# TUPY. Global reference in casting.

# 1Q14 Highlights

## Revenues growth of 14.7% in 1Q14. 38.5% increase on Adjusted EBITDA, with margin increase of 2.9 p.p.

- **Sales volume:** 156.1 thousand tonnes – 2.2% higher than 1Q13.
- **Revenues:** R$805.0 million – growth of 14.7% in relation to the same quarter of 2013, driven by commercial vehicles in the domestic and foreign markets, as well as construction, agricultural and industrial machinery in foreign markets.
- **Gross profit:** R$149.0 million – margin of 18.5%–, amount 30.4% higher than 1Q13.
- **Net income:** R$30.1 million – margin of 3.7% –, corresponding to an increase of 51.7% over 1Q13.
- **Adjusted EBITDA:** R$133.4 million – increase of 38.5% in relation to the 1Q13 and equivalent to 16.6% of 1Q14 Revenues, best EBITDA margin for the first quarter since 2010.
- **Investments in PP&E and intangible assets:** R$55.7 million – increase of 90.1% over 1Q13.

### Conference call and Webcast

**Date:** 05/09/2014

**Portuguese/English**

**10:00 am** (BRT)/ **09:00 am** (EDT)

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## SUMMARY OF RESULTS

Consolidated (R$ Thousands)

| SUMMARY | 1Q14 | 1Q13 | Variation |
|---|---|---|---|
| **Revenues** | **805,039** | **701,751** | **14.7%** |
| Domestic Market | 234,250 | 235,518 | -0.5% |
| Foreign Markets | 570,789 | 466,233 | 22.4% |
| Cost of Goods Sold | (656,088) | (587,482) | 11.7% |
| **Gross Profit** | **148,951** | **114,269** | **30.4%** |
| % over Revenues | 18.5% | 16.3% | |
| Operating Expenses | (55,159) | (52,172) | 5.7% |
| Other Net Operating Expenses | (26,514) | (16,469) | 61.0% |
| **Income Before Financial Result** | **67,278** | **45,628** | **47.4%** |
| % over Revenues | 8.4% | 6.5% | |
| Net Financial Result | (16,594) | (26,820) | -38.1% |
| **Net Income Before Income Taxes** | **50,684** | **18,808** | **169.5%** |
| % over Revenues | 6.3% | 2.7% | |
| Income Tax and Social Contribution | (20,584) | 1,035 | |
| **Net income** | **30,100** | **19,843** | **51.7%** |
| % over Revenues | 3.7% | 2.8% | |
| **EBITDA** (accordingly to CVM 527/12 Instruction methodology) | **121,898** | **92,802** | **31.4%** |
| % over Revenues | 15.1% | 13.2% | |
| **Adjusted EBITDA** | **133,423** | **96,368** | **38.5%** |
| % over Revenues | 16.6% | 13.7% | |

## SALES VOLUME

| | Consolidated (Tonnes) | | |
|---|---|---|---|
| | 1Q14 | 1Q13 | Variation |
| **Total Sales Volume** | **156,071** | **152,747** | **2.2%** |
| Domestic Market | 47,010 | 50,101 | -6.2% |
| Participation % | 30.1% | 32.8% | |
| Foreign Market | 109,061 | 102,646 | 6.2% |
| Participation % | 69.9% | 67.2% | |

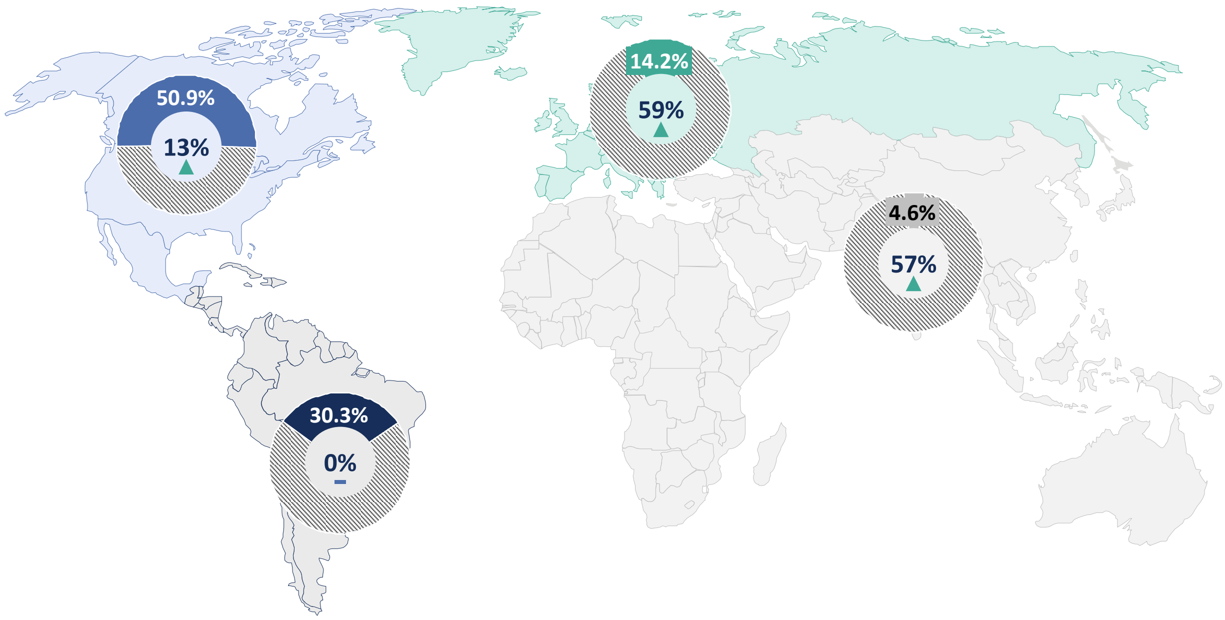
The sales volume increased 2.2% in relation to 1Q13, driven by a 6.2% increase in sales to foreign markets. On the other hand, the domestic market presented a 6.2% decrease in its sales volume.

## REVENUES

Revenues increased 14.7% in comparison to 1Q13, due to the positive performance from foreign markets that presented a 22.4% growth. In turn, the domestic market presented a 0.5% decrease.

| | Consolidated (R$ Thousands) | | |
|---|---|---|---|
| | 1Q14 | 1Q13 | Variation |
| **Revenues** | **805,039** | **701,751** | **14.7%** |
| Domestic Market | 234,250 | 235,518 | -0.5% |
| Participation % | 29.1% | 33.6% | |
| Foreign Market | 570,789 | 466,233 | 22.4% |
| Participation % | 70.9% | 66.4% | |

During the 1Q14, North America accounted for 50.9% of Tupy's revenues. In turn, South and Central America accounted for 30.3%, and Europe accounted for 14.2%. The remaining 4.6% came from Asia, Africa and Oceania.



During the reference period, 92.8% of the Company's revenues arose from sales to the automotive industry, a percentage slightly higher than the 92.0% recorded in 1Q13. We highlight in 1Q14 the revenues referring to the application of Tupy’s products in commercial vehicles in the domestic and foreign markets, and the positive trend of commercial vehicles, construction, industrial and agricultural machinery portfolio in foreign markets. The businesses from the Hydraulics sector (iron pipe fittings, steel shots and cast iron bars) represented 7.2% of revenues in this quarter (8.0% on 1Q13).

| | Consolidated (R$ Thousands) | | | Participation (%) | |
|---|---|---|---|---|---|
| **REVENUES BY MARKET AND APPLICATION** | **1Q14** | **1Q13** | **Variation** | **1Q14** | **1Q13** |
| **Revenues** | **805,039** | **701,751** | **14.7%** | **100%** | **100%** |
| **Domestic Market** | **234,250** | **235,518** | **-0.5%** | **29.1%** | **33.6%** |
| **Automotive** | **194,363** | **194,954** | **-0.3%** | **24.2%** | **27.8%** |
| Light vehicles | 76,248 | 83,161 | -8.3% | 9.5% | 11.9% |
| Commercial vehicles | 101,241 | 91,859 | 10.2% | 12.6% | 13.1% |
| Construction, Industrial & Agricultural | 16,874 | 19,933 | -15.3% | 2.1% | 2.8% |
| **Hydraulics** | **39,887** | **40,564** | **-1.7%** | **4.9%** | **5.8%** |
| **Foreign Markets** | **570,789** | **466,233** | **22.4%** | **70.9%** | **66.4%** |
| **Automotive** | **552,450** | **450,939** | **22.5%** | **68.6%** | **64.2%** |
| Light vehicles | 99,643 | 89,713 | 11.1% | 12.4% | 12.8% |
| Commercial vehicles | 247,952 | 199,400 | 24.3% | 30.8% | 28.4% |
| Construction, Industrial & Agricultural | 204,856 | 161,827 | 26.6% | 25.4% | 23.0% |
| **Hydraulics** | **18,339** | **15,294** | **19.9%** | **2.3%** | **2.2%** |

In some cases, the product is used in light cars and commercial vehicles, or in commercial vehicle and construction, industrial and agricultural machinery; therefore, it is not feasible to measure their application precisely. Thus, division assumptions are adopted between applications, considered our best inference.

## DOMESTIC MARKET

### Light vehicles (9.5% of 1Q14 revenues)

According to figures of ANFAVEA (National Association of Automobile Manufacturers), during the 1Q14 the domestic vehicle production fell 8.8% and Brazilian exports fell 34.7% in comparison with 1Q13. In turn, the licensing of domestic and imported light vehicles fell by 1.7% in the same comparison basis.

| | (Units) | | |
|---|---|---|---|
| | 1Q14 | 1Q13 | Var. (%) |
| **Production** | | | |
| Passenger vehicles | 586,874 | 646,896 | -9.3% |
| Light commercial | 150,929 | 162,129 | -6.9% |
| **Light vehicles** | **737,803** | **809,025** | **-8.8%** |
| | | | |
| **Licensing** | | | |
| Passenger vehicles | 583,264 | 613,220 | -4.9% |
| Light commercial | 192,092 | 175,294 | 9.6% |
| **Light vehicles** | **775,356** | **788,514** | **-1.7%** |
| | | | |
| **Exports** | | | |
| Passenger vehicles | 47,741 | 76,440 | -37.5% |
| Light commercial | 21,139 | 28,975 | -27.0% |
| **Light vehicles** | **68,880** | **105,415** | **-34.7%** |

*Source: ANFAVEA*

In 1Q14, the restrictions on Brazilian vehicles, an effect of Argentina's economic crisis, contributed to the decline in exports of the sector. Domestically, two factors led to the drop in sales: (i) the restricted credit supply  with higher interest rates and lower tenor; and (ii) the increase of the purchase price, a consequence of the partial recovery of IPI and the mandatory inclusion of safety features in the production of vehicles (airbags and ABS brakes).

In this context, during the 1Q14 the revenues from the implementation of Tupy’s products in light vehicles in the domestic market accounted for 9.5% of the Company's revenues. In comparison with 1Q13, there was a reduction of 8.3% in revenues arising from this type of application.

This decrease is explained mainly by the fall in the domestic market for light vehicles, together with loss of market share by a customer of the Company, as well as the phase-out of certain product due to material substitution for aluminum.

### Commercial Vehicles (12.6% of 1Q14 revenues)

According to data from ANFAVEA, and in comparison to the figures of the 1Q13, production and sales of heavy vehicles in 1Q14 decreased 1.8% and 10.9%, respectively.

The subsectors of heavy vehicles with impact on Tupy’s portfolio evolved as follows:

- Medium trucks: 2.0% increase in production and 19.5% in sales, which demand was influenced by the expectation of high consumption during the World Cup;
- Semi heavy trucks: 14.3% decrease in production and 7.3% in sales;
- Heavy trucks: 8.4% increase in production and 8.7% decrease in sales.

| | | (Units) | |
|---|---|---|---|
| | 1Q14 | 1Q13 | Var. (%) |
| **Production** | | | |
| **Trucks** | | | |
| Semi-light | 642 | 1,005 | -36.1% |
| Light | 8,294 | 7,440 | 11.5% |
| Medium | 3,008 | 2,949 | 2.0% |
| Semi-heavy | 14,527 | 16,959 | -14.3% |
| Heavy | 15,962 | 14,730 | 8.4% |
| **Total trucks** | **42,433** | **43,083** | **-1.5%** |
| | | | |
| Buses | 9,619 | 9,933 | -3.2% |
| **Commercial vehicles** | **52,052** | **53,016** | **-1.8%** |
| | | | |
| **Licensing** | | | |
| **Trucks** | | | |
| Semi-light | 1,046 | 1,243 | -15.8% |
| Light | 5,133 | 7,511 | -31.7% |
| Medium | 3,187 | 2,667 | 19.5% |
| Semi-heavy | 10,027 | 10,818 | -7.3% |
| Heavy | 11,053 | 12,101 | -8.7% |
| **Total trucks** | **30,446** | **34,340** | **-11.3%** |
| | | | |
| Buses | 6,952 | 7,620 | -8.8% |
| **Commercial vehicles** | **37,398** | **41,960** | **-10.9%** |

*Source: ANFAVEA*

This segment performance in 1Q14 was affected by the delay in the regulatory and legal procedures for granting the PSI-BNDES credit line by commercial banks. The atypical weather conditions that affected the summer crop, also impacted sales of semi heavy and heavy trucks.

Tupy's revenues from the application of its products to commercial vehicles in the domestic market represented 12.6% of the Company's revenues in 1Q14. Despite the negative market performance, still in comparison with 1Q13, there was a 10.2% growth in revenues generated by this type of application.

In relation to Tupy's business profile in this sector, it is worth mentioning:

a. The aforementioned increase of sales of medium trucks that use Tupy's products;
b. The continuance of ramp-up of a new machined product.

## Construction, Industrial and Agricultural (2.1% of 1Q14 revenues)

According to data published by ANFAVEA, production and sales of agricultural machinery in 1Q14 fell by 13.0% and 21.3%, respectively, compared to 1Q14.

| | (Units) | | |
|---|---|---|---|
| | 1Q14 | 1Q13 | Var. (%) |
| **Production** | | | |
| Wheeled tractors | 14,347 | 16,886 | -15.0% |
| Crawler tractors | 728 | 481 | 51.4% |
| Motorized planters | 454 | 311 | 46.0% |
| Harvesters | 2,250 | 2,846 | -20.9% |
| Backhoes | 1,742 | 1,907 | -8.7% |
| **Machinery** | **19,521** | **22,431** | **-13.0%** |
| | | | |
| **Licensing** | | | |
| Wheeled tractors | 11,339 | 14,481 | -21.7% |
| Crawler tractors | 191 | 193 | -1.0% |
| Motorized planters | 335 | 340 | -1.5% |
| Harvesters | 2,012 | 2,532 | -20.5% |
| Backhoes | 1,029 | 1,384 | -25.7% |
| **Machinery** | **14,906** | **18,930** | **-21.3%** |

*Source: ANFAVEA*

Just like the commercial vehicles segment, the performance of the agricultural machinery market was also affected by barriers created by the regulation and operation of Finame PSI-BNDES on 1Q14, and irregular rainfall that affected the summer crop, which projection has been gradually reduced since the beginning of the year.

Revenues from the application of Tupy's products in construction, industrial and agricultural machinery on the domestic market accounted for 2.1% of Tupy's revenues in 1Q14 and decreased 15.3% compared to 1Q13.

The decline in the Company's revenues in this segment computes the negative impact of sales volume for the railway sector, which is included in the same classification.

## Hydraulics (4.9% of 1Q14 revenues)

Revenues of the application of the Company's products in the hydraulics industry in the domestic market represented 4.9% of 1Q14 revenues, decrease of 1.7% compared to the same period of 2013.

The change in question is explained by the sharp drop in sales of steel shots for blasting, caused by the decrease in end markets and oversupply of the product in the market.

## FOREIGN MARKET

The devaluation of 17.5% of the average exchange rate in 1Q14 (R$2.341/US$) in comparison to the 1Q13 (R$1.993/US$) benefited the revenues from the foreign market for all applications.

### Light vehicles (12.4% of 1Q14 revenues)

The production and sales of light vehicles in the United States decreased by 3.5% and 4.1%, respectively, in 1Q14 compared to 1Q13, according to *Automotive News*. In Europe, according to data from European Automobile Manufacturers Association ACEA, sales presented a 8.1% growth in the same reference base.

| | (Units) | | |
|---|---|---|---|
| | 1Q14 | 1Q13 | Var. (%) |
| **United States** | | | |
| **Production** | | | |
| Passenger vehicles | 1,131,845 | 1,172,647 | -3.5% |
| **Licensing** | | | |
| Passenger vehicles | 1,842,206 | 1,920,775 | -4.1% |
| **Europe** | | | |
| **Licensing** | | | |
| Passenger vehicles | 3,353,180 | 3,101,196 | 8.1% |

*Sources: Automotive News (EUA); ACEA (Europe)*

In the United States, the most severe winter weather of recent years was the major factor to affect the performance of the light vehicle market. Only in March there was a recovering of sales, but without offsetting the decline in January and February. In Europe, the economic recovery is gradually gaining momentum and therefore leveraged the demand of the sector in 1Q14. In line with the growth in consumer confidence index in the Euro zone, the launch of new models has found the correct timing to meet the demand for replacement of old vehicles.

In the scenario described above for North America and Europe, the sales of Tupy's products for light vehicles in foreign markets represented 12.4% of the Company's revenues in 1Q14. In comparison to 1Q13, there was a 11.1% growth from this kind of application.

The retraction of the american market was offset by the increase in sales to the European market and by the launch of machined block, also bound for Europe.

### Commercial Vehicles (30.8% of 1Q14 revenues)

In the United States, production of light commercial vehicles grew 19.1%. Meanwhile, sales of light, medium and heavy commercial vehicles in that country accumulated growth of 7.3%, 12.0% and 12.9%, respectively. In Europe, sales of commercial vehicles increased in 9.3%.

| | 1Q14 | 1Q13 | Var. (%) |
|---|---|---|---|
| | (Units) | | |
| **United States** | | | |
| **Production** | | | |
| Light commercial – Class 1-3 | 1,904,599 | 1,598,570 | 19.1% |
| **Licensing** | | | |
| Light commercial – Class 1-3 | 1,903,274 | 1,774,398 | 7.3% |
| Medium commercial – Class 4-6 | 35,714 | 31,877 | 12.0% |
| Heavy commercial – Class 7-8 | 55,718 | 49,337 | 12.9% |
| **Commercial vehicles** | **1,994,706** | **1,855,612** | **7.5%** |
| **Europe** | | | |
| **Licensing** | | | |
| Light commercial | 383,453 | 349,069 | 9.9% |
| Medium commercial | 22,307 | 23,639 | -5.6% |
| Heavy commercial | 54,096 | 48,117 | 12.4% |
| **Commercial vehicles** | **459,856** | **420,825** | **9.3%** |

*Sources: Automotive News (EUA); ACEA (Europe)*

In the United States, the demand for heavy commercial vehicles was related to the replacement of old trucks for new models. Meanwhile, the recovery in sales of medium commercial vehicles takes into account a low comparative base in 1Q13, due to the automatic budget sequestration, besides growth, in 1Q14, confidence indexes and the prospect of production recovery of consumer goods after the harsh winter. In turn, the growth of light commercial vehicles was based on the increase of consumer confidence and maintaining high levels in real estate.

In Europe, the recent improvement of the economic scenario, including the industrial sector, boosted demand for commercial vehicles that had been compromised by the economic crisis

Tupy's revenues from the application of its products to commercial vehicles in the foreign market represented 30.8% of the Company's revenues in 1Q14. In comparison with 1Q13, there was a 24.3% growth in revenues generated by this type of application.

The significant growth of the revenues from the application in commercial vehicles is explained by the following factors:

a. Strong growth of the pickup truck market in the United States;
b. Launch of a block for heavy trucks in the Asian market;
c. Ramp-up of two blocks and one head in CGI for the European and American markets, both for application on heavy trucks.

## Construction, Agricultural and Mining (25.4% of 1Q14 revenues)

According to data from the Association of Equipment Manufacturers (AEM), sales of agricultural machinery in the United States presented growth of 4.3% in 1Q14 compared to 1Q13.

| | (Units) | | |
|---|---|---|---|
| | 1Q14 | 1Q13 | Var. (%) |
| United States | | | |
| **Licensing** | | | |
| 2WD Farm tractors \| <40HP | 18,131 | 16,233 | 11.7% |
| 2WD Farm tractors \| 40<100HP | 11,698 | 11,457 | 2.1% |
| 2WD Farm tractors \| 100+HP | 7,749 | 7,879 | -1.6% |
| 4WD Farm tractors | 1,533 | 1,645 | -6.8% |
| Self-prop combines | 1,840 | 2,057 | -10.5% |
| **Agricultural machinery** | **40,951** | **39,271** | **4.3%** |

*Source: AEM*

The growth in sales of agricultural machinery is placed within the growth scenario for grain production in the United States and the upward trend in the prices of major agricultural commodities (corn, soybeans and wheat).

In turn, the American real estate sector remained positive throughout the 1Q14 performance, albeit marginally harmed by a more severe winter.

In this context, the revenues from the application of Tupy's products to construction, industrial and agricultural machinery, on the foreign market accounted for 25.4% of Tupy's revenues on the 1Q14 and increased 26.6% compared to 1Q13.

The growth in revenues resulting from products applied to construction, agricultural and industrial machinery in foreign markets is explained by the recovery of orders in the construction and mining sub-segmentr, pre-buy due to the change in emissions legislation, which should be completed in 2H14, and launching of a head applied in marine engines in North America.

## Hydraulics (2.3% of 1Q14 revenues)

Revenues from the application of the Company's products in the Hydraulics segment in foreign markets represented 2.3% of 1Q14 revenues, and corresponded to an increase of 19.9% in comparison to the same quarter of 2013.

Besides the exchange rate variation, the growth of revenues in the Hydraulics segment is explained mainly by: (i) rebuilding of inventories in major retailers of cast iron bars (North America and Europe); and (ii) additional sales of pipe fittings to South America.

## COST OF GOODS SOLD AND OPERATING EXPENSES

The cost of goods sold in 1Q14 added up to R$656.1 million, 11.7% above the numbers of the same quarter of 2013. Consequently, the quarter recorded a gross margin of 18.5%, an expansion of 2.2 percentage points in comparison to the previous year. Administrative expenses reached R$55.2 million, 5.7% above 1Q13.

| | Consolidated (R$ Thousands) | | |
|---|---|---|---|
| **SUMMARY OF THE RESULTS** | **1Q14** | **1Q13** | **Variation** |
| **Cost of Goods Sold** | **(656,088)** | **(587,482)** | **11.7%** |
| Raw Material | (365,404) | (332,116) | 10.0% |
| Labour | (133,081) | (114,955) | 15.8% |
| Electricity | (38,623) | (32,416) | 19.1% |
| Depreciation | (38,853) | (33,669) | 15.4% |
| Maintenance materials | (49,988) | (47,583) | 5.1% |
| Profit sharing program | (9,652) | (9,413) | 2.5% |
| Others | (20,487) | (17,330) | 18.2% |
| **Operating Expenses** | **(55,159)** | **(52,172)** | **5.7%** |

The growth is explained mainly by the following factors:

- Increase of variable costs generated by growth of sales volume;
- Effect of the exchange rate devaluation on costs of inputs, with prices in dollars, use by the Brazilian and Mexican units;
- Inflation of overall scrap price, reflecting mainly the lower availability of such material in the Brazilian market due to the attractiveness to export in view of the devaluation of the Real and the slowdown of the Brazilian economy;
- Contractual renegotiation with energy supplier for Mexican plants;
- Increase in salaries due to collective bargaining.

On the other hand, the effects above were partially compensated by:

- Improvement in productivity indexes, especially in the Mexican plants;
- Improvement in the use of materials in the Mexican units;
- Reduction of energy cost in the Brazilian units due to the sales of surplus contracted capacity in the open market.

## OTHER NET OPERATING EXPENSES

The result of the other net operating expenses account was R$26.5 million in 1Q14, 61.0% growth in comparison to 1Q13.

Such increase is mainly a result of the expense of R$6.0 million relating to the provision for labor contingencies.

| | Consolidated (R$ Thousands) | | |
|---|---|---|---|
| | **1Q14** | **4Q13** | **Variation** |
| Other Net Operating Expenses | (26,514) | (16,469) | 61.0% |

## INCOME BEFORE FINANCIAL RESULT

Reflecting the different circumstances aforementioned, the income before the financial result reached R$67.3 million in 1Q14, compared to the R$45.6 million observed in 1Q13.

| Consolidated (R$ Thousands) | | | |
|---|---|---|---|
| | 1Q14 | 1Q13 | Variation |
| **Revenues** | **805,039** | **701,751** | **14.7%** |
| COGS and SG&A | (711,247) | (639,654) | 11.2% |
| Other Net Operating Expenses | (26,514) | (16,469) | 61.0% |
| **Income Before Financial Result** | **67,278** | **45,628** | **47.4%** |

## NET FINANCIAL RESULT

The net financial result in 1Q14 was an expense of R$16.6 million, 38.1% decrease in comparison to the R$26.8 million in 1Q13.

| Consolidated (R$ thousands) | | | |
|---|---|---|---|
| | 1Q14 | 1Q13 | Variation |
| Financial Expenses | (25,117) | (28,524) | **-11.9%** |
| Financial Revenues | 17,250 | 6,425 | 168.5% |
| Net Monetary and Remeasurement Gains or Losses | (8,727) | (4,721) | 84.9% |
| **Net Financial Results** | **(16,594)** | **(26,820)** | **-38.1%** |

The improvement in the net financial result is due mainly to the expansion of the financial income resulting from the application of proceeds from the Public Offering concluded in Oct/13.

## NET INCOME BEFORE TAXES, AND NET INCOME

The net income before taxes in 1Q14 was R$50.7 million, 169.5% increase over the figure reported in 1Q13. The expenses for income tax and social contribution totaled R$20.6 million. The effective tax rate of 40.6%, higher than in fiscal year 2013 (30%), does not reflect the deductibility of interest on shareholders' equity, which will be settled in 4Q14.

The net result in 1Q14 corresponded to a profit of R$30.1 million, 57.1% higher than in 1Q13, representing a margin of 3.7% over revenues for the quarter.

| Consolidated (R$ thousands) | | | |
|---|---|---|---|
| | 1Q14 | 1Q13 | Variation |
| **Net Income Before Income Taxes** | **50,684** | **18,808** | **169.5%** |
| Income Tax and Social Contribution | (20,584) | 1,035 | |
| **Net Income** | **30,100** | **19,843** | **51.7%** |
| % over Revenues | 3.7% | 2.8% | |

## ADJUSTED EBITDA

The combination of aforementioned factors resulted in an adjusted EBITDA of R$133.4 million, equivalent to an increment of 38.5% in comparison to 1Q13. The improvement can also be noticed in the respective index of adjusted EBITDA Margin, i.e. 16.6% in comparison to 13.7% observed in the same period of the previous year, and best margin for the first quarter since 2010.

| | Consolidated (R$ thousands) | | |
|---|---|---|---|
| **RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA** | **1Q14** | **1Q13** | **Variation** |
| **Net Income** | **30,100** | **19,843** | **51.7%** |
| (+) Net Financial Result | 16,594 | 26,820 | -38.1% |
| (+) Income Tax and Social Contribution | 20,584 | (1,035) | |
| (+) Depreciation and Amortization | 54,620 | 47,174 | 15.8% |
| **EBITDA (accordingly to CVM 527/12 Instruction methodology)** | **121,898** | **92,802** | **31.4%** |
| EBITDA Margin | 15.1% | 13.2% | |
| (+) Other net operating expenses | 11,525 | 3,566 | 223.2% |
| **Adjusted EBITDA** | **133,423** | **96,368** | **38.5%** |
| Adjusted EBITDA Margin | 16.6% | 13.7% | |

(*) 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 the reference quarter added up to R$55.7 million, an increase of 90.1% in comparison to 1Q13. The main investments in the quarter were the automation of finishing processes, adaptation of one of the lines for the production of compacted graphite iron (CGI) in Brazil and continuance of the ERP implementation project, strategic investments in new projects and transfer of products to Mexico.

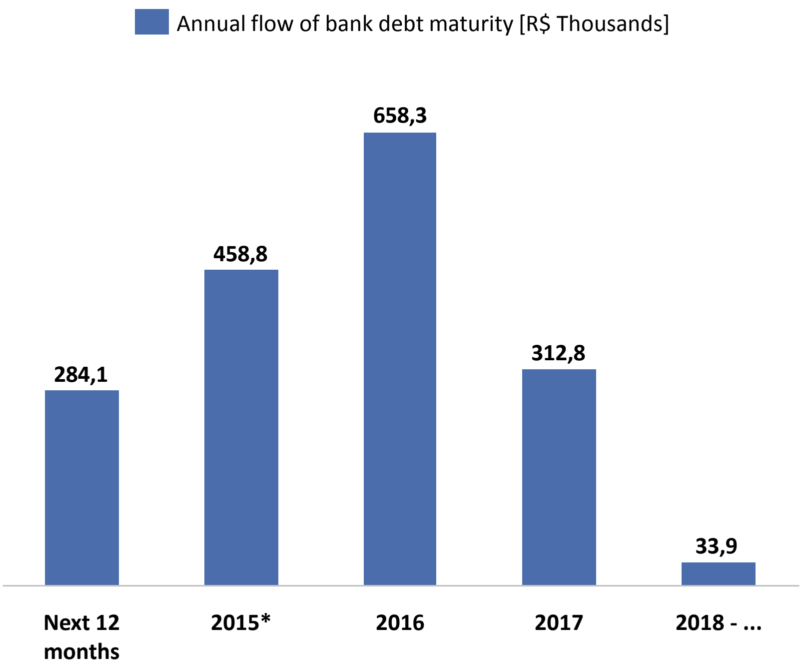
It is important to point out that the projects of automation of the finishing process, sand regeneration and other projects of operational optimization linked to the use of proceeds from the public offering for primary distribution of common shares are in progress and have capital allocated for 2014.

| | Consolidated (R$ Thousands) | | |
|---|---|---|---|
| | **1Q14** | **1Q13** | **Variation** |
| ***PP&E*** | | | |
| Strategic investments (in expansion) | 28,677 | 2,891 | 891.9% |
| Maintenance and modernization of operating capacity | 12,224 | 17,738 | -31.1% |
| Environment | 7,950 | 3,118 | 155.0% |
| Interest and financial charges | 488 | 744 | -34.4% |
| ***Intangible assets*** | | | |
| Software | 6,327 | 4,789 | 32.1% |
| | **55,666** | **29,280** | **90.1%** |

## DEBT

The Company ended the 1Q14 with gross debt of R$1,752.5 million. Regarding the currency breakdown, 42.5% is in Brazilian Reais and 57.5% in foreign currencies. As for the tenor, 16.4% are short term obligations and 83.6% are long term obligations. Net debt in 1Q14 reached R$617.4 million, resulting in an index of net debt/Adjusted EBITDA LTM 1.17x.

| Consolidated (R$ thousands) | 1Q14 | 4Q13 |
|---|---|---|
| Bank debt - short term | 284,145 | 221,493 |
| Bank debt - long term | 1,463,821 | 1,578,176 |
| Derivatives | 4,536 | 3,819 |
| **Gross Debt** | **1,752,502** | **1,803,488** |
| | | |
| Cash and cash equivalentes | 1,119,921 | 1,123,446 |
| Derivatives | - | 561 |
| Financial investments | 15,212 | 14,900 |
| **Net debt** | **617,369** | **664,581** |
| | | |
| **Dívida líquida/EBITDA Ajustado LTM** | **1,17x** | **1,36x** |



(*) Does not include short term debt

## CASH FLOW

The Company generated R$86.4 million from operating activities in 1Q14, before the cash application of R$61.2 million in 1Q13. The growth in operating cash flow was due primarily to the expansion of profit before tax in the previous period and the efforts for the anticipation of receivables in 4Q12, which reduced operating cash flow in 1Q13.

As for the cash applied in investment activities, the transactions refer to the additions to PP&E and intangible assets.

The application of cash in financing activities is due to the amortization of financing lines in 1Q14 in the amount of R$20.0 million, as opposed to the comparative period, in which there was fundraising.

The combination of those factors resulted in a decrease of cash and cash equivalents to the amount of R$3.5 million in the period, and Tupy ended the 1Q14 with the cash and cash equivalents balance of R$1,119.9 million, 65.2% above the amount at the end of the 1Q13.

| | Consolidated (R$ Thousands) | | |
|---|---|---|---|
| CASH FLOW SUMMARY | 1Q14 | 1Q13 | Variação |
| **Cash and cash equivalents at the end of the period** | **1,119,921** | **677,768** | **65.2%** |
| Cash flow from operating activities | 86,449 | (61,212) | |
| Cash flow from investment activities | (57,153) | (24,491) | 133.4% |
| Cash flow from financing activities | (15,753) | 119,893 | |
| Effect of exchange rate changes on cash | (17,068) | (16,859) | 1.2% |
| **Increase (decrease) of cash availability** | **(3,525)** | **17,331** | |

## 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).

| | TUPY3 - ON | | | |
|---|---|---|---|---|
| | Average DTV (R$) | Highest (R$) | Lowest (R$) | Average (R$) |
| 1st Quarter 2014 | 2,744,296 | 19.18 | 16.49 | 18.29 |
| 4th Quarter 2013 | 4,631,335 | 22.30 | 17.66 | 19.47 |
| 3rd Quarter 2013 | 2,165,765 | 20.89 | 16.10 | 18.21 |
| 2nd Quarter 2013 | 160,738 | 24.09 | 18.50 | 20.23 |
| 1st Quarter 2013 | 270,830 | 26.65 | 22.50 | 23.66 |

| | Closing (Points) | | |
|---|---|---|---|
| | 1Q14 | 4Q13 | Variation |
| TUPY3 ON (R$) | 18.26 | 21.00 | -13.0% |
| IBovespa | 50,415 | 51,507 | -2.1% |
| ITAG* | 10,336 | 10,326 | 0.1% |
| IGC* | 7,642 | 7,788 | -1.9% |
| IGC-NM* | 1,644 | 1,670 | -1.5% |

*Source: Bloomberg*

*(*) Indexes in which TUPY3 participates*

The price of the Company's shares in 1Q14 varied from R$21.18 and R$16.49, closing the quarter at R$18.26 per share, 13.0 % lower in relation to the closing of 4Q13 (R$21.00).

| | TUPY3 - ON | | |
|---|---|---|---|
| | 1Q14 | 1Q13 | Variation |
| ADTV (R$ Thousands) | 2,744 | 270 | 916.6% |
| Daily trades | 332 | 20 | 1560.0% |

As a consequence of the expansion of the free float due to the public offer performed in Oct/13, as well of the adhesion to the *Novo Mercado*, the liquidity of the shares (TUPY3) reached R$2.7 million of average traded volume per day in the Q14, amount 916.6% above the liquidity in 1Q13. Furthermore, the amount of daily trades of the shares reached the level of 332 trades/day in 1Q14, quantity 1,560.0% above the 1Q13.

On 01/15/2014, Telos ceased being subject to the lock-up of 90 days from the date of the announcement of the public offering. As of this date, Telos has become part of the free float.

On 04/15/2014, ended the lock-up agreement that bound 100% of the shares of Banco do Brasil Employees' Retirement Fund of (Previ) and BNDES Participações S.A. (BNDESPar). After the date mentioned, Previ and BNDESPar may not sell or place for sale more than 40% of their position after the Offering until 10/17/2014 according to listing regulations in the *Novo Mercado* of the BM&FBovespa.

The Company is submitted to the rules of the Arbitration Chamber of the *Novo Mercado*, as per article 60 of its Bylaws.

## Shareholder structure