



**International Conference Call
TUPY S/A
First Quarter 2017 Earnings Results
May 16th, 2017**

Operator: Good morning, thank you for waiting. Welcome for the earnings conference call for Q1 17 for Tupy.

All participants are connected only in the listen-mode only and later we will have a Q&A session when we will give you more instructions. If you have any need to talk to an operator, please dial *0. This call is being recorded.

The company would like to remind you that this event is also being transmitted by mistake simultaneously through the Internet via webcast and can be accessed at: www.tupy.com.br/ri, where the presentation is available. The slides will be controlled by you.

The replay of this event will be available right after the end of the call. We remind you that the participants may send questions through the webcast to Tupy. The company clarifies that any declarations made during the call on business perspectives, projections or our operational goals concerning Tupy's business are based on expectations of management in relation to the future of the company. These expectations are highly dependent on conditions in the domestic and international markets, economic performance of the country and thus are subject to change.

With us we have Mr. Luis Tarquínio, Chairman of the company, and Thiago and Struminski, VP of Finance and Administration and Director of Investor Relations.

Mr. Tarquínio, you may proceed.

Mr. Tarquínio: Good morning. Welcome to our earnings call for Tupy. I will make some comments here, I will talk about the highlights, the main financial indicators in the period and then parts will be conducted by Thiago and at the end of we will be answering questions in the Q&A session.

We have seen main highlights in Q1, which are shown on slide number 2. I would like to begin talking about the sales volume, we reach 135.000 tons, this volume is very real event in relation to Q1 16; 13% higher and this is due to the performance of the export markets.



In Brazil, we continue to suffer and this comes mainly from commercial and off-road vehicles, compensating the 4% drop in the sales volume in the automotive segment in domestic market.

The revenues are stable in this period 2017 in relation to 2016; a small drop of 0.5%. Revenue 855.1 million, the real appreciated, the Brazilian currency appreciated in relation to the US dollar and due to the support of the export market and although we have a higher volume this appreciation of the Brazilian currency had an impact here. In summary, gross profit in the period 134.2 million; a drop in 7.8% in relation to Q1 16 representing 15.7% of the net revenue in the period.

Adjusted EBITDA debt reached 119.7 million in Q1 17; 14% margin over revenue. We see a recovery in relation to Q1 16 as a whole, but I would like to highlight this and the result: in spite of 1.5% drop in Q1 16, we have a growth of 2.7 percentage points in comparison with the last quarter Q4 of 16, net profits of 47.2 million, 5.5% of the net revenue in Q1 16, and investments totaled 18.3 million, a drop of 36.3% when compared with the previous years and 2.1% of the revenue of the period. This is due to our discipline in relation to investments. We did this and this policy has been adopted in 2016 and we intend to continue with this discipline this year from now onwards.

So, I'd like to mention these initial points, now I'd like to pass the floor to our investor relations director, Vice President Thiago and Struminski, and he will talk about the results in the period mentioning some points that I ready mentioned and also explaining and making additional comments for a better understanding. Thank you.

Mr. Struminski: Thank you Tarquínio, good morning. On slide number 3 we highlight the sales volume, which reached 135,000 tons; 13% higher than in the same period 2016. The export market 17.5 increase in the automotive segment in the export market due to applications for passenger cars and off-road and also a ramp-up of new projects.

We see 4% reduction in the sales volume in the domestic market in the automotive sector due to the drop in commercial vehicles in relation to same period last year, 20% was machined in comparison with 19% last year and due to the fact that we added value to our clients, 15% CGI in relation in comparison with the 16% in the same period 2016, this is due to product mix and clients and sales.

On slide number 4, drop in revenue of 0.5% reaching 835 million, in the domestic market revenue grew 0.3%, in the export market revenue dropped 0.7% due to the 18.9 average appreciation of the Brazilian currency in relation to the US dollar in comparison with the same period last year.



In Q3 62% of the revenue came from NAFTA, 17% from South and Central America especially Brazil, 13% from Europe and 18% from Asia, Africa and Oceania. In terms of applications, 56% of the revenue come from commercial vehicles, 16% from passenger vehicles, 23% off-road equipment and 5% from hydraulics.

On slide number 5, we have the details of the automotive segments in the domestic market by application. The revenue from passenger cars went up to 24% and this despite of the retraction of the automotive market in Brazil. This is due to a more favorable product mix and also phase-in of parts. Commercial vehicles dropped 16% due to the retraction of the main sectors, also off-road applications grew 34% due to the phase-in of the new product and a depressed compared base last year.

Slide number 6 has the revenue per application in the export market. The revenue from passenger cars dropped 34% in the period, this is due to the appreciation or rise of the real and phased out products, light commercial vehicles and also medium and heavy had... the revenue had a growth of 9 and 27%, the appreciation of the real had a negative effect and this was mitigated by our growth in volume due to the recovery of the market and an increase in the market share in an important client and also inventory.

The volume of sales for off-road in Q1 17 had a growth in comparison with the same period 2016 due to a recovery and also a very depressed period in 2016, and also an impacted due to the appreciation of the Brazilian currency, which resulted in a 5% drop in comparison with same period last year.

Slide number 7, our revenue in hydraulics Q1 17 corresponded to 5.1% of total revenue of the company and while we had growth in comparison with the same period last year in the domestic market, the revenue from the export market suffered an impact, especially due to the appreciation of the Brazilian currency, the real.

On slide number 8, we see the CPV and operational expenses. Our CPV reached 721 million in the period; a growth of 0.9% to relation to Q1 16, and due to the following effects: an increase of 6% in the cost of raw materials, resulting from the volume produced, and import mitigated by the implementation of actions to increase efficiency and the appreciation of the Brazilian currency in relation to the US dollar; a drop of 13% in the labor expenses and participation in the results due to actions in optimizing the structure, changes in the hiring policy and also cost reduction in the healthcare plan and the drop in Mexican peso; reduction of 6% in the cost of electricity and in relation to other costs we see here the gross margin was 15.7%.



The operational expenses had an increase of 3.2%, especially due to the increase in the expenses with people union agreements and also mitigated by a renegotiation of contracts with vendors.

Slide number 9 we see an adjusted EBITDA of 120 million; margin of 14% on revenue, showing a significant improvement in relation to the last three quarters. And below we see the net result was 47 billion; much higher than Q1 16 with a positive impacted due to depreciation of the Mexican peso.

On slide number 10, we see the performance of the main working capital accounts, which had an increase of... we see here an increase of 114.1 million due to 13 days of sales in accounts receivable and this is due to the effect of contract negotiation with clients (but this also resulted in price increases), also a reduction in inventory... a reduction in inventory representing 36.1 million corresponding to the 5 days of costs of merchandise sold, cost of goods sold, and an increase in 4 days in payments, payment terms.

Here we see that, on slide number 11, we see total investments in intangibles 18 million; 36% lower than in the previous years. This amount is 2.1% of net revenue in the period; much lower than in previous years, reflecting an optimization in the operations and return on capital.

Here we see cash flow, the consumption of operational cash was 21.8 million. This consumption has to do especially with the decrease in cash operations due to the appreciation of the real in relation to the US dollar, we had an exchange rate of R\$3.15 in Q1 17 and last year the exchange rate was R\$3.89 to a dollar in Q1 16, and also negotiation with... our commercial negotiations.

Here we see on the next slide, number 13, we see our net debt 686 million and our cash position 1.1 billion corresponding to 8 years of amortization of the gross debt. We have a very comfortable position, most of the debt is in the long-term, 69% of our debt is in foreign currency and the rest in local currency; in accordance with our business protocol. Most of the debt in foreign currency will be payable in 2024 and has to do with our bond.

These were the main factors that we wanted to highlight for this quarter. Would like to end the presentation, and now would like to begin the Q&A session.

Question and Answer Session

Operator: We would like to begin now the Q&A session. To ask a question please dial *1. To remove the question from the queue, please dial *2.



This call is exclusively for investors and analysts.

Our first question in English, from Juan Tavares, Citi.

Mr. Tavares: Hi, thank you, good morning everyone. I guess my first question is regarding your margin improvement. The margin came up to 14%, I'm curious with the prospect of ongoing restructuring. Is this a sustainable level we should think for the rest of the year or you are foreseeing any room for better improvement in the coming quarters in terms of possibility?

And then secondly, maybe if we can touch on working capital. On the increase on receivables, is this a specific region or product line that was responsible for this increase? And should we consider the 60-day as a recurring level over the medium term? Thanks.

Mr. Struminski: We had some problems hearing the question. Your question has to do with margin and working capital? The first point concerning margin, in Q1, as we announced in the past, we captured the results of the effort, we worked to recover margins closer to historical levels.

We have some challenges ahead, volume was helping, this quarter was a good example showing that there were strong expectations especially for the US market from now on, but also, we had higher expenses with labor due to union negotiations.

There are challenges. It's a reasonable margin, we can do more, we can improve this, but there are some additional challenges. For example, the exchange rate, whether it be it in Brazil or Mexico, it can help us or it can hurt us the exchange rate. The working capital, the situation today is considered stable, in fact, we had an increase in receivables, but we also had benefits linked to our negotiations.

So, it was not bad for the company, it was good. On the other hand, there were some other effects as inventory and other initiatives that will help us to bring the level of working capital to a lower level.

Mr. Tavares: Okay, thank you.

Operator: Ladies and gentlemen, to ask a question, please dial *1.

Our next question comes from Mr. Juan Pires, Charles River Capital.

Mr. Pires: Good morning Thiago, I have a question concerning volume. We saw that growth was very good in Q1 and we are asking ourselves: Is there an estimate for improvement during the year or was this an anticipation from a large client?



Mr. Struminski: Thank you for the question. I believe the volume is a little above what we expected. The main engine of this growth is the US market and especially heavy applications. We see that there's more activity, especially in off-road medium and heavy vehicles. The pickup market, export market is, well, so we have 6%, this number may be higher, should be higher by the end of 2017.

In this quarter, we had some effects, for example, inventory for a specific client, but it's better than what we anticipated.

Mr. Pires: Just a follow-up question: If you purge this specific client, what would be the growth in Q1?

Mr. Struminski: It would still be a reasonable growth. What we have observed is that the market classes I, II, III in the US is very strong, a growth of more than 7%, and the market for trucks class IV and V is also very strong in the US. These are the 2 growth engines in terms of our growth.

If you look at agricultural numbers for automobiles in the US impacted also by lighter vehicles and trucks in the US class VIII, in fact, numbers are not very good, but our portfolio is growing strongly due to the growth in the sector.

Mr. Pires: Thank you.

Operator: Reminding you, to ask questions, please dial *1.

Once again, if you have a question, please dial *1.

Thus, would like to conclude the Q&A session. I would like to pass the floor to Mr. Tarquínio for his final comments.

Mr. Tarquínio: Once again, I'd like to thank all the participants. The company presented its data. As Thiago said, we made a great afterwards to make adjustments during 2016 and I believe we demonstrated a good harvest in 2017 with the good results in Q1.

There are some adverse aspects, Thiago mentioned, the end of some favorable discounts in payroll and also exchange rate variation if it continues, but we also may have... the exchange rate is also a synonym of recovery in the Brazilian economy.

You heard yesterday the news about the growth of Brazil and this is always something positive, considering our preference for commercial vehicles, which have a high coloration with the growth of the economy.



If on one hand we have challenges to overcome, we also are hearing good news for the future and also support for our... we have seen growth in volume in the US in a segment that had fluctuations in the previous years (off-road), so the growth in volume in this year is very positive, we have relevant clients in this segment in the US and also other segments of products, as Thiago mentioned, continue strong.

We have challenges, we have good news and the most important thing right now we have to continue and persevere with discipline in the use of capital. This is always a concern to improve return on the invested capital.

So, we have good perspectives in terms of business for the rest of the year. We may have some challenges or an exchange rate policy that may hurt our exports, which are the engine of Tupy.

Once again, we hope the Brazilian economy will recover. Once again thank you for the participation and we hope to bring you good news in the next call concerning these variables independent of the challenges we have to overcome. Thank you and I wish you a good day.

Operator: The earnings call for Tupy is concluded. We like to thank you all. Thank you.