

Q4 2014 Earnings Call

Company Participants

- Cristiano Correa de Barros, Finance and Investor Relations Superintendent Officer, Member of the Executive Board
- Jose Aloise Ragone Filho, Chief Executive Officer, Member of the Executive Board
- Rafaela Gunzburger, Investor Relations Manager

Other Participants

- Unidentified Participant

Presentation

Operator

(Starts Abruptly)

www.taesa.com.br/ir. We would like to inform that participants will be in a listen-only mode during the conference. And afterwards we will have a question-and-answer session for investors and analysts, when further instructions for you to participate will be given. (Operator Instructions).

Before proceeding, we would like to clarify that, forward-looking statements that might be made during this call, related to the business perspectives of the company operating and financial targets and projections, our belief and assumptions of Taesa's management as well as information currently available to the company.

Forward-looking statements are not guarantees of performance. They involve risks and uncertainties, and assumptions and they refer to future events and therefore they depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors may affect the future results of the company and may lead to results that differ materially from those expressed in such forward-looking statements.

Now we would like to pass the floor over to Mr. Cristiano Correa de, CFO and Investor Relations Officer who will start the presentation. Mr. Correa, you may proceed.

Cristiano Correa de Barros {BIO 4273820 <GO>}

Good afternoon everyone, thank you for participating in our call. Today with me we have Ragone, who is our CEO. Rafaela, our Investor Relations Manager and (inaudible) who are our Investor Relations Analyst. What we have to tell you today is that 2014 was a very

good year for Taesa. Although we have not concluded any new acquisition, the company took the time to reorganize itself in financial and operating terms, implementing its identity by (inaudible) of managing the assets acquired in the last few years.

We also took this time to totally eliminate the exchange rate risk of the company. We maintained a maximum dividend payout policy and we reduced leverage by means of settling our debt. Taesa also started the operation of new assets, find the new concession contract and the shareholders agreement work renewed for 720 additional days.

The company's net income by the IFRS reached BRL905 million and the regulatory EBITDA that represents a measure of cash generation of the company reached BRL1,341 million. We are talking about 1,341 million and this means that growth of 10.6% year-on-year regulatory EBITDA margin also reached very interesting levels, 19.8% and the line availability rate was 99.97%, representing a PV of BRL17.2 million around 1% of the company's RAP.

On page number three, you will see a timeline with the details of most of the bank debt marked on management in 2014 and we would like to highlight the BRL450 million debt extension, a reduction of BRL750 million in our debt by means of the amortization of debentures and dollar denominated debt and effective dividend payout and interest on equity amounted to BRL1 billion.

And referring to the 2014 net income, in 2015, we will be paying an additional BRL215 million resulting into a 94% payout. And this is important to mention that the ownership structure of Taesa was changed after the renewal of FIP Coliseu at the exit of Santander from the control block and therefore FIP Coliseu of the total capital of the company now holds 22%, CEMIG 43% and Free Float around 35%.

In operational terms, it's important to highlight that the year was marked by the commercial start-up of the Sao Gotardo Substation and some reinforcements concluded amounting to BRL50 million in reinforcement. We also signed a concession contract which was at Mariana.

In summary, this is an overview of 2014 and we can tell you that the company is prepared to face a new cycle of growth.

And now I would like to give the floor to Rafaela, our Investor Relations Manager and she will be making the detailed presentation of our results. And after Rafaela myself Ragone (inaudible) and our whole team will be available to you to answer any questions that you might have.

Rafaela Gunzburger

Good afternoon, everyone. I would like to talk about the result that you can see on page number four, the comparison of the quarterly results. And the quarterly result was in line with our expectations, both the RAP as the EBITDA grew in line with inflation, but in the

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comparisons of the IFRS quarterly result, we saw the impact of the, with view of the estimate of the due to cash flow of these financial assets, 70 million impact, besides the growth in net income also benefited by some of the payment of interest on equity in 2013 and 2014 and this had a positive impact on our results as well.

Now going to page number five, where you can see the year results. It was also in line with our expectation and the EBITDA margin of 89.7, shows the capacity of the company to manage cost and keep the high quality standards of its assets. The variation of the RAP and the EBITDA were higher than inflation in 2014 under the managerial results because TBE was consolidated for 12 months whereas in 2013 it was only four, seven [ph] months and this caused the positive variation as well.

In the annual results, the impact of the monthly restatement of our revenue by the inflation was not relevant as this was because from June to August I do see and that have been negative work cancelled by the positive IGPM or offset by the positive IGPM until December, still the impact was almost same [ph]. And net income of 2014, was in line with 2013 because of non-recurrent effect in 2013, which impacted by 100 million, the results for the year of 2013.

Now going to page number six, we show the chart with the breakdown of the IFRS net revenue and the variation of the consolidated was 3% and it was lower than inflation, because in 2014, we saw a construction revenue that was lower than 2013 and the cost for that was Sao Gotardo start-up and some reinforcements also that started up in 2014. So investment in construction was lower. And on the managerial side, the growth was 10% and it is also impacted by the consolidation of TBE, as I said before.

And the monthly posting of inflation did not impact the annual result of regulatory EBITDA of 2014 that we show on page number seven through the growth that was higher than inflation in the consolidated due to the start-up of Sao Gotardo and some reinforcement and also the reduction in cost after the insourcing that happened in September 2013 of operation maintenance of the assets that were acquired from Abengoa in 2012. And the growth of the managerial EBITDA, the side effects also occurred because of the consolidation of TBE in 12 months, vis-a-vis seven months in 2013.

On page number eight, you can see how Taesa has the objective of keeping always at a level of 90% of EBITDA margin and the chart that shows the evolution of the EBITDA margin shows the capacity on the part of the company on managing costs, mainly after some acquisitions such as happened in 2012 and the policy of using our own people for the operation and maintenance of our lines is more efficient operationally and financially. So after the insourcing and some adjustments then we've achieved this EBITDA again close to 90%.

On page nine, we show you the IFRS net income 2014, in line with 2013 in spite of the EBITDA and the equity income that were higher and there was this adjustment in the fact of 2013 that didn't happen in 2014, which means that the growth of the EBITDA had this impact of the higher tax this year.

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On page number 10, where we show you our cash flow. We show the capacity of the company of paying dividends with operating cash generation. This year we paid about BRL1 billion [ph] over 1.7 billion in operational cash generation. So the company generates quite a lot of cash and this is the reason why we are able to stay continue with this policy of maximum payout of dividends and financial management is very important mainly with rollover of the debt at a lower cost than the one that we had such as was the case of the issue of our promissory note paid in April this year.

And also the loans based on loss for 131 and the (inaudible) rollover as operating cash. We were able to pay both the interest and the principal of some of parts of our debt with our own cash. This is quite flat [ph] from 534 at the end of 2013 to 191 at the end of 2014. Here we're talking about million rial.

And on the last page on 11, this show you the indebtedness of the company with a longer profile with no exchange rate exposure in the balanced capital structure. Our debt is practically happened have TBE and IPCA adjusted with our revenues, which is inflation base adjusted and the term of the debt is most of its long-term, 84% long-term and the capital structure 50-50 net debt and shareholder's equity that we have been doing for some time already.

Okay. So I think this is the end of our presentation. And we didn't have any surprises, which was very good. And now I would like to give the floor to Ragone.

Jose Aloise Ragone Filho {BIO 20590608 <GO>}

I just want to add to what was presented by Cristiano before. And to that our guidance for 2015 will not be different from the guidance what has been guiding in our management towards the growth of our company. We will be maximizing the fundamentals of the company in such a way as to continue with the unique combination of our company that our maintain partners, the maximum dividends as we can and matching this to with a very interesting position in terms of growth.

So this is a unique situation of Taesa and this gives us a very relevant and attractive characteristics in a difficult economic scenario that involves the power metrics. Cristiano said it very well, we devote ourselves our whole team to our internal processes that could tell the company to place it at a unique position very well prepared to face the new work cycle and this new growth cycle will be focused exclusively on the same principles that have been ours in the previous operation.

We are focused on returns and on the quality of the assets acquired. Now I would like to open for questions and we all face ourselves at your disposal to answer any questions that you might have. We would like to start the Q&A session for investors and analysts now.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Mr. (inaudible).

Q - Unidentified Participant

Good afternoon, everyone. I have two questions. I would like to know is because of the unfavorable hydrology since last year if you foresee any substantial change expected with reinforcements of your lines? And if I have understood at the beginning of the presentation you still have 250 million in dividends that will be paid out during 2015 that hasn't been approved?

A - Jose Aloise Ragone Filho {BIO 20590608 <GO>}

(inaudible) this is Ragone. I will answer the first part of your question and the answer is yes. There are some signs already, concrete signs on the part of the ministry of bringing forward lines and submission lines that were estimated for later on and it will be placed or these assets will be auctioned before, it's not that we believe we are saying that there are some concrete signs of our operation and strategy of auctions for the next couple of years at a considerably higher levels then what has been auctioned in the last couple of years because of the need to reinforce this submission systems and extending the same capacity between the many different regions of Brazil. We know that the election power system is supported by submission.

So we need to have a sufficient grid in order to support this and these are mitigating factors. They will be mitigating the problems that the whole of society is facing today they regarding power supply. So there is already a concrete signal on the part of the regulatory agencies in Brazil regarding new opportunities in this area.

Now regarding the dividend payout, this year we will be paying about 852 million in dividends and this represents 94% payout, 597 have already been paid in 2014 as dividends and interest on equity, interim dividend and therefore, we still have 255 million to be paid out and they should occur before the end of May.

Q - Unidentified Participant

Thank you for the answers. Next regarding the first part, the expansion that you talked about will be via new auctions and also reinforcement of the lines that already have or?

A - Cristiano Correa de Barros {BIO 4273820 <GO>}

Of course. For us and for the system the reinforcement is considered as a margin of investment and there are some concrete signs of new concessions to be auctioned going forward because in the plan, the original plan they should be later on that our reinforcements will also be carried out to increase the circulation capacity of the already existing resolution [ph] assets. So we expect an increase in terms of the north-south interconnection reinforcements in this line and we already have studies prepared.

So if we are authorized to reinforce our concession, this is one of the three lines that make-up the north-south interconnection. We already have studied and studied with suppliers, so that we may be proactive and buy the equipment and implement this as fast as we can.

Meeting the objectives of the power or the range in power to increase transmission and for the company that would be a very interesting additional flow of revenue. Thank you.

Operator

(inaudible) from Bank of America. You may proceed.

Q - Unidentified Participant

Good afternoon. I have a doubt about the debt rollover this year. How much will you have to rollover this year and what is the market rate that you see for 2015?

A - Cristiano Correa de Barros {BIO 4273820 <GO>}

We do not have any debt rollover foreseen. What we have in our budget is the dividend payout, the maximum dividend payout and the payment of debt that matures this year. We have no growth over forecast unless we have a new acquisition. We are studying the markets. It seems to be very good in terms of offerings and we are being contacted by many, many companies who are interested in selling their assets and let's say one of the opportunities materialize, in this case then we will have debt rollover and in terms of debt capacity roll over I can tell you that we have the capacity of rollover everything that we have in our debt. And for one to one operations that are being offered for the short run up to two years with a cost of 102% of the CDI for instance.

Q - Unidentified Participant

Another doubts you talked about the acquisition. So you are considering more at the acquisition then the auction for new lines?

A - Cristiano Correa de Barros {BIO 4273820 <GO>}

No, we are also considering the auction. But our DNA is a DNA of acquisition. Construction company have a higher opportunity in terms of being the winning bigger these options that we have. So I think Ragone could say a few words also about that.

A - Jose Aloise Ragone Filho {BIO 20590608 <GO>}

We always position ourselves in the following way and our history collaborate what I will be telling you now. There is no present that is to say between M&A and auctions what happened is that we have to assess all the opportunities regarding quality assets that may bring additional value to the company this is what guides us. And our DNA is a long-term DNA we are an OEM company and the M&A possibilities are use any more interesting than the auction one. But this is not exclude by the Taesa's participation in auctions.

We participate in auction and our team analyzes the opportunities that are offered. And of course priorities because you have to study in depth the assets that might represent gains both of synergy and of scale, but all the opportunities of growth are analyzed by us collectively and selectively and we make our best endeavors be it in M&A or Greenfield, we place our endeavors on those which will bring more value to our business.

Q - Unidentified Participant

Thank you.

Operator

Thank you very much. As there are no more questions. We would like to give the floor back to Mr. Ragone, for his closing remarks. Mr. Ragone, you may proceed.

A - Jose Aloise Ragone Filho {BIO 20590608 <GO>}

First of all, I'd like to thank you for your interest in participating in our call. And we already here, our message is that we are prepared to face the new cycle of growth in this market that we can see in the short-run and that bring new opportunities be at Greenfield opportunities or M&A opportunities that seems to be picking-up and our privileged position need us to be selective and with discipline and bringing to our Company new concessions and that will bring more and more value to our shareholders. Of course, our Investor Relations people (inaudible) team will be available to you at all times. So that during this year we can keep an ongoing relationship with you a very transparent and candid dialog with all of you and we would like to wish you all in this first opportunity of this year. Wish a very good year, very good 2015.

Our principles are the same. They remain the same and we assure that over this year, we will live-up to the expectations that you have and deliver good results for Taesa. Good afternoon.

Operator

Thank you. Taesa's conference call of the 2014 results is closed. Please disconnect your lines now.

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