicles, the macroeconomic scenario affected the agricultural machinery sector.

In addition to the market issues, the application of our products in construction, industrial and agricultural machinery suffered a negative impact in sales volume for the railway sector.

The revenues from the application of our products in construction, industrial and agricultural machinery in the domestic market, represented 2.3% of our revenues in 2Q14 and decreased 14.4% in comparison with 2Q13.

Hydraulics (5.3 of 2Q14 revenues)

Revenues from the application of our products in the hydraulics segment in the domestic market represented 5.3% of 2Q14 revenues, a 15.9% decrease over same period of 2013. The decrease in revenues of the hydraulics segment is due to the current macroeconomic and politic scenario, with a negative influence in the demand for industrial products.

FOREIGN MARKET

Light Vehicles (12.9% of 2Q14 revenues)

Production of light vehicles in the United States dropped 12.8% in 2Q14, while sales grew by 3.9%, both in comparison with 2Q13, according to the *Automotive News*. In Europe, according to ACEA, sales grew 4.4%, in the same reference base.

(Units)

	2Q14	2Q13	% Δ	1H14	1H13	% Δ
United States						
Production						
Passenger cars	1,058,898	1,214,255	-12.8%	2,190,743	2,386,902	-8.2%
Sales						
Passenger cars	2,177,993	2,097,134	3.9%	4,020,199	4,017,909	0.1%
Europe						
Sales						
Passenger cars	3,498,372	3,351,316	4.4%	6,851,552	6,452,512	6.2%

Sources: Automotive News (USA); ACEA (Europe).

In the United States, the continuous economic recovery boosted light vehicles sales in 2Q14. However, the recovery in sales did not reflect in the production due to the inventories adjustment (63 to 57 days of sale) promoted by the OEMs as a consequence of a decline in sales during 1Q14 due to the heavy winter faced in that region.

In Europe, the improvement in consumer confidence has sustained the progressive increase in light vehicles sales, which reached on July 2014 the tenth consecutive month of growth. The benefits granted by the OEMs have also supported the recovery in the European market. It is worth mentioning that in this market there is a ramp-up of a new product to the premium segment.

In relation to other markets, we highlight that the light vehicles segment suffered a negative impact due to the political instability in one of the Asian countries.

In the context described above, the revenues from the application of our products in light vehicles in foreign markets represented 12.9% of 2Q14 revenues. In comparison with 2Q13, we noticed a 0.8% decrease in revenues from this type of application.

Commercial Vehicles (31.4% of 2Q14 revenues)

In the United States, production of light commercial vehicles grew 10.6% in 2Q14. Meanwhile, the sale of light, medium and heavy commercial vehicles in that country accumulated growth of 10.0%, 9.2% and 14.9%, respectively. In Europe, the sales of commercial vehicles increased 8.3%.

(Units)

	2Q14	2Q13	% Δ	1H14	1H13	% Δ
United States						
Production						
Light commercial – class 1-3	1,924,330	1,740,354	10.6%	3,828,929	3,338,924	14.7%
Sales						
Light commercial – class 1-3	2,245,415	2,040,719	10.0%	2,245,415	2,040,719	10.0%
Medium commercial – class 4-6	43,222	39,582	9.2%	43,222	39,582	9.2%
Heavy commercial – class 7-8	67,947	59,138	14.9%	67,947	59,138	14.9%
Commercial vehicles	**2,356,584**	**2,139,439**	**10.1%**	**2,356,584**	**2,139,439**	**10.1%**
Europe						
Sales						
Light commercial	408,062	369,018	10.6%	791,515	718,087	10.2%
Medium commercial	25,550	26,948	-5.2%	47,857	50,587	-5.4%
Heavy commercial	54,757	54,826	-0.1%	109,375	102,943	6.2%
Commercial vehicles	**488,369**	**450,792**	**8.3%**	**948,747**	**871,617**	**8.8%**

Sources: Automotive News (USA); ACEA (Europe).

In the United States, the sales of commercial vehicles in 2Q14 reflect the good market momentum. After a weak performance in 1Q14 due to the heavy winter, the North American economy recaptured its economic growth process. The improvement in employment indexes, the strong demand for light commercial vehicles and the advance of civil construction were determinants of this process.

The positive performance in the European market is related to the economic recovery in recent months, as per the consumption and industrial production indexes, which have benefited the automotive segment.

Due to climate conditions, part of the exports of products of this segment suffered with logistics delays, which did not allow the recognition of these revenues in 2Q14.

In such circumstances, the revenues from the application of our products in commercial vehicles in the foreign markets represented 31.4% of 2Q14 revenues. In comparison with 2Q13, we noticed a 3.9% increase in revenues from this type of application.

Construction, Industrial and Agricultural (25.3% of 2Q14 revenues)

According to the Association of Equipment Manufacturers (AEM), sales of agricultural machinery in the United States were stable in 2Q14 compared with 2Q13.

(Units)	2Q14	2Q13	% Δ	1H14	1H13	% Δ
United States						
Sales						
2WD Farm tractors | <40HP	41,345	39,451	4.8%	59,476	55,684	6.8%
2WD Farm tractors | 40<100HP	17,365	16,568	4.8%	29,063	28,025	3.7%
2WD Farm tractors | 100+HP	7,881	9,541	-17.4%	15,630	17,420	-10.3%
4WD Farm tractors	1,295	1,517	-14.6%	2,828	3,162	-10.6%
Self-prop combines	2,164	2,524	-14.3%	4,004	4,581	-12.6%
Agricultural machinery	**70,050**	**69,601**	**0.6%**	**111,001**	**108,872**	**2.0%**

Source: AEM.

The agricultural machinery market in the United States was stable during 2Q14 influenced by two competitive factors: (i) the higher machinery cost in the scope of the change of emissions regulation (Tier IV implementation) reduced the demand for tractors with larger engines, and (ii) the pre-buy, also related with Tier IV, benefited the demand for machinery with smaller engines, a segment in which the change in legislation should be concluded in 2H14. The civil construction machinery market performed positively pushed by the maintenance of the high level of housing starts. On the other hand, the mining segment continues to face a challenging landscape during 2014.

In the European market, we also noticed a pre-buy due to the change in emissions regulation.

In this context, revenues from the application of our products in construction, industrial and agricultural machinery in foreign markets represented 25.3% of 2Q14 revenues, a growth of 10.2% in comparison with 2Q13.

Hydraulics (3.1% of 2Q14 revenues)

Revenues from our products in the hydraulics segment in foreign markets represented 3.1% of 2Q14 revenues, and corresponded to a 35.1% growth over the same quarter of 2013. The positive performance was pulled by the sales of pipe fittings for South America, mainly to Bolivia due to the program “Gas for All” and Asia, not to mention the sales of iron bars to Europe and North America.

COST OF GOODS SOLD AND OPERATING EXPENSES

The cost of goods sold (COGS) in 2Q14 added up to R$630.5 million, 4.0% lower to same quarter of 2013. Consequently, the quarter registered a gross margin of 16.9%, a reduction of 0.8 percentage point in comparison with the previous year. The operating expenses reached R$56.8 million, 1.3% lower than 2Q13.

Consolidated (R$ Thousands)	2Q14	2Q13	% Δ	1H14	1H13	% Δ
Revenues	**758,558**	**797,450**	**-4.9%**	**1,563,597**	**1,499,201**	**4.3%**
Cost of goods sold	**(630,504)**	**(656,511)**	**-4.0%**	**(1,286,592)**	**(1,243,993)**	**3.4%**
Raw material	(347,188)	(368,295)	-5.7%	(712,592)	(700,411)	1.7%
Labor	(141,547)	(138,250)	2.4%	(271,527)	(253,205)	7.2%
Energy	(15,861)	(35,939)	-55.9%	(54,484)	(68,355)	-20.3%
Maintenance materials	(48,360)	(46,172)	4.7%	(98,348)	(93,755)	4.9%
Profit sharing program	(6,727)	(7,501)	-10.3%	(16,379)	(16,914)	-3.2%
Depreciation	(39,684)	(35,308)	12.4%	(78,537)	(68,977)	13.9%
Others	(31,137)	(25,046)	24.3%	(54,725)	(42,376)	29.1%
Gross profit	**128,054**	**140,939**	**-9.1%**	**277,005**	**255,208**	**8.5%**
% over revenues	16.9%	17.7%		17.7%	17.0%	
Operating expenses	**(56,784)**	**(57,549)**	**-1.3%**	**(111,943)**	**(109,721)**	**2.0%**

Despite the (i) main raw material of the Company – scrap - has faced inflation in average price as a consequence of lower availability of material in the Brazilian market (attractiveness of exports); (ii) the impact of the cost conversion of the Mexican units (USD) for our main currency (BRL); and (iii) the salaries increase (collective bargaining), the COGS presented a 4.0% decrease due to mainly the following factors:

- reduction of variable costs due to the decrease in sales volume;
- cost reduction initiatives in the purchase of energy and alloys;
- improvements in operational indicators of the Brazilian and Mexican units;
- improvements in the usage of materials in the Mexican units;
- reduction in the electrical energy cost in the Brazilian units due to the sale of surplus contracted capacity in the spot market.

Despite the expressive 31.7% decrease in sales volume in the domestic market (10.3% of total sales volume), the low percentage of fixed costs of the Company allowed the reduction in gross margin to be only 0.8 percentage point.

Still, as a reflex of the sales volume retraction, allied to the cost reduction initiatives in freight purchases, the Company presented a 1.3% reduction in the operating expenses.

OTHER NET OPERATING EXPENSES

The result of other net operating expenses was R$23.5 million in 2Q14, 13.0% growth compared to 2Q13. The increase is due to mainly the R$3.9 million expense related to the constitution of provision for tax contingence for processes related to ICMS (Notes to Financial Statements nº 11 – ITR2Q14).

	Consolidated (R$ Thousands)					
	2Q14	2Q13	% Δ	1H14	1H13	% Δ
Other net operating expenses	(23,458)	(20,759)	13.0%	(49,972)	(37,228)	34.2%

NET FINANCIAL RESULT

The net financial result of 2Q14 was an expense of R$8.2 million, an 83.7% reduction compared to 2Q13.

	Consolidated (R$ Thousands)					
	2Q14	2Q13	% Δ	1H14	1H13	% Δ
Financial expenses	(22,806)	(28,703)	**-20.5%**	(46,042)	(57,227)	**-19.5%**
Financial income	20,841	8,676	140.2%	36,210	15,101	139.8%
Net exchange variation	(6,266)	(30,381)	-79.4%	(14,993)	(35,102)	-57.3%
Net financial result	**(8,231)**	**(50,408)**	**-83.7%**	**(24,825)**	**(77,228)**	**-67.9%**

The improvement in the net financial result is due mainly to the reduction in net exchange variation because of the adoption of the net investment hedge, which reduced the exchange exposure in the financial result, as well as the increase in financial income due to higher cash balance.

NET INCOME BEFORE TAXES AND NET INCOME

The net income before taxes in 2Q14 was R$39.6 million, a 223.8% growth over 2Q13. The income tax and social contribution totaled R$16.2 million. The effective tax rate of 40.6% reflects, mainly, the non-deductibility of exchange variation expenses in our commercial subsidiaries in the United States and Europe.

The net income in 2Q14 was a profit of R$23.3 million, 120.4% higher than 2Q13, representing 3.1% of the quarter’s revenues.

	Consolidated (R$ Thousands)					
	2Q14	2Q13	% Δ	1H14	1H13	% Δ
Net income before income taxes	**39,581**	**12,223**	**223.8%**	**90,265**	**31,031**	**190.9%**
Income tax and social contribution	(16,238)	(1,631)	895.6%	(36,822)	(596)	6,078.2%
Net income	**23,343**	**10,592**	**120.4%**	**53,443**	**30,435**	**75.6%**
% over revenues	3.1%	1.3%		3.4%	2.0%	

ADJUSTED EBITDA

The combination of the aforementioned factors resulted in an adjusted EBITDA of R$111.7 million in 2Q14, equivalent to a 6.4% decrease when compared to 2Q13 and a 14.7% margin over revenues.

	Consolidated (R$ Thousands)					
RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA	2Q14	2Q13	% Δ	1H14	1H13	% Δ
Net income	**23,343**	**10,592**	**120.4%**	**53,443**	**30,435**	**75.6%**
(+) Net financial result	8,231	50,408	-83.7%	24,825	77,228	-67.9%
(+) Income tax and social contribution	16,238	1,631	895.6%	36,822	596	6,078.2%
(+) Depreciation and amortization	54,833	50,395	8.8%	109,453	97,569	12.2%
EBITDA (according to CVM 527/12)	**102,645**	**113,026**	**-9.2%**	**224,543**	**205,828**	**9.1%**
% over revenues	13.5%	14.2%		14.4%	13.7%	
(+) Net operating expenses (*)	9,080	6,388	42.1%	20,605	9,954	107.0%
Adjusted EBITDA	**111,725**	**119,414**	**-6.4%**	**245,148**	**215,782**	**13.6%**
% over revenues	14.7%	15.0%		15.7%	14.4%	

(*) Other net operating expenses are presented net of amortization and depreciation expenses.

INVESTMENTS IN PP&E AND INTANGIBLE ASSETS

The total investments in PP&E and intangible assets in 2Q14 reached R$52.2 million, a 43.9% increase compared to 2Q13, in line with the 2014 investment plan. The main investments during the quarter were the automation of the finishing lines, adaptation of one of the production lines in Brasil to CGI and the continuity of the ERP implementation project, besides strategic investments in new projects.

	Consolidated (R$ Thousands)					
	2Q14	2Q13	% Δ	1H14	1H13	% Δ
PP&E						
Strategic investments (*in expansion*)	14,910	15,413	-3.3%	43,587	18,304	138.1%
Maintenance and modernization of operating capacity	26,913	13,839	94.5%	39,137	31,577	23.9%
Environment	4,831	4,188	15.4%	12,781	7,306	74.9%
Interest and financial expenses	167	699	-76.1%	655	1,443	-54.6%
Intangible assets						
Software	5,409	2,164	150.0%	11,736	6,953	68.8%
TOTAL	**52,230**	**36,303**	**43.9%**	**107,896**	**65,583**	**64.5%**

It is important to highlight that projects connected to the proceeds of the public offering (automation of the finishing lines, sand regeneration and other operational optimization projects) are undergoing and have capital allocated in 2014.

In view of the more challenging 2014 scenario in the domestic market, the Company has been more selective in its investments, prioritizing projects with higher return rates.

INDEBTEDNESS

The Company ended 2Q14 with a gross indebtedness of R$1,703.4 million, which results in an index of 3.28x total debt/LTM adjusted EBITDA. Regarding the currency breakdown, 43% of the debt is BRL denominated and 57% in foreign currencies. In terms of maturity, 20% is short term debt and 80% long term debt. The net debt in 2Q14 reached R$612.1 million, resulting in 1.18x net debt/LTM adjusted EBITDA.

	Consolidated (R$ Thousands)		
INDEBTEDNESS	**2Q14**	**1Q14**	**4Q13**
Bank debt – short term	340,931	284,145	221,493
Bank debt – long term	1,359,745	1,463,821	1,578,176
Financial instruments - derivatives	2,741	4,536	3,819
Gross debt	**1,703,417**	**1,752,502**	**1,803,488**
Cash and cash equivalents	1,075,793	1,119,921	1,123,446
Financial instruments - derivatives	-	-	561
Financial investments	15,529	15,212	14,900
Net debt	**612,095**	**617,369**	**664,581**
Gross debt/LTM adjusted EBITDA*	3.28x	3.32x	3.68x
Net debt/LTM adjusted EBITDA*	1.18x	1.17x	1.36x

**LTM: last twelve months.*

Issuance of Notes in international markets

In line with our strategy of optimizing our capital structure through the extension of our debt profile and diversification of funding sources, on July 10, 2014, we concluded the issue of notes in international markets in the amount of US$350 million, 10 years tenor and coupon of 6.625% per year, through our subsidiary Tupy Overseas S.A., based in Luxemburg.

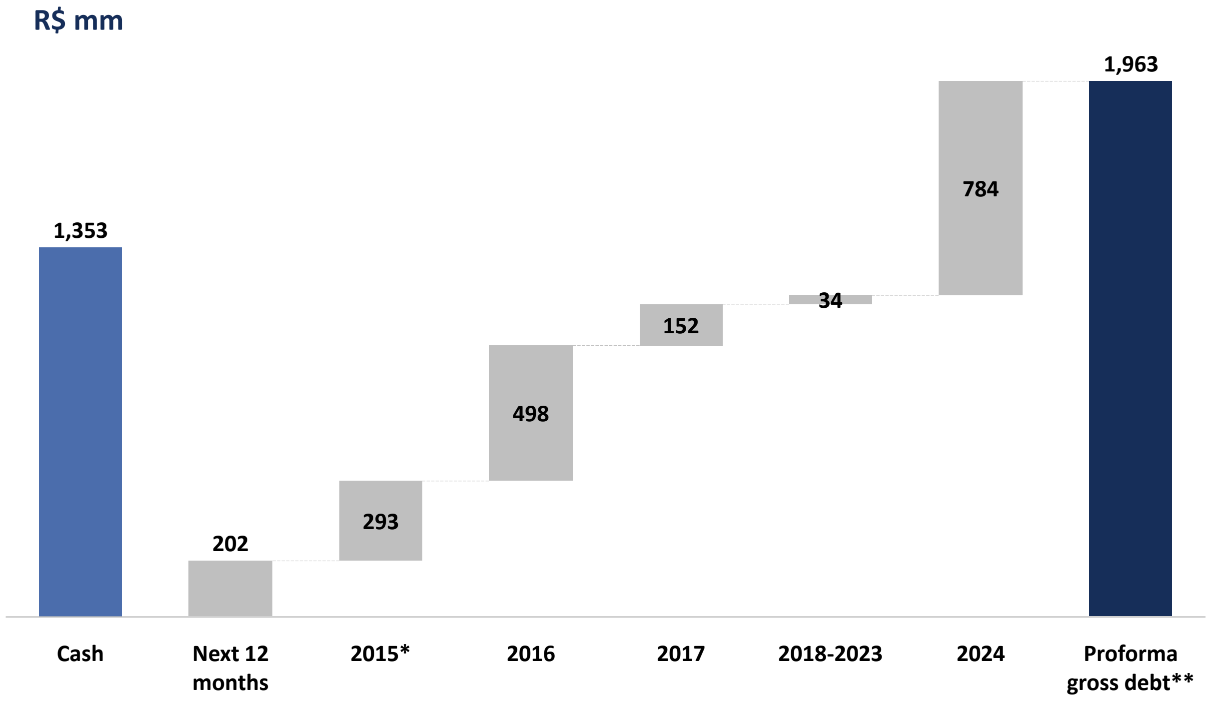
This is the first time the Company accesses the international debt capital markets. The issuance was extremely successful as the demand exceeded more than 8 times the offer, demonstrating the confidence and the interest of foreign investors in the strengths of Tupy's resilient business model.

The proceeds from the issuance allow the optimization of our capital structure, resulting in an expansion of our debt profile with significant foreseeability of the long term interest expenses, reduction of refinancing risk and the exposure to the increase of interest rates in international markets.

As a result of the issuance, the Company gained access to a new source of financing, with terms and conditions that are not used via bilateral transactions with financial institutions.

The proceeds from the issuance should be used to the payment of existing debt maturing between 2014 and 2017. By the present date, the Company had pre-paid two debt lines of exports prepayment in the total amount of US$242.3 million.

The unaudited pro-forma indebtedness profile, considering the issuance and the amortizations already concluded, is as follows:



(*) Does not include the current liabilities;
(**) Does not include financial instruments (derivatives).

WORKING CAPITAL

	Consolidated (R$ Thousands)		
	2Q14	1Q14	4Q13
Accounts receivable	**395,402**	**440,270**	**379,664**
Inventories	326,183	291,461	277,766
Accounts payable	**283,507**	**292,548**	**248,879**
Sales outstanding [days]	**45**	**50**	**44**
Inventories outstanding [days]	46	41	40
Payable outstanding [days]	**39**	**41**	**36**
Cash conversion cycle [days]	**52**	**50**	**48**

The reduction in accounts receivable is due mainly to the decrease in revenues in the domestic market, which also impacted accounts payable. The growth in inventories, affected by the performance of the domestic market, is also a result of the ERP implementation process, which demands higher than usual levels of inventories.

CASH FLOW

CASH FLOW SUMMARY	Consolidated (R$ Thousands) 2Q14	2Q13	% Δ	1H14	1H13	% Δ
Cash and cash equivalents at the end of the period	**1,075,793**	**657,414**	**63.6%**	**1,075,793**	**657,414**	**63.6%**
Cash flow from operating activities	69,616	73,725	-5.6%	156,065	12,513	1,147.2%
Cash flow from investment activities	(52,440)	(41,092)	27.6%	(109,593)	(65,583)	67.1%
Cash flow from financing activities	(44,596)	(90,830)	-50.9%	(60,349)	29,063	-307.6%
Effect of exchange variation on cash	(16,708)	37,843	-144.2%	(33,776)	20,984	-261.0%
Increase (decrease) in cash	**(44,128)**	**(20,354)**	**116.8%**	**(47,653)**	**(3,023)**	**1,476.3%**

The Company generated R$69.6 million of cash from operations in 2Q14, 58.3% of the EBITDA of the period, versus R$73.7 million in 2Q13. The reduction in the cash flow from operations is due mainly to the profit before the financial result compared to 2Q13.

As for the investment activities, R$52.4 million were applied in additions to PP&E and intangible assets during 2Q14, as previously mentioned.

As for the financing activities, during 2Q14 R$44.6 million were applied in amortization of loans and financing and dividends payments.

The combination of these factors resulted in a R$44.1 million reduction in cash and cash equivalents in the period, reaching R$1,075.8 million in 2Q14, 63.6% higher than the end of 2Q13.

CAPITAL MARKETS

It is available below the traded volume, as well as the highest and the lowest quotes of the stocks negotiated in the BM&FBOVESPA or in the over-the-counter market of the common shares (TUPY3).

	Average daily volume (R$)	High (R$)	Average (R$)	Low (R$)
2nd quarter of 2014	3,149,485	20.19	19.02	17.10
1st quarter of 2014	2,744,296	19.18	18.29	16.49
4th quarter of 2013	4,631,335	22.30	19.47	17.66
3rd quarter of 2013	2,165,765	20.89	18.21	16.10
2nd quarter of 2013	162,274	24.09	20.23	18.50

	Closing (Points) 2Q14	1Q14	% Δ
TUPY3 ON (R$)	19.20	18.26	5.1%
IBovespa	53,168	50,415	5.5%
ITAG*	10,994	10,336	6.4%
IGC*	8,121	7,642	6.3%
IGC-NM*	1,794	1,644	9.1%

Source: Bloomberg.

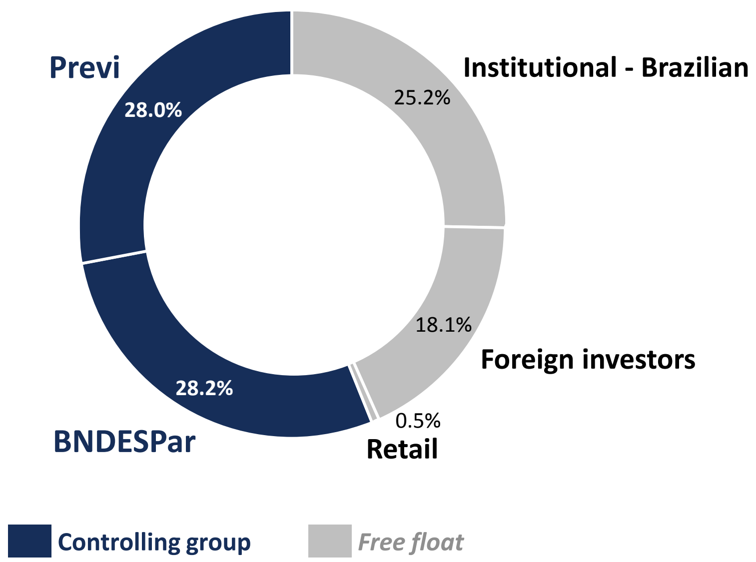
(*) Indexes that TUPY3 participates.

The price of the Company's shares in 2Q14 varied from R$17.10 to R$20.19, closing at R$19.20 per share, a 5.1% appreciation in comparison with the 1Q14 closing price (R$18.26).

TUPY3 – COMMON SHARES	2Q14	2Q13	% Δ	1H14	1H13	% Δ
Average daily volume (R$ thousands)	3,149	162	1,840.8%	2,945	213	1,283.5%
Daily trades	423	18	2,250.0%	376	19	1,878.9%

As a consequence of the expansion of the free float due to the public offering concluded in October 2013, as well as the adhesion to the *Novo Mercado*, the liquidity of the shares (TUPY3) reached R$3.1 million of average traded volume per day in 2Q14. Furthermore, the daily traded volume of shares reached the level of 423 trades/day in 2Q14.

Shareholding Structure



Our Company is subject to the rules of the Market Arbitration Panel of the Novo Mercado, pursuant to article 60 of our Bylaws.

Attachment I – Profit Statement

[BRL thousands]	2Q13	2Q14	% Change
Sales volume [kton]	**165,315**	**148,347**	**-10%**
Domestic market	57,371	39,164	-32%
Foreign market	107,944	109,183	1%
Revenues	**797,450**	**758,558**	**-5%**
Domestic market	277,576	206,870	-25%
Foreign market	519,874	551,688	6%
COGS	**(656,511)**	**(630,504)**	**-4%**
Gross profit	**140,939**	**128,054**	**-9%**
% over revenues	*17.7%*	*16.9%*	*-0.8 p.p.*
Sales expenses	(31,122)	(31,435)	1%
Administrative expenses	(24,359)	(22,746)	-7%
Management compensation	(2,068)	(2,603)	26%
Other operating expenses, net	(20,759)	(23,458)	13%
Share of profit of equity-accounted investments	-	-	n.a.
Net income before financial results and income taxes	**62,631**	**47,812**	**-24%**
% over revenues	*7.9%*	*6.3%*	*-1.6 p.p.*
Financial expenses	(28,703)	(22,806)	-21%
Financial revenues	8,676	20,841	140%
Net exchange variation	(30,381)	(6,266)	-79%
Net income before income taxes	**12,223**	**39,581**	**224%**
% over revenues	*1.5%*	*5.2%*	*3.7 p.p.*
Income tax and social contribution	(1,631)	(16,238)	896%
Net income	**10,592**	**23,343**	**120%**
% over revenues	*1.3%*	*3.1%*	*1.7 p.p.*

Attachment II – Balance Sheet

[BRL thousands]	2Q13	2Q14	% Change
Assets	**4,071,375**	**4,446,196**	**9%**
Cash and cash equivalents	657,414	1,075,793	64%
Derivatives	22,092	-	n.a.
Accounts receivables	433,263	395,402	-9%
Inventories	279,871	326,183	17%
Third-party tools	75,286	97,137	29%
Recoverable income tax and social contribution assets	28,856	36,233	26%
Other recoverable tax assets	108,016	59,164	-45%
Assets held for sale	-	-	n.a.
Notes and other receivables	25,760	38,259	49%
Current assets	**1,630,558**	**2,028,171**	**24%**
Financial investments	21,042	15,529	-26%
Recoverable income tax and social contribution assets	52,012	-	n.a.
Other recoverable tax assets	113,959	120,189	5%
Deferred income tax and social contribution	-	-	n.a.
Eletrobrás credits	90,920	97,940	8%
Legal deposits and other	25,403	20,410	-20%
Equity investments	4,913	4,341	-12%
Investment properties	4,574	6,546	43%
PP&E	1,594,527	1,639,285	3%
Intangible assets	533,467	513,785	-4%
Non-current assets	**2,440,817**	**2,418,025**	**-1%**
Liabilities	**2,780,655**	**2,527,294**	**-9%**
Accounts payables	270,603	283,507	5%
Loans	287,639	340,931	19%
Derivatives	165	2,146	1201%
Debentures	-	-	n.a.
Financing of taxes and social security charges	2,536	675	-73%
Income tax and social contributions payable	-	-	n.a.
Other taxes payable	35,035	27,790	-21%
Payroll, related charges and profit sharing program	117,287	127,199	8%
Unearned revenues	75,738	84,936	12%
Related parties	-	-	n.a.
Dividends and interest on shareholders' equity	135	139	3%
Provision for tax, civil, social security and labor contingencies	6,462	9,230	43%
Notes and others payable	55,796	52,186	-6%
Current liabilities	**851,396**	**928,739**	**9%**
Loans	1,686,803	1,359,745	-19%
Derivatives	2,632	595	-77%
Debentures	-	-	n.a.
Financing of taxes and social security charges	-	9,051	n.a.
Provision for tax, civil, social security and labor contingencies	92,888	102,362	10%
Deferred income tax and social contribution	120,851	96,120	-20%
Retirement benefit obligations	16,440	17,179	4%
Other long-term liabilities	9,645	13,503	40%
Non-current liabilities	**1,929,259**	**1,598,555**	**-17%**
Shareholder's equity	**1,290,720**	**1,918,902**	**49%**
Paid in capital	537,051	1,060,301	97%
Expenses with issue of shares	-	(6,541)	n.a.
Equity valuation adjustments	265,787	279,162	5%
Profit reserves	449,933	525,895	17%
Retained earnings	37,949	60,085	58%

Attachment III – Cash Flow

[BRL thousands]	2Q13	2Q14	% Change
Cash flow from operating activities	**73,725**	**69,616**	**-6%**
Net income before income taxes	**12,223**	**39,581**	**224%**
Adjustments to reconcile net income to cash flow from operating activities			
D&A	50,394	54,833	9%
Share of profit of equity-accounted investments	-	-	n.a.
Forest depletion	-	-	n.a.
Loss on sale of other investments	-	-	n.a.
Disposal of property, plant and equipment	1,660	2,250	36%
Interest and exchange variations	58,564	25,183	-57%
Provision for impairment of trade receivables	188	(68)	n.a.
Provision for inventory losses	485	(140)	n.a.
Provision for tax, civil, social security and labor contingencies	3,274	9,084	177%
Adhesion to REFIS	-	-	n.a.
Provision for a portion of IPI credit premium	5,013	(3,670)	n.a.
Variation of Eletrobrás credit fair value	(1,754)	(1,545)	-12%
Changes in operating assets and liabilities			
Trade receivables	(57,321)	36,290	n.a.
Inventories	(21,492)	(36,817)	71%
Third-party tools	(8,008)	(13,233)	65%
Other taxes recoverable	4,208	(13,153)	n.a.
Notes and others receivable	(98)	(9,650)	9747%
Legal deposits and other	(13,766)	705	n.a.
Trade payables	17,400	(600)	n.a.
Other taxes payable	20,966	1,478	-93%
Payroll, related charges and profit sharing program	19,501	6,471	-67%
Advances from clients	446	3,244	627%
Notes and other payable	(3,523)	(1,107)	-69%
Retirement benefit obligations	1,230	(1,195)	n.a.
Other long term liabilities	(4,644)	(4,435)	-5%
Interest paid	(9,630)	(22,723)	136%
Income tax and social contribution paid	(1,591)	(1,167)	-27%
Cash flow from investing activities	**(41,092)**	**(52,440)**	**28%**
Investment increase	-	-	n.a.
Acquisition of Mexican subsidiaries - net of acquired cash	-	-	n.a.
Capital increase of Mexican subsidiaries	-	-	n.a.
Purchase of property, plant and equipment, and intangible increase	(41,092)	(52,933)	29%
Sale of other investments	-	-	n.a.
Disposal of property, plant and equipment	-	493	n.a.
Investments financed by clients	-	-	n.a.
Cash flow from financing activities	**(90,830)**	**(44,596)**	**-51%**
Loan pay down	(308,458)	(20,348)	-93%
Debentures pay down	-	-	n.a.
Amortization of tax financing	(836)	(168)	-80%
New loans	245,708	-	n.a.
Subsidiaries and affiliates	-	-	n.a.
Collection of a portion of Eletrobrás credits	-	-	n.a.
Increase in capital, net of share issue expenses	-	-	n.a.
Dividends and interest on shareholder's equity paid	(27,244)	(24,080)	-12%
Long term financial investments	-	-	n.a.
Effect of exchange rate changes on cash and cash equivalents	37,843	(16,708)	n.a.
Increase (decrease) of cash and cash equivalents	**(20,354)**	**(44,128)**	**117%**
Cash and cash equivalents at the beginning of the period	**677,768**	**1,119,921**	**65%**
Cash and cash equivalents at the end of the period	**657,414**	**1,075,793**	**64%**