

TUPY - Global reference in castings

A free translation of the original in Portuguese



1Q16 Highlights

Solid cash flow generation despite challenging market.

Conference Call

Date: 05/12/2016

English/Portuguese

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Dial in USA: +1 786 924-6977

Toll free USA: +1 888 700-0802

Dial in Brazil: +55 11 3193-1001

Dial in Brazil: +55 11 2820-4001

Code: Tupy

Site: www.tupy.com.br/ri

Investor Relations

Thiago Fontoura Struminski
*VP Finance and Administration
Investor Relations Officer*

Jonathan Santos
Lucas Brandao
IR Team

dri@tupy.com.br
+55 (11) 2763-7844

- **Sales volume:** 120 thousand tons – 6.7% lower than 1Q15.
- **Revenues:** R\$860 million – 9.1% increase compared to same quarter in 2015.
- **Gross Profit:** R\$146 million – 16.9% margin on revenues, 1.8% lower than 1Q15.
- **Adjusted EBITDA:** R\$133 million – 2.7% decrease compared to 1Q15 and equivalent to 15.5% of revenues in 1Q16.
- **Net income:** R\$17 million – 2.0% on revenues.
- **Investments:** R\$29 million, 30.4% decrease compared to 1Q15.

SUMMARY OF RESULTS

Consolidated (R\$ Thousand)			
SUMMARY	1Q16	1Q15	Var. [%]
Revenues	859,840	788,077	9.1%
Cost of goods sold	(714,222)	(639,823)	11.6%
Gross profit	145,618	148,254	-1.8%
<i>% on revenues</i>	16.9%	18.8%	
Operating expenses	(68,385)	(56,680)	20.7%
Other net operating expenses	(26,799)	(18,313)	46.3%
Income before financial result	50,434	73,261	-31.2%
<i>% on revenues</i>	5.9%	9.3%	
Net financial result	(18,627)	27,995	
Net income before income taxes	31,807	101,256	-68.6%
<i>% on revenues</i>	3.7%	12.8%	
Income tax and social contribution	(14,497)	(40,669)	-64.4%
Net income	17,310	60,587	-71.4%
<i>% on revenues</i>	2.0%	7.7%	
EBITDA (according to CVM 527/12 inst.)	127,387	135,411	-5.9%
<i>% on revenues</i>	14.8%	17.2%	
Adjusted EBITDA	133,155	136,825	-2.7%
<i>% on revenues</i>	15.5%	17.4%	
Average exchange rate (R\$/US\$)	3.860	2.916	32.4%
Average exchange rate (R\$/EUR)	4.253	3.228	31.8%

SALES VOLUME

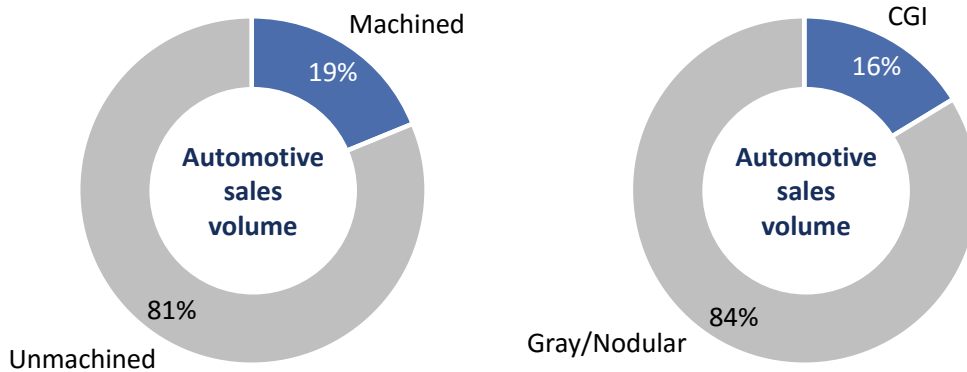
Consolidated (Tons)			
	1Q16	1Q15	Var. [%]
Domestic market	25,712	34,113	-24.6%
Automotive	20,892	29,234	-28.5%
Hydraulics	4,820	4,879	-1.2%
Foreign market	93,862	94,097	-0.2%
Automotive	91,291	90,769	0.6%
Hydraulics	2,571	3,328	-22.7%
Total sales volume	119,574	128,210	-6.7%

During 1Q16, sales volume fell by 6.7% compared to 1Q15, affected by:

- the retraction in sales to the automotive segment in the domestic market;
- weaker global market for off-road machinery;
- inventory adjustment by client in the medium and heavy commercial vehicle segment;
- decline in sales of hydraulic products to both domestic and foreign markets.

Those impacts were partly offset by positive sales performance to passenger cars and light commercial vehicles segments in the foreign markets.

The automotive product portfolio comprised of approximately 19% partly/fully machined products (vs. 16% in 1Q15). The sales distribution by alloy points to 16% of volume in CGI (Compacted Graphite Iron) (vs. 13% in 1Q15).



REVENUES

Revenues presented a 9.1% growth in comparison with 1Q15.

In the domestic market, the 20.3% drop is due to weak sales performance and increase payroll taxes (-R\$3.4 million in net revenues).

In the foreign market, revenues grew 17.7% as result of:

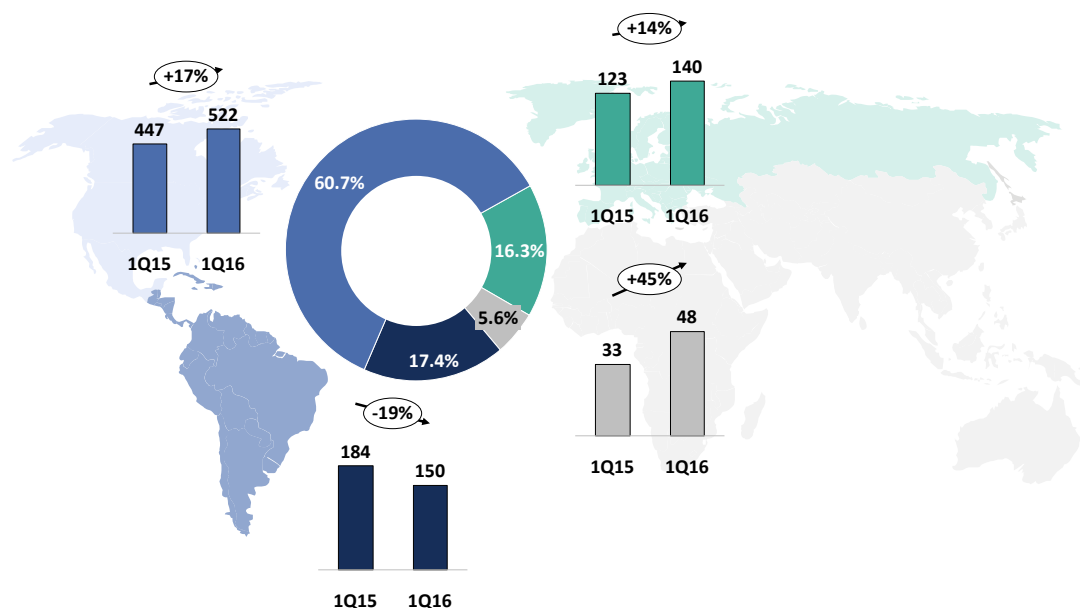
- Ramp up of complex products; and
- 32.4% depreciation in the average foreign exchange ('FX') rate Real vs. US Dollar in 1Q16 (3.860 R\$/US\$), versus 1Q15 (2.916 R\$/US\$), and 31.8% depreciation in the average FX rate Real vs. Euro in 1Q16 (4.253 R\$/EUR), versus 1Q15 (3.228 R\$/EUR).

The foreign revenues growth was partly offset by: reduction in the Reintegra tax benefit (-R\$10.2 million in net revenues) and purchase price of metallic inputs, with effect on sales price.

Consolidated (R\$ thousand)			
	1Q16	1Q15	Var. [%]
Revenues by market	859,840	788,077	9.1%
Domestic market	141,636	177,810	-20.3%
% Share	16.5%	22.6%	
Foreign market	718,204	610,267	17.7%
% Share	83.5%	77.4%	
Revenues by segment			
Automotive	814,090	739,636	10.1%
% Share	94.7%	93.9%	
Hydraulics	45,750	48,441	-5.6%
% Share	5.3%	6.1%	

Revenues by market and performance in the period

During 1Q16, North America represented 60.7% of Tupy's revenues. In turn, South and Central America represented 17.4%, Europe accounted for 16.3% and the remaining 5.6% came from Asia, Africa and Oceania.

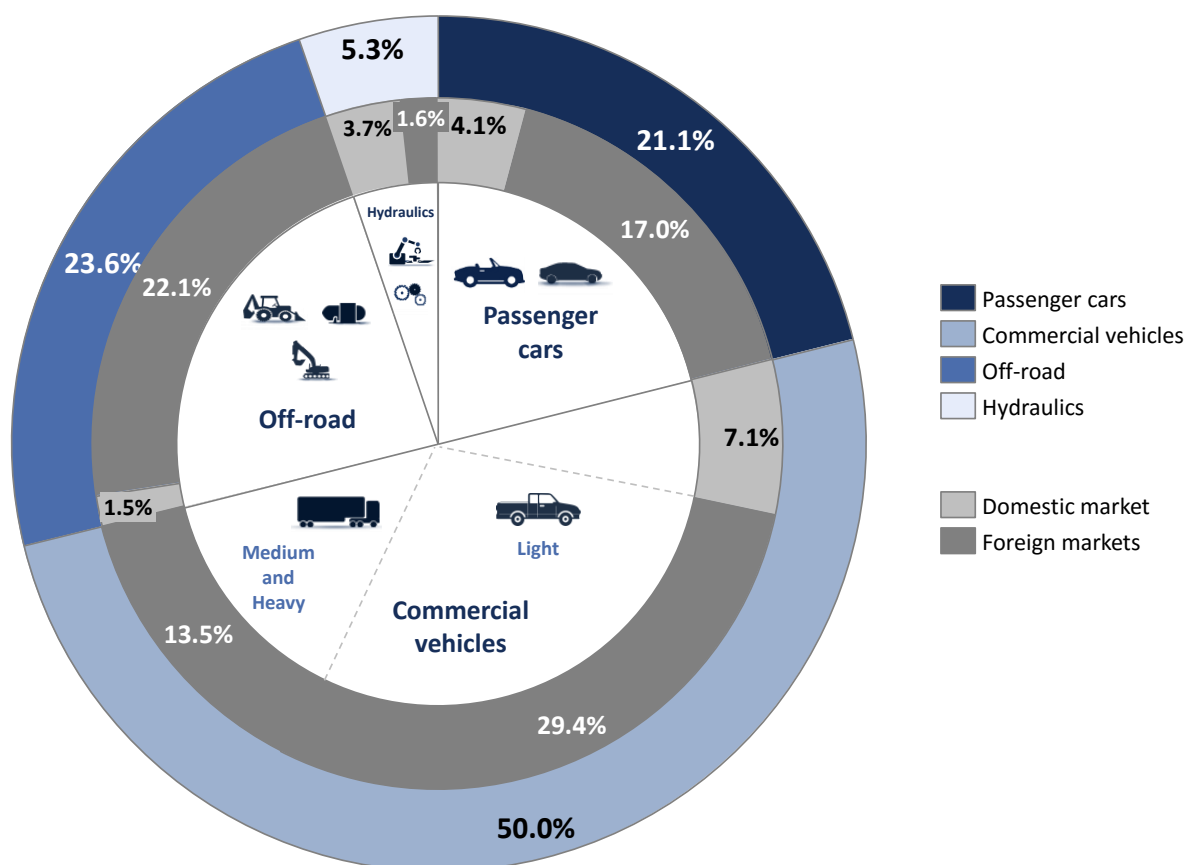


RELEASE

Consolidated (R\$ thousand)

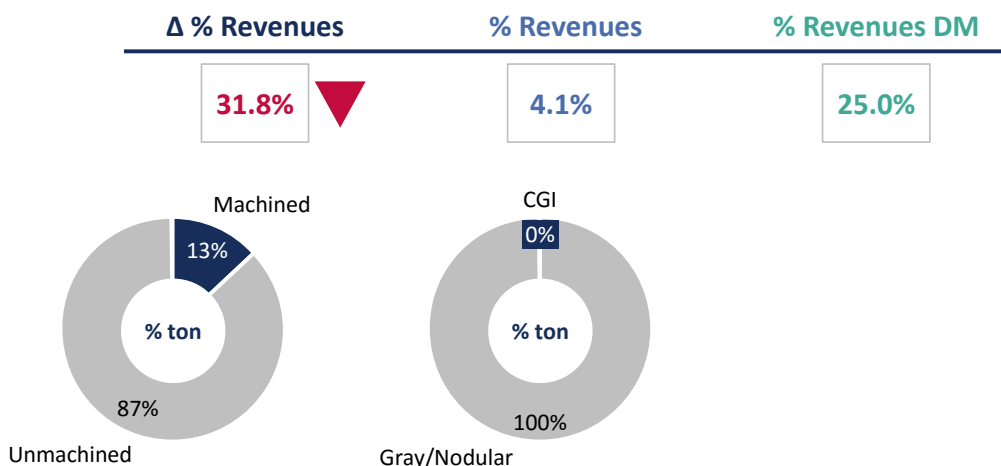
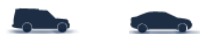
REVENUES BY MARKET AND APPLICATION	1Q16	1Q15	Var. [%]
Revenues	859,840	788,077	9.1%
Domestic market	141,636	177,810	-20.3%
Automotive	109,795	145,784	-24.7%
Passenger cars	35,391	51,899	-31.8%
Commercial vehicles	61,435	76,790	-20.0%
Off-road	12,968	17,095	-24.1%
Hydraulics	31,841	32,026	-0.6%
Foreign market	718,204	610,267	17.7%
Automotive	704,295	593,852	18.6%
Passenger cars	145,751	101,945	43.0%
Light commercial vehicles	252,574	188,809	33.8%
Medium and heavy commercial vehicles	115,696	111,975	3.3%
Off-road	190,274	191,123	-0.4%
Hydraulics	13,909	16,415	-15.3%

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



DOMESTIC MARKET (DM)

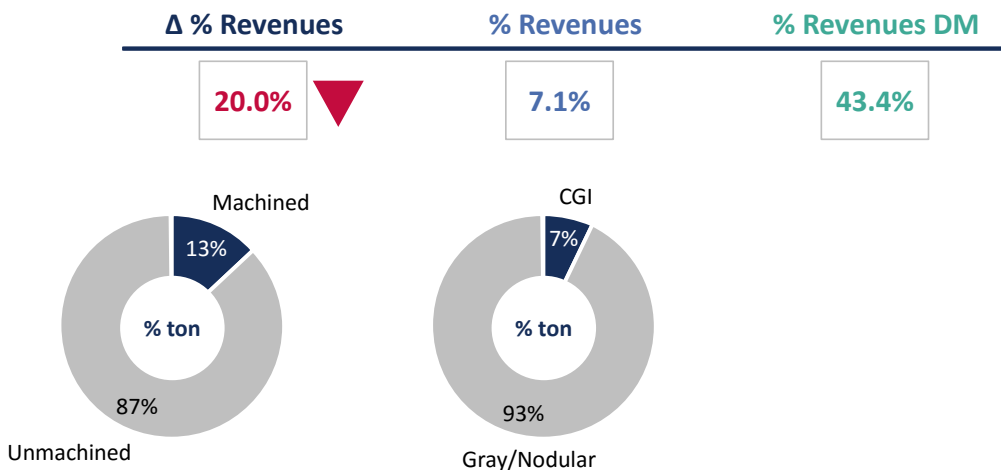
Passenger cars



Political and economic instability, growing unemployment and decrease in consumer purchase power led to steeper deterioration of light vehicles sales in 1Q16. As result of the weakened market, OEMs kept production stoppages, reduced journeys, furloughs and voluntary resignation programs in place, in order to adjust inventories.

Revenues from sales of products to this application fell 31.8% in the quarter. In addition to the market factor, the technology shift in specific products to aluminum, in line with the expectations, and the loss of market share by a client intensified the decline in revenues.

Commercial vehicles



The macroeconomic instability and retraction on freight consumption, resulting in lower investments by fleet owners negatively affected sales and production of commercial vehicles in the country.

As consequence of the decline in truck production, revenues from automotive products sales with commercial vehicle applications which fell by 20.0% in 1Q16. However, the drop was partly offset by indirect exports by clients, which are taking advantage of the depreciated Real.

Off-road



Δ % Revenues

% Revenues

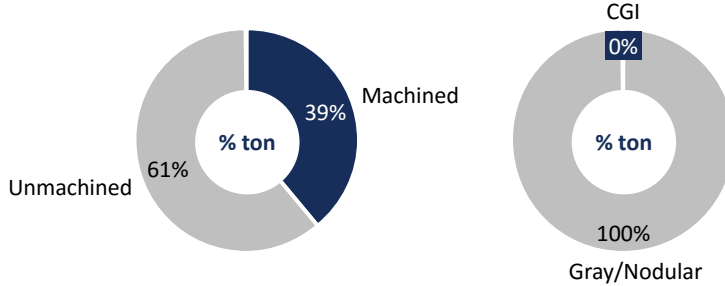
% Revenues DM

24.1%



1.5%

9.2%



Also as result of the national economic recession, low international commodity prices and restrictive credit conditions, the demand for heavy machinery was hurt in the quarter. However, the negative performance was partly compensated by new product launches. Therefore, revenues from sales of products with off-road application declined by 24.1% in 1Q16.

Hydraulics



Δ % Revenues

% Revenues

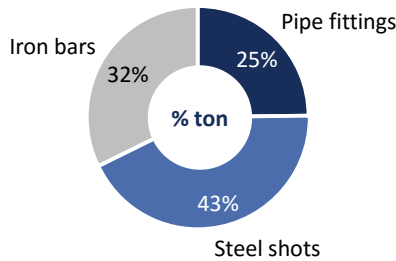
% Revenues DM

0.6%



3.7%

22.5%



In light of reduced industrial activity in the country, clients are reducing inventory of hydraulic products, resulting in 0.5% sales decrease from this Business Unit to the domestic market in 1Q16.

FOREIGN MARKETS (FM)

Passenger cars



Δ % Revenues

% Revenues

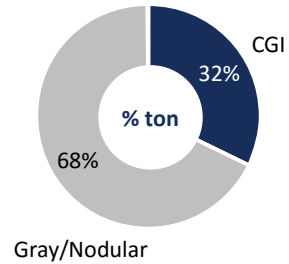
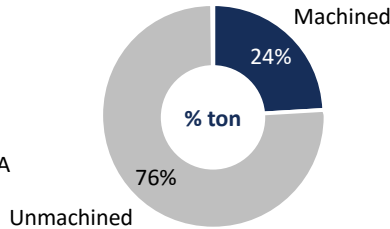
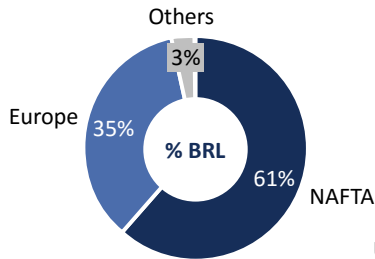
% Revenues FM

43.0%



17.0%

20.3%



U.S. Passenger car sales presented a decline in the quarter. In Europe, the growth in sales is due to the slow-paced economic recovery in some countries and low fuel prices.

The ramp of products and the positive performance of the market for premium vehicles in the United States led to a 43.0% increase in revenues from the sales of automotive products with passenger car applications in foreign markets.

Light commercial vehicles



Δ % Revenues

% Revenues

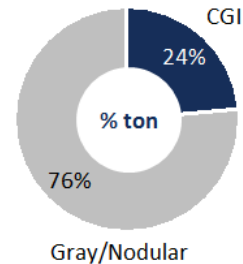
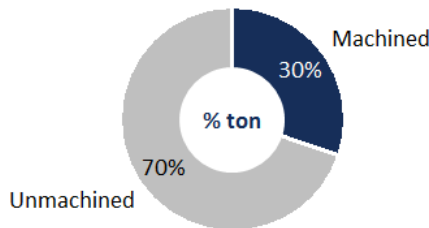
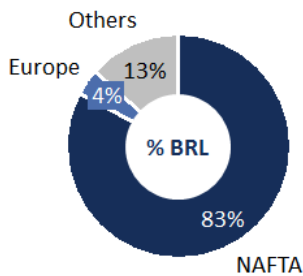
% Revenues FM

33.8%



29.4%

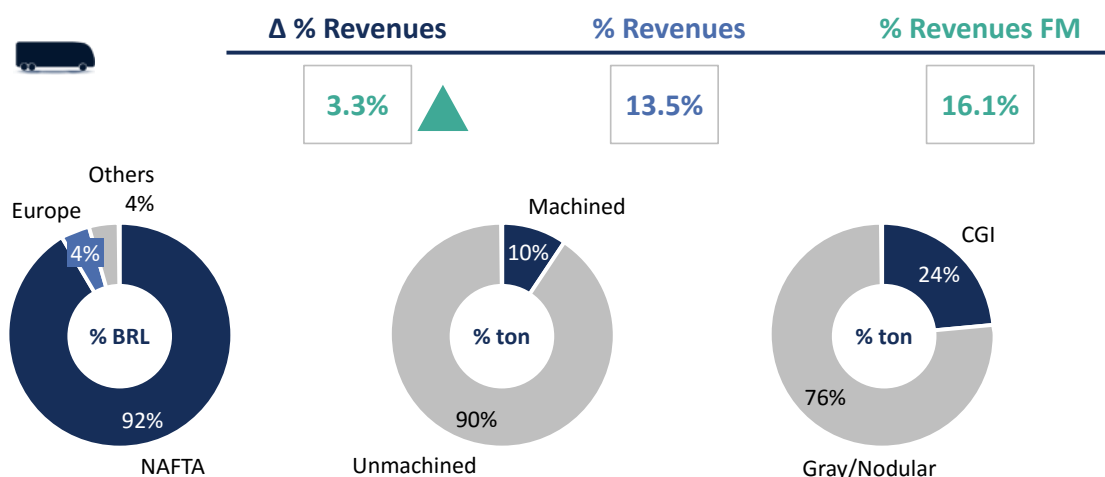
35.2%



Positively affected by consumer confidence, the US light commercial vehicle market remained strong in the 1Q16, once again outperforming the passenger car market.

In addition to the heated demand for pick-ups and SUVs in the American market, sales to this application were favored by the ramp up of projects and inventory build-up by a client. As result, revenues from sales of automotive products for light commercial vehicles grew 33.8 in 1Q16.

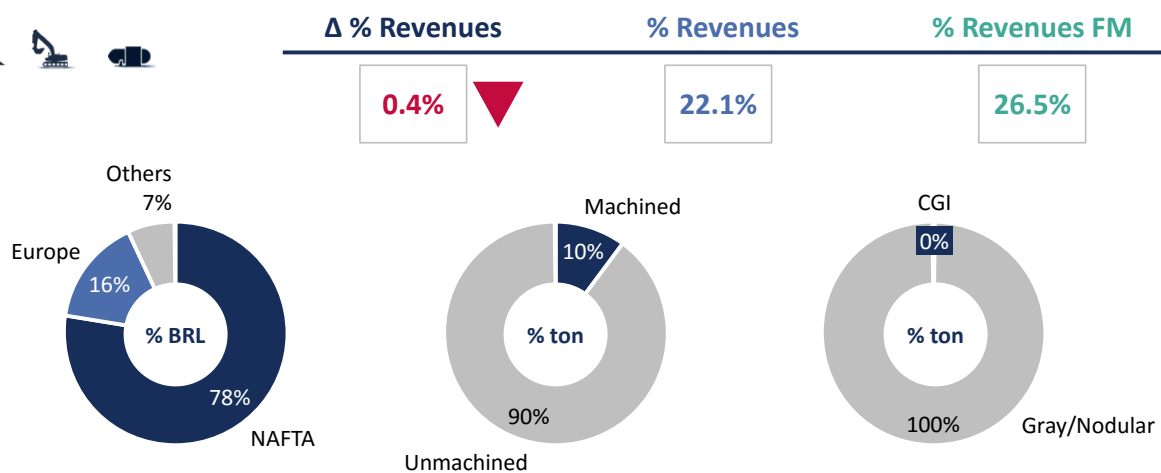
Medium and heavy commercial vehicles



Despite the sharp deceleration of super-heavy (class 8) trucks, the market for medium and heavy commercial vehicles (class 4-7) is performing well.

In accordance with the comment above, revenues from sales of products for medium and heavy commercial vehicles grew 3.3% in 1Q16. The performance was negatively impacted by an inventory build-up by a client in the first half of 2015.

Off-road



Still affected by low mineral and agricultural commodity prices, the market remains cautious and investments in agricultural, industrial and mining equipment remain in decline. As result, revenues from sales of product applied in off-road machinery fell by 0.4% versus 1Q15.

Hydraulics



Δ % Revenues

% Revenues

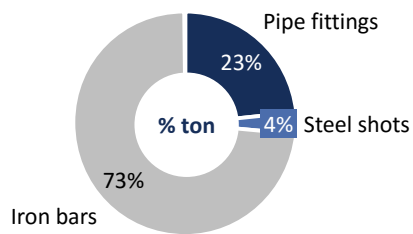
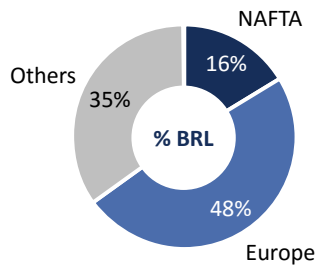
% Revenues FM

15.3%



1.6%

1.9%



During 1Q16, revenues from sales of hydraulic products fell 15.3%, result of lower sales to North America and Middle East.

▽ COST OF GOODS SOLD AND OPERATING EXPENSES

The cost of goods sold (COGS) in 1Q16 added up to R\$714.2 million, 11.6% higher than 1Q15. Consequently, the quarter registered a gross margin of 16.9%. Operating expenses reached R\$68.4 million, 20.7% higher than 1Q15.

Consolidated (R\$ thousand)			
	1Q16	1Q15	Var. [%]
Revenues	859,840	788,077	9.1%
Cost of goods sold	(714,222)	(639,823)	11.6%
Raw material	(327,733)	(320,073)	2.4%
Labor	(168,438)	(139,130)	21.1%
Energy	(54,542)	(45,157)	20.8%
Maintenance materials	(67,622)	(54,132)	24.9%
Profit sharing program	(10,198)	(9,206)	10.8%
Depreciation	(52,810)	(44,355)	19.1%
Others	(32,879)	(27,770)	18.4%
Gross profit	145,618	148,254	-1.8%
<i>% on revenues</i>	<i>16.9%</i>	<i>18.8%</i>	
Operating expenses	(68,385)	(56,680)	20.7%

The 1Q16 COGS variation versus the same quarter of 2015 is explained below:

- 2.4% increase in raw material cost is due to FX depreciation.
 - The effect was partly offset by lower use of materials due to the reduced sales volume and input price decrease for some materials such as scrap steel.
- Labor costs increased by 21.1% due to:
 - FX depreciation;
 - collective bargaining - partly offset by a reduced labor force;
 - reduced dilution of fixed costs during production stoppages in the quarter related to inventory reduction and deflated comparative base, due to inventory build-up during 1Q15 for the ERP implementation;
- Energy costs grew 20.8% in 1Q16, mainly due to higher electricity distribution costs in by Brazil and reduced result from sales of excess energy capacity in the spot market (-R\$5.1 million vs. 1Q15);
- Maintenance costs grew 24.9%, also due to reduced dilution of fixed costs during production stoppages in the quarter related to inventory reduction and deflated comparative base, due to inventory build-up during 1Q15 for the ERP implementation;
- Profit sharing costs ("PSP") went up by 10.8% and reflect the collective bargaining agreement;
- The increasing in non-cash costs with depreciation (+19.1%) is due to FX depreciation;
- Other costs grew by 18.4% mostly due to health insurance costs.

The 20.7% increase in operating expenses is mostly due to FX depreciation effects on expenses from foreign units and strong currency based expenses (freights), and the amortization of the ERP.

OTHER NET OPERATING EXPENSES

Net operating expenses reached R\$26.8 million in 1Q16, 46.3% increase compared to 1Q15.

Consolidated (R\$ thousand)			
	1Q16	1Q15	Var. [%]
Depreciation of non-operating assets	(466)	(605)	-23.0%
Amortization of intangible assets	(20,565)	(16,294)	26.2%
Other	(5,768)	(1,414)	307.9%
Other net operating expenses	(26,799)	(18,313)	46.3%

The increase is due to: FX depreciation on the amortization of intangible assets from the acquisitions in Mexico, provision for labor contingencies and PP&E write-down, partly off-set by improved results from sales of third-party tools – favored by Real depreciation.

NET FINANCIAL RESULT

During 1Q16, the Company registered a net financial expense of R\$18.6 million, versus R\$28.0 million revenues in 1Q15.

Consolidated (R\$ thousand)			
	1Q16	1Q15	Var. [%]
Financial expenses	(43,002)	(35,716)	20.4%
Financial income	34,367	29,155	17.9%
Net exchange variation	(9,992)	34,556	
Net financial result	(18,627)	27,995	

The worsening of the net financial result is due to the reversion of the net foreign exchange variations result.

The negative result from net foreign exchange variations (R\$10.0 million) is due to the effect of the appreciation of the Real versus the Dollar during 1Q16 (from 3.905 R\$/US\$ in dec/15, to 3.559 R\$/US\$ in mar/16) on the net balance sheet exposure to such effects.

NET INCOME BEFORE TAXES AND NET INCOME

Due to the aforementioned factors, the net income before taxes in 1Q16 was R\$31.8 million, 68.6% decrease versus 1Q15.

Consolidated (R\$ thousand)			
	1Q16	1Q15	Var. [%]
Net income before income taxes	31,807	101,256	-68.6%
Tax effects before foreign exchange impacts	(11,845)	(34,403)	-65.6%
<i>Tax rates before foreign exchange effects</i>	<i>-37%</i>	<i>-34%</i>	
Net income before foreign exchange effects on tax base	19,962	66,853	-70.1%
Foreign exchange effects on tax base	(2,652)	(6,266)	-57.7%
Net income	17,310	60,587	-71.4%
<i>% on revenues</i>	<i>2.0%</i>	<i>7.7%</i>	

The company recorded R\$11.8 million in expenses with income tax and social contribution before foreign exchange variation on the tax base in 1Q16, a 37% tax rate.

The deferred income tax of the Mexican plants is calculated in Mexican pesos. In the translation into the functional currency (U.S. dollar), a decrease of R\$2.7 million was recorded due to the depreciation of the Mexican Peso against the U.S. Dollar during 1Q16.

Net income resulting from the previously mentioned effects amounted to a profit of R\$17.3 million, 71.4% lower than 1Q15, 2.0% margin.

ADJUSTED EBITDA

The combination of the aforementioned factors resulted in an adjusted EBITDA of R\$133.2 million in 1Q16, equivalent to a 2.7% decrease when compared to 1Q15 and a 15.5% margin on revenues.

Consolidated (R\$ thousand)			
RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA	1Q16	1Q15	Var. [%]
Net income	17,310	60,587	-71.4%
(+) Net financial result	18,627	(27,995)	-166.5%
(+) Income tax and social contribution	14,497	40,669	-64.4%
(+) Depreciation and amortization	76,953	62,150	23.8%
EBITDA (according to CVM 527/12)	127,387	135,411	-5.9%
% on revenues	14.8%	17.2%	
(+) Other net operating expenses*	5,768	1,414	307.9%
Adjusted EBITDA	133,155	136,825	-2.7%
% on revenues	15.5%	17.4%	

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

INVESTMENTS IN PP&E AND INTANGIBLE ASSETS

Total investments in PP&E and intangible assets in 1Q16 reached R\$28.7 million. The main investments during the quarter were the transfer of a machining line to Mexico, transfer of blocks and heads finishing activities from Maua to Joinville and maintenance investments. The reduction in investments (-30.4% vs. 1Q15) is in line with the Company's strategy to rationalize the use of its asset base and profitability improvement goals.

Consolidated (R\$ thousand)			
	1Q16	1Q15	Var. [%]
PP&E			
Strategic investments	7,737	15,842	-51.2%
Maintenance and sustenance	16,116	16,446	-2.0%
Environment	1,720	4,725	-63.6%
Interest and financial expenses	648	252	157.1%
Intangible assets			
Software	2,460	3,969	-38.0%
Total	28,681	41,234	-30.4%

WORKING CAPITAL

(Consolidated R\$ thousand)

	1Q16	4Q15	3Q15
Balance Sheet			
Accounts receivable	464,365	542,099	608,584
Inventories	349,851	388,248	456,529
Accounts payable	303,610	295,080	309,021
Cash Flow variation			
Accounts receivable	44,697	57,283	(5,505)
Inventories	31,394	58,555	45,375
Accounts payable	18,155	(6,627)	(8,855)
Days Sales Outstanding [days]	48	58	67
Days Inventories Outstanding [days]	45	51	63
Days Payable Outstanding [days]	39	40	43
Cash conversion cycle [days]	54	69	87

During 1Q16, the main working capital lines behaved as follows:

- Due to FX appreciation in the quarter with effect on sales to foreign markets, adjustment of foreign market receivables, partly offset by increase in domestic market receivables, the accounts receivable were reduced by R\$77.7 million (-10 days);
- Continuing the destocking process after the implementation of the new ERP system, and affected by lower demand in the domestic market, the Company slowed production down and granted furloughs in some of its units. In addition to the appreciation of the Real, the aforementioned process led to reduction of inventory levels (-R\$38.4 million, -6 days);
- Accounts payable levels were stable during the quarter.

CASH FLOW

(Consolidated (R\$ thousand))

CASH FLOW SUMMARY	1Q16	1Q15	Var. [%]
Cash and cash equivalents at the beginning of the period	1,524,622	1,336,916	14.0%
Cash flow from operating activities	67,008	39,208	70.9%
Cash flow from investment activities	(26,291)	(39,393)	-33.3%
Cash flow from financing activities	(19,725)	(548)	3499.5%
Effect of exchange variation on cash	(33,655)	90,539	
Increase (decrease) in cash	(12,663)	89,806	
Cash and cash equivalents at the end of the period	1,511,959	1,426,722	6.0%

Even in face of lower Earnings Before Taxes and higher income tax outflows in Mexico, the Company generated R\$67.0 million in cash from operations in 1Q16 (+70.9% vs. 1Q15). The improvement is mainly due to significant improvement of working capital, especially accounts receivable and inventories.

As for the investment activities, the R\$26.3 million cash outflow was related to additions to PP&E and intangible assets.

As for the financing activities, during 1Q16 R\$19.7 million were applied due to amortization of FINEM debt lines.

The combination of these factors and the negative FX effects on the Company's cash position resulted in a R\$12.7 million decrease in cash and cash equivalents in the period, reaching R\$1,512.0 million in the end of 1Q16.

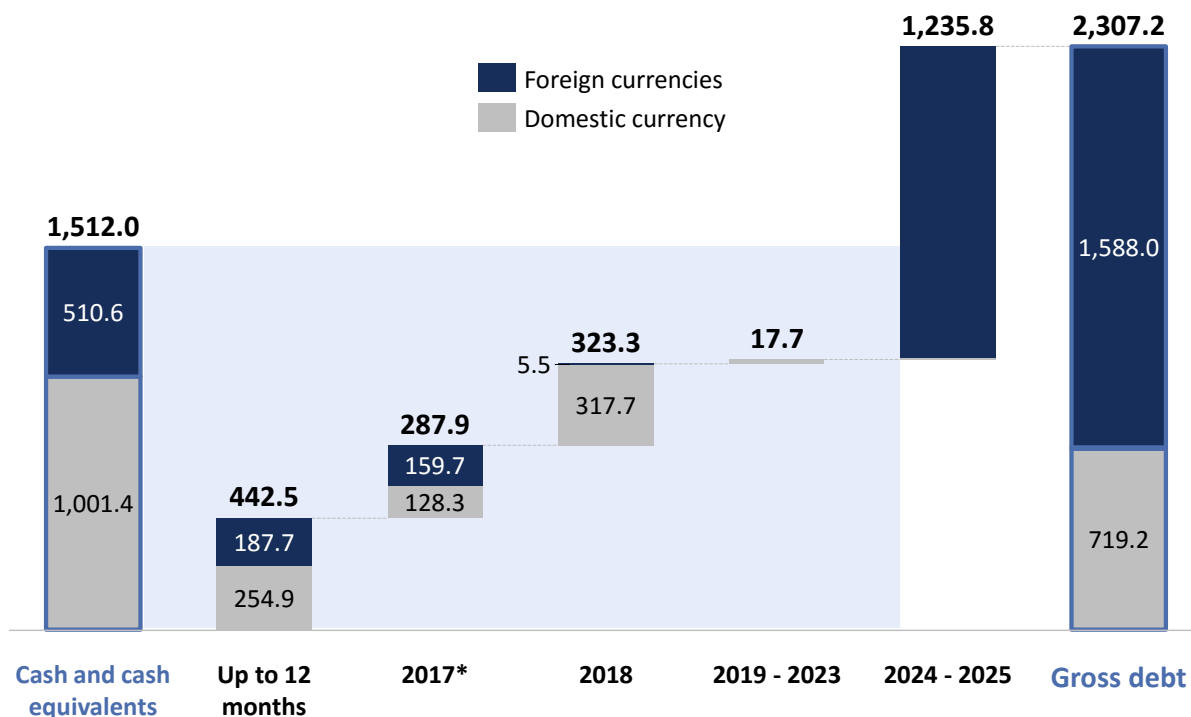
INDEBTEDNESS

The Company ended 1Q16 with a net debt of R\$783.4 million, which results in an index of 1.32x net debt/adjusted EBITDA. The decrease in net leverage is mostly due to the strong cash flow generation in the quarter and the Real appreciation effect on the Company's liabilities, which are mostly denominated in foreign currency. The breakdown of the debt is: foreign currency debt 69% of total debt (12% short-term debt; 88% long-term), while 31% of debt is denominated in Brazilian Real (35% short-term; 65% long-term). On the other hand, 66% the cash position is denominated in Real and 34% in foreign currencies.

Consolidated (R\$ thousand)

INDEBTEDNESS	1Q16	4Q15	3Q15
Short term	442,540	485,101	578,228
Long term	1,864,662	2,013,145	1,863,557
Gross debt	2,307,202	2,498,246	2,441,785
Cash and cash equivalents	1,511,959	1,524,622	1,304,261
Financial investments	11,799	11,484	11,195
Net debt	783,444	962,140	1,126,329
Gross debt/LTM adjusted EBITDA	3.89x	4.19x	4.08x
Net debt/LTM adjusted EBITDA	1.32x	1.61x	1.88x

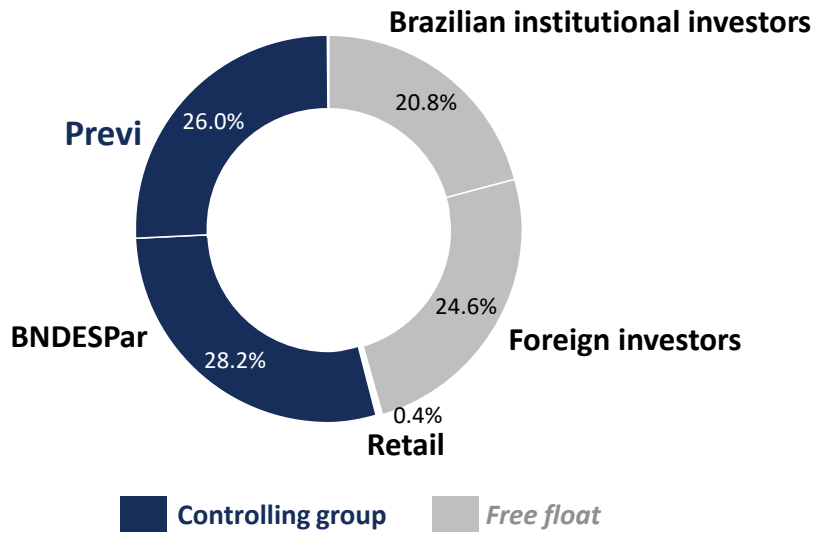
The current indebtedness profile is as follows:



All amounts in R\$ million. (*) Does not include short term debt.

SHAREHOLDER STRUCTURE

The shareholder structure on March 31, 2016 was distributed as follows:



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 – Light vehicles production and sales in Brazil

(Units)			
	1Q16	1Q15	Var. (%)
Production			
Passenger cars	403,562	536,329	-24.8%
Light commercial	59,276	100,243	-40.9%
Light vehicles	462,838	636,572	-27.3%
Sales			
Passenger cars	346,569	453,634	-23.6%
Light commercial	46,569	82,129	-43.3%
Light vehicles	393,138	535,763	-26.6%
Exports			
Passenger cars	79,370	61,795	28.4%
Light commercial	13,829	12,120	14.1%
Light vehicles	93,199	73,915	26.1%

Source: ANFAVEA.

Attachment II – Commercial vehicles production and sales in Brazil

(Units)

	1Q16	1Q15	Var. (%)
Production			
Trucks			
Semi-light	540	305	77.0%
Light	3,652	5,723	-36.2%
Medium	992	1,319	-24.8%
Semi-heavy	4,996	9,386	-46.8%
Heavy	4,933	6,580	-25.0%
Total trucks	15,113	23,313	-35.2%
Buses	4,339	7,686	-43.5%
Commercial vehicles	19,452	30,999	-37.2%
Sales			
Trucks			
Semi-light	382	701	-45.5%
Light	3,242	5,462	-40.6%
Medium	1,094	1,946	-43.8%
Semi-heavy	3,716	6,492	-42.8%
Heavy	4,205	4,363	-3.6%
Total trucks	12,639	18,964	-33.4%
Buses	2,719	5,207	-47.8%
Commercial vehicles	15,358	24,171	-36.5%
Exports			
Trucks			
Semi-light	111	365	-69.6%
Light	846	1,021	-17.1%
Medium	182	209	-12.9%
Semi-heavy	1,396	1,370	1.9%
Heavy	1,569	1,425	10.1%
Total trucks	4,104	4,390	-6.5%
Buses	1,574	1,452	8.4%
Commercial vehicles	5,678	5,842	-2.8%

Source: ANFAVEA

Attachment III – Production and sales of light and commercial vehicles in foreign markets

(Units)

	1Q16	1Q15	Var. (%)
North America			
Production/factory shipments			
Passenger cars	1,750,584	1,795,364	-2.5%
Light commercial vehicles – Class 1-3	2,708,444	2,571,881	5.3%
Light Duty - Class 4-5	16,198	12,635	28.2%
Medium Duty - Class 6-7	36,511	35,397	3.1%
Heavy Duty - Class 8	63,676	79,277	-19.7%
United States			
Sales			
Passenger cars	1,701,658	1,797,616	-5.3%
Light commercial vehicles – Class 1-3	2,385,522	2,159,548	10.5%
Light Duty - Class 4-5	28,911	23,740	21.8%
Medium Duty - Class 6-7	30,841	26,496	16.4%
Heavy Duty - Class 8	51,893	55,839	-7.1%
Europe			
Sales			
Passenger cars	3,819,259	3,528,645	8.2%

Sources: Automotive News; Bloomberg; ACEA.

Attachment IV – Production and sales of agricultural machinery in global markets

(Units)

	1Q16	1Q15	Var. (%)
Production			
Americas			
Brazil	7,349	15,383	-52.2%
Sales			
Americas			
Brazil	6,658	11,879	-44.0%
United States and Canada	44,434	42,834	3.7%
Europe			
Germany	7,949	8,814	-9.8%
France	6,766	5,761	17.4%
United Kingdom	2,382	2,633	-9.5%

Sources: ANFAVEA; AEM; AEA; Bloomberg.