

Q3 2020 Earnings Call

Company Participants

- Cristiano Grangeiro, Investor Relations Manager
- Fabio Antunes Fernandes, Chief Financial Officer, Investor Relations Officer & Member of Executive Board
- Marco Antonio Resende Faria, Chief Executive Officer and Legal and Regulatory Director
- Marcus Vinicius do Nascimento, Director of Business & Management

Other Participants

- Carolina Carneiro, Analyst

Presentation

Operator

Ladies and gentlemen, thank you very much for waiting. Welcome to the Public Meeting with Analysts and the Earnings Call of the Third quarter 2020 for Taesa. We are recording this event and all participants will be in listen-only mode during the presentation of Taesa. Next we are going to start our Q&A session and further instructions will then be given to you. (Operator Instructions) Considering that some of the speakers are remotely, oscillations or instabilities may be perceived during the teleconference impacting the response time, especially during the Q&A session. I would like to let you know that the conference call is being simultaneously translated into English, so that foreign investors of the company can also be served.

Before moving on, I would like to make it clear that statements that may be made during this conference call with respect to business prospects, forecast, operational and financial goals of Taesa are all based on beliefs and assumptions of the Executive Board of the company as well as based on currently available information. These beliefs and assumptions involve risks and uncertainties, since they relate to future events and as such they depend on circumstances, which may or may not occur. Investors should understand that general economic conditions, other operational factors and industry may affect future performance of the company and lead to results which may materially differ from those expressed in these considerations.

With that, let me now hand it over to Marco Faria who is the CEO and Regulatory and Acting Regulatory and Technical Officer of Taesa.

Marco Antonio Resende Faria {BIO 16679297 <GO>}

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Good morning, everyone. I would like to start by thanking all of you for joining us in this public meeting with analysts where we are going to share our earning release of the third quarter '20. I have here with me also, the CFO and our IR Officer, Fabio Fernandes, we have Business Participation Management and Implementation Officer Marcus Vinicius and all our IR team.

I would like to start by going to Slide 2. Let me make some comments and updates about what I think is very important considering the pandemic of COVID-19. We are maintaining all the necessary measures and protocols recommended by the relevant health agencies, fully committed with the health and safety of all our employees and also of our active assets of the national system.

We have resumed our office teams in a gradual fashion using all the necessary safety. And to welcome our teams, we have adjusted all the work position, so that we could meet the safety protocols. We are counting on the support and assistance of a specialized medical team. We've been working by alternating teams making use of technology to daily monitoring any potential symptoms of COVID-19 for everyone who is going to work from the office every single day. There are a number of active channels to support our employees, and we have reinforced communication about the importance of comply with protection measures and also taking good care of health.

Our campaign, I take care of you and you take care of me is a practical example of it, which has been consolidated with its strong message of Union and Solidarity. We've maintained effective monitoring of all our employees through technical team of physicians and infectious specialist and all suspected and positive cases of COVID-19 infection that have been detected are being strictly followed up and managed. In our operational activities, the activities of operation and maintenance have been provided so as to ensure safety of people and also safety of the electrical system. And once again we have managed to overcome all the difficulties with creativity, engineering, safety and innovation dealing with all the challenges that the pandemic has brought to us. By doing that, we have provided an operational performance that deserves to be highlight being a reference in operation and maintenance of transmission lines in risk.

For the first nine months of this year the availability rate of our transmission lines has reached 99.95% and the variable portion has been 1.20% over RAP, already incorporating variable portions of actives Sao Joao and Sao Pedro, which have been generalized in 2020. We have also progressed in the investments of our projects under construction and we have invested a total of BRL1.1 billion in CapEx, it shows the engagement of Taesa in execution and operational delivery of six projects still under construction, which we are going to address later during our presentation.

Concerning financial health of our company, which will be provided in details by CFO Fabio Fernandes, I would like to highlight our current position of liquidity, which is quite comfortable about BRL1.8 billion in cash, in addition to appropriate level of leverage. Concerning our payments received, we have not seen any changes in levels of delinquency since the beginning of the pandemic maintaining, bringing cap gen levels historically low for the area. Our contingency actions for the situation of pandemic and our very solid financial and operational performance of the third quarter this year has

provided once again very relevant distribution of dividends and you are going to see that shown to you ahead. It's also important to highlight that we keep on monitoring very closely all the payments made and the effects that the crisis has had in the industry, so that we can appropriate -- provide appropriate liquidity and operational continuity of Taesa.

Next slide now, slide number 3. Let me talk about a very updated topic which is already part of our daily operations in the company for a while, sustainability as a value of the company. It's a value that is involved in all our actions and daily activities and it's a constant part of our organizational culture. We have always worked involving a number of actions that encompass the topic of social environment and governance actions. And we had always given some visibility to it in our social environmental report as required by ANEEL. However, the company realized that we also had to report all the actions related to the topic of ESG trying to obtain the best practices. That's exactly when last year, we hired a specialized consulting company to assess our maturity in ESG defining an action plan so that we could move on to a different level.

It was very interesting to notice any initial assessment done by the consulting company that Taesa was already at a very satisfactory level in terms of its environmental practices. You can see in the pie chart that the illustration shows the level of maturity and compliance with ESG best practices at Taesa which had been mapped by the consulting company. After the initial assessment, we provided and looked for benchmark and best practices that would be applicable to a transmission company we will define the full year action plan going from 2020 to 2023. And I would like to highlight to use some of the implemented actions. We have accepted, and we are currently the UN Global Compact signatory and we have already provided the communication of progress for the first time, which shows that we have compliance with the topic of sustainability in the company in addition to being committed with the Agenda 2030 for all the SDG.

We have constantly evolved in the content of social environmental report having it adjusted to the best practices of ESG. This year for example we combined the actions associated with the UN Global Compact and also SDG. Therefore our goal in the near future is to share our social environmental report using GRI standards or the Global Reporting Initiative standards. And this is one of the actions in our plan 2020-2023. In 2019 we issued four green bonds really showing that our projects contribute to transmit energy from clean and renewable sources. We have created our policy of biodiversity whose main purpose is to formalize the guidelines that guide all the actions of the company in terms of preservation of biodiversity. Taesa acknowledges that integrating biodiversity and the benefits provided by it in strategic decisions of businesses is absolutely essential to ensure sustainability in the long term. And also to provide opportunities of our optimization of resources in these activities, considering methods and technologies, which are more efficient with lower impacts over the environment.

By doing that and according to the principles of UN Global Compact and its alignment with 2030 SDG Agenda we have embraced policy of biodiversity so that different levels of the company can consider aspects of biodiversity in all their actions. Let me also mention certification and recertification as a great place to work, which confirms the top management concern with health and the well-being of all our staffs. There are also a

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number of social responsibility projects that have been provided by the companies such as a response to company of semi and also ecological trio project among others. In addition, we have all been working towards developing actions for accu [ph] efficiency also weather changes and compliance always trying to be compliant and in accordance with SDG. We are working on preparing the inventory of bringing greenhouse gas effect for the company as part of our plan 2023. We hope we can have greater visibility about the impact of Taesa and how we can work so that we can make our contribution to reduce if possible without global warming.

Finally, as part of this very continues progression, we are going to provide today in our IR website, our dashboard of ESG indicators in our biodiversity policy. The dashboard of indicators is a compilation of ESG dash indicators already shared in other reports but we think it's going to make a difference to have it all together in one single dashboard, so that we can consolidate data and have easier access giving more transparency to investors and everyone interested in the topic. Finally, I would also like to mention that on October 23, our Board of Directors elected Andre Augusto Telles Moreira as CEO; Erik da Costa Breyer as CFO and IRO; and Fabio Fernandes as Business VP and Participation Management. They are going to take office in the next 16. I'm still -- Technical Director Technical VP and Marcus Vinicius is the Acting Director of Implementation.

I would like to thank their constant support all Taesa staff, maintenance, operation, construction, our office teams and especially Fabio and Marcus Vinicius. During this period of transition, even during a situation of pandemic and uncertainties for the economy and market at large they have done whatever it took for Taesa to deliver operational and economic results that we are sharing with you today. Finally, I would also like to greet our new officers, Andrea, Erik and Fabio, wishing them success, being absolutely sure that thanks to their experience they are going to bring even better results to our company.

I would like now to hand it over to Fabio, who is going to tell us about the results of the third quarter '20.

Fabio Antunes Fernandes {BIO 21749197 <GO>}

Thank you, Marco. Good morning everyone. I would like to go to slide 4 with the highlights of the third quarter '20. In this slide, we can see the annual increase of 15.5% of our regulatory net revenues and 15.4% of regulatory EBITDA. All of them thanks to the acquisition of Sao Joao, Sao Pedro, Lagoa Nova and the conclusion of renewals and the beginning of operations of Miracema and Mariana the concession started operating. So it shows that we are now growing again after two consecutive years of decline as a result of contract reductions of 50% of RAP of level two concessions. I'm going to give you further details in the next slide. Another important highlight in the quarter was our performance in net results in IFRS, we had almost 37% increase over the third quarter '19 totaling BRL632 million and BRL1.4 billion year-to-date.

We are also going to see further details in upcoming slides. Based on this result, the Board of Directors approved sharing of BRL169.2 million in dividend and interest on all capital. So BRL1.36 per unit and a payout of 69% to present. If we consider adjusted net profit excluding the effects of CPC 47, the payout is over 90%. So we are still paying the

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maximum of dividend excluding only legal reserve and the stocks incentive and special reserve concerning CPC 47. It's also important to point out that to present and including this earnings distribution, Taesa has approved BRL3.05 per unit in 2020. And if we consider the amounts from yesterday it means dividend yield of almost 10%.

It's also important to emphasize that we are still monitoring very closely potential impact of the pandemic in our business and we are going to analyze on a quarterly basis the distribution of earnings. To present, we have an observed significant impact on our industry and not even in our cash flow of the company and the healthy financial situation of the company we are very carefully distributing our earnings concerning the third quarter '20. Those highlights of the slides, talk about our solid liquidity position, appropriate leverage continuity of investment in our constructions and also the high availability rate of our transmission lines.

Let's now go into the next slide, where we are going to talk about regulatory EBITDA. Regulatory net revenues in the third quarter, closed in BRL387.3 million with growth of 15.5 percentage point over the same period in 2019. We have observed growth in this line since the first quarter 20 after two consecutive years of decline. Since then the results of our projects, plus inflation adjustment is higher than the effect of RAP decreasing some concessions level to that happened in 2021. We can see in the upper chart where we can see regulatory net revenues that the acquisition through brownfield, Sao Pedro, Sao Joao and the completion of Miracema Mariana and the capacitors bank are still positively impact our net revenues in BRL47.3 million in addition to the adjustments of the inflation BRL23.7. It has over set the negative effect of BRL20.2 referring to decrease of RAP in some category to concessions that we experienced in cycle 2021.

In the next chart, on the bottom, we can see Regulatory PMSO cost. So acquisitions and process in activity increased PMSO in BRL4.6 million and inflation readjusted cost in BRL3.1 million. We can observe, therefore that the internalization of new assets has applied some pressure over operating cost of the company, which were offset by the increasing revenues generating a positive effect over EBITDA which meant had 15.4% increase over the second -- third quarter of '19 consolidated margin of 82.3% aligned with the margin of the third quarter '19. And this was possible because new assets after the integration of the company and thanks to synergy are running at EBITDA margin over the margin of Taesa. In other words, this pickup in growth shows the company's capacity in acquiring assets with attractive margins in addition to reinforcing our commitment with our strategic pillars, sustainable growth, financial discipline and operating efficiency and value generation.

Next slide now. We can see the performance of net income in our key lines of impact. As you can see on the left, the main factors that explain 76.6% increase in our net income under IFRS, are, the increase of BRL297 million in monetary restatement and BRL127.2 million in equity method. These two increase resulted from the macroeconomic and observing the period compared to IGPM effect which observed 6.72% in the year to date in the quarter. Secondly, consolidation of the results of the seven new assets, both brownfield and greenfield, which added BRL158 million, to the IRS net income and this has been observed in all the different lines. At the same time there was a negative effect of BRL70.5 million in our net financial results because of the races in 2020 increase of IPCA

and lower cash volume due to the payments of that interest and amortization and the investments made in the projects and the construction in the period. It is important to show that the adjusted net income excluding CPC 47 increased 121.3% over the same quarter last year as we can see on the right, which is a basis for the sharing of earnings to our shareholders.

Now, let's see slide 8, about the impact of macroeconomic factors on IFRS. We'd like to share the slide in our conferences to show you how IGP-M impacts as you can see on the two charts. It's possible to observe the IGP-M had shown an increasing trend since the third quarter '19 reaching a very increased peak in '20 of 6.67% increase year-to-date in the half of the year. And it has an impact on monetary restatements getting to BRL214 significant increase compared to the third quarter last year. Let me remind you that our exposure to a IGP-M is greater, because 80% of the balance of Taesa is in concessions of level two.

Let me now hand it over to Marcus Vinicius who is going to complete the presentation by making a brief summary of our projects under construction.

Marcus Vinicius do Nascimento {BIO 21749203 <GO>}

Thank you, Fabio. Good morning, everyone. In first last slide, we can see the status of our projects under construction. As we've said before, the company has already delivered three of this project to Mariana this year and Miracema and EDTE between the end of '19 and January '20. Therefore we have six projects under construction and we are moving ahead, adding about BRL1.1 billion already invested year-to-date, as mentioned before. As we can see in the slide, all our constructions are under execution and some of them are pretty advanced. We've been working on picking up the timeline of some of the projects because we had to stop with the same pace of construction in some specific regions, because of those restrictions on sanitary conditions, but that has all been already covered, and we are working very hard do delivery according to what we have agreed on ABC operators.

So that was my presentation. And with that we finish our data and we open for Q&A. Thank you very much.

Questions And Answers

Operator

Ladies and gentlemen, we are going to start now our Q&A session. (Operator Instructions) There is one question from the webcast.

A - Cristiano Grangeiro {BIO 20213891 <GO>}

Good morning, everyone. This is Cristiano speaking. There is a question by John Melo [ph] about dividend. Good morning. I would like to know whether there will be a possibility of paying dividends also in December as it has happened in previous years? Let me hand it over to Fabio.

A - Fabio Antunes Fernandes {BIO 21749197 <GO>}

Thank you, Cristiano. Thank you, John Melo for the question. As you've indicated John, similarly to previous years, the company will analyze the results on October and November. And if there is room for it, we are going to pay interest on our own equity to really benefit from this precedence in 2020.

Operator

(Operator Instructions)

A - Cristiano Grangeiro {BIO 20213891 <GO>}

There is one more question here also sent through the webcast. It's a question asked by Bruno Lima [ph]. How has the company being prepared for the auction in December and what is your prospect for upcoming years? Let me ask Marcus Vinicius to address the question, the VP of Business.

A - Marcus Vinicius do Nascimento {BIO 21749203 <GO>}

Concerning the auction, we are -- we've been analyzing the lots since we got the first I mean of the auction we've been studying. We are going to be part of the auction and we are going to concentrate on those lots that really make more sense in terms of competitiveness, maintaining our financial discipline and always trying to obtain the appropriate return on investments for our business. Right now we are developing some engineering studies of all the different lots looking for optimized solutions and identify some competitive advantages. And there is a RAP over CapEx ratio to be considered. It will require detailed studies applicable to this new condition. Our appetite will depend on our balance availability considering that CapEx investments are made after the second and third year of the project so '22 and '23. We can also consider potential partnerships that may maximize competitiveness in our analysis. In addition, we can sell some as they are selling some lots which are projects under construction, maybe there will be fewer players and fewer bidders, but still it's going to be a strong competition this is what we know so far, but we are working on getting ready for the next auction.

Operator

(Operator Instructions) Our next question comes from Carolina Carneiro from Credit Suisse.

Q - Carolina Carneiro

Good morning, everyone. Thank you for the opportunity and for the call. I have a question about strategy, you have a new management of the company and people who have experienced but not within transmission line. So is there any possibility of changing your strategy. Is it -- is this, why you are considering may be other segments or you are just going to have a new management that is going to keep on providing good results within the lines of transmission. I would also like to ask you to update us on some data you just talked about competitiveness, the auction. We've seen some appetite of a number of

investors wanting to grow in auctions and even in other segments so what do you expect in terms of aggressiveness of bids. So what do you expect for the upcoming auctions.

A - Marco Antonio Resende Faria {BIO 16679297 <GO>}

This is Marco Antonio. Thank you very much for the question. Taesa is a company that consolidates players in the area of transmission. I think that our strategy and what we have shared with you and with our Board of Directors, is our strategic plan to keep on growing the area of transmission and there is still a number of opportunities to be used in Brazil. We can see huge opportunities of growth in the Brazilian market. In our strategic planning there might be some additional avenues of growth, diversification. Yes. Why not but I think it's still too early to say anything along these lines, brownfield and greenfield still our priorities. With experience of Andrea and Erik who are joining us will add a lot to obtain improvements in our plans, so that we can keep on working within the possibilities of portfolio that we still see in the Brazilian market.

Competitiveness as Marcus Vinicius pointed out is going to be perceived in the auction. I think the auction is going to have a high level of competitiveness. But there has been a changing regulation and as a consequence some players might not really join the business because of the changing regulation. The business is getting more and more consolidated for those that have experience for those who like or that like the transmission industry such as Taesa. So I think this is a great perspective for all of us ahead.

Q - Carolina Carneiro

Great. Thank you very much for your answer.

Operator

(Operator Instructions) If there are no further questions, I would like to hand it back to our speakers for their closing remarks.

A - Marco Antonio Resende Faria {BIO 16679297 <GO>}

I would like to thank the participation of all of you in our public meeting with analysts and also our earnings shares for the third quarter, '20. Our IR team is at your availability if you have any further questions, please feel free to contact us at any time through our IR channels of the Company. I would like to thank you all and I wish you a great day.

Operator

The conference call of Taesa is finished now. Thank you all very much for your participation. Have a nice day.

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