

Y 2018 Earnings Call

Company Participants

- Arthur Piotto Filho, CFO and Investor Relations Officer
- Eduardo de Toledo, Vice President of Corporate Management
- Unidentified Speaker

Other Participants

- Analyst
- Felipe Vinagre
- Fernando Abdalla
- Roberto Otero
- Rogerio Araujo
- Stephen Trent

Presentation

Operator

Good afternoon, ladies and gentlemen, thank you for waiting. We would like to welcome everyone to the Fourth Quarter 2018 Earnings Conference Call of the CCR SA. We would like to inform you that all participants will be in the listen mode during the presentation.

After the company's remarks were completed there will be a Q&A session. At this time for the further instructions will be given. (Operator Instructions).

Before proceeding let me mention that forward-looking statements about CCR's business prospects and financial and operating growth are based on the beliefs and assumptions of CCR's management and on information currently available to the company. Forward-looking statements are not a guarantee of performance. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of CCR and could cause those results to differ materially from those expressed in such forward-looking statements.

Now I'll turn the floor over to Mr. Eduardo de Toledo, Corporate Management CP of CCR. Mr. Toledo, you may begin, please.

Eduardo de Toledo {BIO 2067933 <GO>}

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Good afternoon. It's a good pleasure to be with you today. I am the CCR Corporate Management VP. Maybe we have met in the marketplace and most recently at Klabin. We have today Arthur Piotto, the RI and financial director of the company, a friend of yours for the long time as well as Marcus Macedo and Flovia Goday. This is the first time that I'm participating of CCR's call, and I consider this one to be very important in terms of our communication with the marketplace. I would like to start, by saying how pleased I am with invitation to come to CCR.

First, because of the company itself. It is recognized by its technical excellence in the concession of public services, such an important sector for our country and CCR has the condition to do this. It's a financially solid company with a good history and the leader in this sector. And another important element it is that CCR since the beginning has the stakeholder vision. In public interest that should be met and this contemplates the market shareholder and society overall.

So CCR had this vision since its inception. In terms of our industry, the infrastructure industry, we have to run a lot because you all know how fundamental this industry is for any country and mainly in Brazil with the urban issues we have with its population and our dimensions. And this importance is clearly reflected and present in the government's agenda in the several spheres of the business. The third element of the reason for my coming to CCR which weighed a lot in my assessment when deciding to come was the changes that took place in our company. CCR started still in 2014, the design of its succession which was called the leadership brings litigation process. This program started to be carried out at that time, when Leonardo Vianna was appointed CEO of the company and went on throughout other leaderships and now since November as the new VP for compliance with the Pedro Sutter which you will meet short soon. The company has been undergoing a very important moments in terms of changing its governance mechanism, which I think are very important because they are very much in line with everybody's thoughts.

Now talking about our quarter, Arthur will soon go into detail on our results but I would like to say that the company's result were much in line with our expectations and this reassures that present visibility, the foreseeability of results of the company. In this quarter, we have a very especially important quarter in which we accounted for all the agreements signed with the Public Prosecution, both in November -- signed in November here in Sao Paulo and last February in Parana. These agreements with the public prosecution office were fundamental due to the nature of our activity because they are fundamental for this reason for us.

The independent committee carried out a very comprehensive work since the beginning of this 2019 year and with that we were able to bring in elements with and but without the cooperation of the former executive, We wouldn't have reached the agreement was signed with the Public Prosecution -- prosecutor's Office. And we have the obligation to maintain confidentiality on the latest agreements. Otherwise we run the risk of losing these agreements executed. So I want to make clear of the our obligation to maintain this confidentiality.

Now I'll give the floor to Arthur Piotto, who will share with us the details on this last quarter.

Arthur Piotto Filho {BIO 4777038 <GO>}

Well, good morning. Thank you. First I would like to thank for your participation and interest in the company. And before making comments on the results, I would like to tell you that our release is available with our website. And now on the same quarter. First, the consolidated traffic rates fell by 3.6% as compared to last year. For third Q and this was due to the initiative that started in the second quarter 2018. These exemptions really gave us moving up by 7.7%. Considering the businesses on which we are not responsible for the control or we have joint control, we consolidated and we also excluded expenses and non-recurring provisions, and we increased our participation in the component that are outside than the basis of comparison, as you can see in our results release.

And our adjusted EBITDA in the same basis period was BRL1.54 billion, representing an increase as compared to last quarter. And this corresponds to the expansion of 0.5 p.p. And the net EBITDA represented a decrease of 21% as compared to the last quarter -- same quarter of last year. This result was impacted by the operating results which already was mentioned and the greater amortization in the period.

The increase in amortization and depreciation were due to the conclusion of the civil works of RodoNorte and NovaDutra. And in the fourth quarter 2018, our financial assets totaled BRL540 million and the concessionaires RodoNorte and NovaDutra SPVias and Metrô Bahia were those who invested more income. In terms of IFRS net indebtedness, we are seeing BRL4.3 billion representing 16.6% increase in comparison with the same quarter last year and 8.8% in comparison to the previous quarter. With this increase, our leverage measured by EBITDA and operating adjustments obtained 8.8%.

At subsequent events, we are pleased to announce the signature of the building consists of the integrated Rodovias of the south on January 11, 2019 with the operation -- commercial operations to start on February 15. On March 11, the consortium CCR was 80% and RuasInvest participating within 20% presented the best proposition for the concession in terms of transfer of right to the public service of the silver line of the subway system of Sao Paulo. We are waiting for these analysis of results declaring of our winner and the conquest of these last events qualify our company.

Now I would like to return the floor to Eduardo Toleda. Eduardo de Toledo.

Eduardo de Toledo {BIO 2067933 <GO>}

Thank you Arthur. Before starting and opening to questions. I would like to invite you at this opportunity to invite you to join CCR Day on April 8. And at that time we will be able to discuss at ease, our strategies in plans and the future of CCR

Now, I will open the floor for your questions, please.

Questions And Answers

Operator

(Question And Answer)

Ladies and gentlemen, we will now start the Q&A session. (Operator Instructions) Our first question comes from Roberto Otero, Bank of America.

Q - Roberto Otero {BIO 16689399 <GO>}

Good afternoon friends, thank you for receiving my question. My question will leave a set aside from the scope of the results. I think that you covered very well your operating dynamics and financials. But I would like to discuss your plan of incentive to cooperation during the last quarter. I would like to understand the context of this proposal and if you could explain the need to do this? and if you're taking into account, the legal framework, and due to the Leniency Agreements, and the results that you established, I would like to know how did you reach that figure. Thank you friends.

A - Eduardo de Toledo {BIO 2067933 <GO>}

Well, Roberto, thank you very much for your question. Basically the big issue have its origin in the less strategic of CCR due to the nature of subsidiary of going after in agreement with the Public Prosecutions Office, This agreement with the Public Prosecutors is fundamental for the continuity of our businesses. As I said, we had -- we immediately heard the news on CCR's issues and our administration created an -- as an initiative committee and independent one, to carry out a deep investigation on what had happened. This investigation brought about some important elements, but they were not enough to make us understand, what's happened and without them just standing very soundly what had happened, we wouldn't have want to offer to the public prosecutors. So this was condition to reach the agreement with the Public Persecutions Office in terms of having the cooperation of the current executives and the previous ones.

So, PIC was created exactly in this context or else to give the count to all of our executives, so that they would be able to cooperate with the company when rendering their testimony because this is a basic condition for our agreement with the Public's Prosecutors. In terms of the, the sum tried to base itself on the Executive's compensation while working with us. Our consent was great with it and throughout five years these executives will have the financial support from the company in exchange for their continuing contribution with a public persecutions office. This, I must say is a necessary condition for the company not to run the risk of losing all the agreements signed.

Q - Roberto Otero {BIO 16689399 <GO>}

Well thank you very much Eduardo. But I would like to know this term is distributed to these 15 former Executives in proportion throughout these five years? or is it a conditioned to some type of specific cooperation? that's what I want to know if I understood properly?

A - Eduardo de Toledo {BIO 2067933 <GO>}

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Well, it is. This amount will be uniformly distributed to the fifteen Executive throughout 5 years and they have to provide in exchange continuous cooperation to the public persecution, Maybe, the Public Prosecutors want the explanations on some details on actions they took. And we committed ourselves to offer them this counterpart in terms of cooperation.

Q - Roberto Otero {BIO 16689399 <GO>}

Okay, understood. Thank you very much.

Operator

Our next question comes from Rogerio Araujo, UBS.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Hello, good afternoon. Thank you for the opportunity. I have two questions. The first regards to the future CapEx number. In every fourth Q, you disseminate this amount including the imbalanced figures, Which -- those that you called for compensation from regulators. This year, we realized that there was a great increase around BRL400 million and ViaQuatro 500 million at RodoAnel, the ring road, BRL300 million for ViaMobilidade and BRL350 million for the Belo Horizonte airport.

I want to understand these increases more properly. And also which is the probability, that the company bases itself on and the amount that is today around BRL2.6 billion investment and I would like to know this BRL2.6 billion investment, how much of this can you get compensation from the regulator for?

A - Eduardo de Toledo {BIO 2067933 <GO>}

Well. Thank you for your question, Araujo. This amount in fact every year, whenever we announce the figures for the closing of the previous year, we make an adjustment in this forecast of investments. And this reflects our frustration which then really happens. Because every year we carry to the next year An amount that didn't come through in the previous year. And based on the best information we have at hand we also assess and add to this forecast of investment the given amount that we consider contingent and or else these other investments that we consider could help us rebalance the numbers.

But I want to make it clear here that this doesn't mean obligatory investments, mandatory investment. In terms of quantitative, you're answering your question. The uncertainty is due to two reasons, first, we don't know, if part of these investments are contingent and depend upon some trigger and the other parts depends on our negotiations with the government and despite that we consider this the best information and in spite of our investment budget which was approved by the common company.

As I mentioned before, throughout time at least in the 5 to 10 years back, there is a carry to explain from -- carry trade, from like one year to the other around 25% of the adjusted amount, which is adjusted as I said like we are doing now at every year end. So, too -- it's important for all of you who are listening to this call, you have to understand that this

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amount despite being the best amount we can consider and that's why we share it, doesn't mean that it will be totally fulfilled and these are not the mandatory investments that have to be concluded by the end of the year.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Well, thank you very much for your clarity. The second is the suspension of the axle, that the charging for collection for axle suspension. I want to know if you have an idea of when this is going to finish or to we have a mix situation?

A - Eduardo de Toledo {BIO 2067933 <GO>}

Well look, the situation is still open. Until the moment we don't have any definition. But we are not too much concerned with this because due to our concession concept all of this is quite clear. It's only a matter of time. And in terms of the possibility of rebalancing it, as you said yourself, this can be made by different ways either with time or with other alternatives or increase in tariffs.

So, there are several different possibilities. We don't think that this is a problem. As I said before, we are in the starting phase with new governments throughout Brazil, which took office in the beginning of the year. So it's natural to have some -- it takes some time until this is fully understood and fully equated by the new managers of this country.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Well, thank you very much.

Operator

The next question comes from Felipe Vinagre, Credit Suisse.

Q - Felipe Vinagre {BIO 19282922 <GO>}

Hi, good afternoon its (inaudible) . I have a question going back to the first topic, the incentive of collaboration program. I want to understand better your explanation. First the risk, is it connected to the past negotiations as the public prosecutors of Parana and Sao Paulo announced that this has to do with that past negotiation and it depends upon the executive going on to -- going on helping incorporating with this? or is there is something in terms of the reimbursement of cost or lawyers fee any type of payment that was made or will be made to these executives.

A - Eduardo de Toledo {BIO 2067933 <GO>}

Well, thank you Felipe Vinagre for your question. Well, going back to the big topic again. We are committed vis-a-vis the public prosecutor, The continuing cooperation. So if they want to shed light on some actions that we took we are available to that. And when I say us, it means all of us who protest who made their testimonies and with the 15 executives we -- the agreement is that they will go on contributing because, if they stop contributing all the agreements will go down. And the equivalence of one monthly salary during five years is part of the cost and we also have the lawyers' fees and whatever fees that occur

in order to make these positions and then we'll calculate the total cost of the agreement. Thank you, very much.

Operator

Our next question comes from Juliana (inaudible)

A - Eduardo de Toledo {BIO 2067933 <GO>}

Hi Juliana.

Q - Analyst

We have -- I have still three questions related to PIC. They are connecting questions. First the special instrument of working contracts that you disseminated on awesome item 8, I'm reading. As to the topics approved by the Board of Directors as a counterpart of what was said the above, depends of the remuneration, the compensation of a given quantity. What I understand from this, this is a check -- a blank check. So the BRL71 million can reach a much higher sum. Let's imagine a scenario that the executive signs a deal and has to pay a fine of BRL1 million, Who will pay this fine the Executive or the Company? because it says the word in indemnified.

So the second question is it clear for you or to the independent committee, Who was the beneficiary of the contravention that you placed? was it -- were the executives who benefit from it? or was the company who benefited? or even, because I read that it was mentioned that was an electoral crime, so my question is this is it clear who benefited from it. And my third question, in case you don't know yet who was the beneficiary is there -- there is a possibility that the beneficiary is the one who really was a controller, but I guess now is it complete -- is it correct to if the controller does not vote in the next the general meeting. Well, these are my three questions.

A - Eduardo de Toledo {BIO 2067933 <GO>}

Hi, Juliana. Thank you for the three questions. I'll try to answer the three of them. The first to maintain indemnified. Is this -- this is exactly what's in the contract and this will be analyzed by the General Directors meeting because they are sovereign to analyze and discuss it. Nevertheless, I mentioned that it is clearly of the interest of the company to meet this request but the general meeting is sovereign.

The blank check is not true, because at the same time the company carried out the negotiation in terms of the penalties that it suffered as part of the agreement and at the same time the individuals also carried out individual negotiations and the sum were much smaller. So there's no -- this is not a white a blank check. So these amounts are not to be considered a blank check. The most important amount is of another order of grandeur.

Well, the other question as I said I cannot comment on it because we are bound by the confidentiality agreement and therefore I cannot comment, on the who were the beneficiaries from the standpoint that who will receive the amount.

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The third aspect, we still don't know it because this is part of the confidentiality of the process and the third element in terms of the controller or our board and whatever it can be done, in my view I think that there is a very important element and that's the way the Board acted when it was made aware of these facts. The creation of an independent committee with two independent members from the board, two external members with the funds to hire the best experts reasonably speaking. This shows and demonstrates our clear will to find out what's happened with all the elements involved. So from my standpoint, I don't see any reason for any hampering in their capacity of speaking up in the general meeting.

Operator

Our next question comes from Fernando Abdalla, JP Morgan.

Q - Fernando Abdalla {BIO 15381888 <GO>}

Good afternoon, Eduardo. Good afternoon to all. I have two quick questions. Well, this topic received several explanation it's quite clear. However it's weird somehow for me to think that you are encouraging an executive who, in theory did wrong things, so he left the company with his the compensation and will go on receiving compensation to benefit the company so that the company will go on being effective. I don't know would there be another alternative, because this will hamper the minority partners. And this is my first question. I don't know if there will be another option instead of this one, because I don't understand this aspect.

And the Second the Sao Paulo Parana agreement, I would like to know the Parana agreement due to the difference in value, but could it cause the Sao Paulo agreement to be reanalyzed or could you give us the difference, the reason for the difference 80 million Sao Paulo 100 and something for Parana because who buys CCR today is different we are buying CCR knowing that there were wrong things in the past and now the company is companies clean or Metrô Bahia and Rio de Janeiro could be affected also? could we be sure that the history is cleaner in this sense? Thank you

A - Eduardo de Toledo {BIO 2067933 <GO>}

Well Fernando, Thank you so much for your questions. I think that in terms of the first aspect of the remuneration, I think that as Executive Managers of the company, we have the duty to think exclusively in the interests of the company. So to some extent, the question of whether it's fair or unfair isn't proper, because no matter how many personal opinions I may have, I here have to work and think for the best interests of the company and I am sure that this was done these cooperation of the former Executives, as I said are vital for the survival of the company.

So in this aspect are very calm. And the second element on the issue, on the question whether other things may come up. Well, what we can state here, is that everything that was found in the internal investigation and that has materiality were -- was contemplated in the two agreements. There's nothing material found in these investigations that is not contemplated in the agreement. This is what I can say to you now, very emphatically.

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Q - Fernando Abdalla {BIO 15381888 <GO>}

Well is there any legal reason, I also am not an expert in this but is there any explanation for this huge difference between those two states.

A - Eduardo de Toledo {BIO 2067933 <GO>}

Well fundamentally is the nature of the accusations in the case of Sao Paulo the nature of that accusation was electoral crime, and Parana the nature.

Was different not electoral crime and this leaves us with difference in amount. Thank you very much.

Operator

Our next question comes from Bradesco BBl.

Q - Analyst

Good afternoon thank you for receiving my question. I want to understand better when you speak, when you say that all the material was included in the internal investigation and in the leniency agreement signed, when you say material, what can I consider as material. Is -- was there any other problem that you found out to or the independent committee found that is yet not covered by identification? And what's the material amount you are considering?

A - Eduardo de Toledo {BIO 2067933 <GO>}

The statements I made is part of the financial results of the company. This is what, we can consider materiality. I repeat nothing material was not -- was found that is not included in all this situation. This is what we can say.

Q - Analyst

Well thank you very much and the last question. In terms of the accountability for the events do they fall only on the 15 Executive, or the Members of the Board could also be accountable for them.

A - Eduardo de Toledo {BIO 2067933 <GO>}

from the standpoint of what we found out all the elements that reached all those involved in the findings, participated in the PIC and considered to be agreement. So, there is nothing that goes beyond these people.

Q - Analyst

Thank you.

A - Eduardo de Toledo {BIO 2067933 <GO>}

Thank you Paula.

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Q - Analyst

Thank you (inaudible) .

Operator

Our next question comes from Felipe Vinagre, Credit Suisse.

Q - Felipe Vinagre {BIO 19282922 <GO>}

Good afternoon, I have two more questions. The first on the investigation, I want to make clear what was the committee's scope. Did they focus more on Sao Paulo Parana? or other states were also investigated Rio de Janeiro by whatever. Can we state that what was found included all the everything that is included or any other state has a specific asset involved?

And in terms of PIC again from the public prosecutors standpoint, what do they say about the potential conflict of interest of these executives that are -- that still go on cooperating being receiving payments from the company being investigated? this for me sounds like a potential conflict of interest.

A - Eduardo de Toledo {BIO 2067933 <GO>}

Felipe, thank you for the new question. The encompassing of this work in terms of its encompassing, I will say that there were 10 months of work very encompassing. Their mandate was to investigate this topic and any other event that could be correlated to this. Any word that sounded linked to it. So I think that was a large encompassment and this is what I can say. The second point on the conflict of interest, this topic was discussed with the public prosecutors as part of the agreement exactly because the public prosecutors need the continuing cooperation of those involved. For them this is absolutely clear in order to allow them to find out, because their interest with us is to be able to investigate other potential persons that are involved. So they want this within executive to investigate other actors, other companies that could possibly be involved while it's clear.

Q - Analyst

Thank you.

Operator

Our, next question in English comes from Stephen Trent, Citi Group. .

Q - Stephen Trent {BIO 5581382 <GO>}

Hi, good afternoon and thanks for taking my question. (foreign language). I apologize that I joined the call little late. I would just like to understand over what time frame are these 15 executives going to be bound in their cooperation with the prosecutor's office? and I apologies couldn't catch all of that. (foreign language).

A - Eduardo de Toledo {BIO 2067933 <GO>}

Thank you for your questions. These executives will have to cooperate with the prosecutors for five years. This is the term -- time frame established for their cooperation.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay, great. Appreciate that and on a totally separate topic. Is there anything new that you can say with respect to what governor Doria may or may do with respect to renewing contesting contracts. (foreign language)

A - Eduardo de Toledo {BIO 2067933 <GO>}

Well, thank you for your question all the news on governor Doria are public domain. He stated that he wants to carry on with the work in interest of the population. And with that this would lead to the negotiation of our content in view of extending terms and then from what we have seen even due to the type of topic, we have seen that clearly the public is exactly part in parcel, accompanying all the discussions that are being taking place.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay, I appreciate that let me stop there and let someone else ask a question. Thank you.

Operator

(Operator Instructions). Our next question comes from (inaudible) .

Q - Analyst

Good afternoon. Still inline of this agreement, I have a question in terms of judicial homologation process of this self-commitment term. Do you have an expectation on when it will be homologated, declared or in what phase of the process is it now?

A - Eduardo de Toledo {BIO 2067933 <GO>}

Well, thank you very much , These agreements have to follow the normal stages in the Public Prosecution and with the Federal Prosecution. We could wait for the homologation next row for next year -- next week already, for the first one. But Parana which is more recent could take some months more. This is the normal time of this type of agreement for this type of agreement.

Q - Analyst

Thank you.

Operator

Our next question in English comes from (inaudible)

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Q - Analyst

Hi, there, Hello ?

A - Unidentified Speaker

(inaudible) your question, Sir.

Q - Analyst

Okay, yes. My question is going back to the disclosure on page 18, in your earnings results today, If you can discuss a little bit about the investments on the discussion for rebalance and so forth which one's do are, do you think you have a bit of visibility over the next 12 months, that may come to fruition? Thank you. (foreign language).

A - Arthur Piotto Filho {BIO 4777038 <GO>}

Well, Robert this Arthur. In terms of what you ask the information we included in this release for the fourth Q, 2018, this is something we do routinely every beginning of year. We update the information and as we always do, we include in these amounts the best information we have at hand. And what we consider is the capital budget approved by the company. This amount includes, amounts that are not mandatory investment obligations but what we contemplated here are certain amounts that refer to possible confidential investments or else are subject to some preconditions such as a traffic trader in a given stretch in a high word -- highway.

If it reaches some traffic standards in the concession agreement they call for a trigger, calling for an additional investment to build the new range or another reason for our adjustment relates to the tradition as you can say. Postponement of investments due to different reasons. And these eventually are announced like we are doing now. We announced the total amount for the year but for several reasons, they have postponed for the for the coming year. So if we can say this is a reassessment process which we carry out the year after year and this year the amount was, -- the estimated amount was BRL2.4 trillion, sorry.

Q - Analyst

Great, (inaudible) .

Operator

We will now end the Q&A session. I would like to turn the conference over to Mr.Eduardo de Toledo for his final words. Please Mr.Eduardo the floor is yours.

A - Eduardo de Toledo {BIO 2067933 <GO>}

I just want to say something before we close and this is our emphasizing the recent concession rights we got in Rio Bramco do Sul and line 15 in Sao Paulo recently and these are evidences of our great opportunities for the future and my confidence in the ability of CCRs to be the main stakeholder in this process.

I thank you for your cooperation and I hope to meet you in person in the next CCR day on April 8. Thank you very much.

Operator

The audio conference of CCR is now concluded. I thank you all for participating and have a good day.

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