

Q4 2018 Earnings Call

Company Participants

- Arthur Piotto Filho, Chief Financial & Investor Relations Officer
- Eduardo de Toledo, Executive Vice President-Corporate Management

Other Participants

- Felipe Vinagre, Analyst
- Fernando Abdalla, Analyst
- Robert Otero, Analyst
- Rogério Araújo, Analyst
- Stephen Trent, Analyst

MANAGEMENT DISCUSSION SECTION

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 CCR S.A.

We would like to inform you that all participants will be in the listen mode during the presentation. After the conference remarks are completed, there will be a Q&A session. At that time, further instructions will be given.

Before proceeding, let me mention that forward-looking statements about CCR's business prospects and financial and operating goals 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 results to differ materially from the expressed in such forward-looking statements.

Now, I will turn the floor to Mr. Eduardo de Toledo, Corporate Management VP of CCR.

Mr. Toledo, you may begin please.

Eduardo de Toledo {BIO 2067933 <GO>}

FINAL

Good afternoon. It's a good pleasure to be with you today. I'm 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 Vinícius and Flávia Godoy.

This is the first time that I'm participating on 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 the invitation to come to CCR. First, because of the company itself. It is recognized by technical excellence in the concession of public services, such an important sector for our country and CCR has the conditions to do this. It's a financially solid company with a good history and a 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 made and this contemplate market shareholders 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 this population in our dimensions. And this importance is clearly reflected in presence 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 reinvigoration process. This program start 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 Pedro Sutter, which we will meet soon.

The company has been undergoing a very important moment 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 results were much in line with our expectations and this reassures the visibility - the foreseeability of results of the company. In this quarter, we had a very specially important quarter in which we accounted for all the agreements signed with the public prosecution, both in November - signed in November here in São Paulo and last February in Paraná.

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 - but without the cooperation of the former executives, we wouldn't have reached the agreements we 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 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 at our website.

And now, on the main quarters. First, the consolidated traffic was 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 a moving up by 0.7%. 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 nonrecurring provisions, and we increased our participation and the components that are outside the basis of comparison as you can see in our results release.

And our adjusted EBITDA in the same base period was BRL 1.4 billion, representing an increase as compared to last quarter, and this corresponds to the expansion of 0.5 pp. And the net EBITDA represented a decrease of 21% as compared to the last quarter - same quarter last year. This result was impacted by the operating result which already was mentioned and the greater amortization in that period.

The increase in amortization and depreciation were due to the conclusion of civil works of RodoNorte and NovaDutra and in the fourth quarter 2018, our financial assets totaled BRL 540 million and the concessionaires, RodoNorte, NovaDutra, SPVias and Metro Bahia were those who invested more. In terms of IFRS net indebtedness, we think BRL 4.3 billion representing 16.6% increase in comparison with the same quarter last year, and 8.8% compared to the previous quarter. With this increase, our leverage measured by EBITDA and operating adjustment obtained 8.8%, a subsequent advance.

We are pleased to announce the signature of a building contract of the Integrated Rodovias of the south on January 11, 2019, with operation, commercialization to start on February [Technical Difficulty] (00:10:46) in RuasInves participating with 20% presented the best proposition for the concession in terms of transfer of rights to the public service of the Silver Lines subway system of São Paulo. We are waiting for these analyses of results declaring as our winner and the conquest of these master events qualified our company.

Now, I would like to return the floor to Eduardo 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 our strategies and plans and the future of CCR. Now, I open the floor for your questions please.

Q&A

Operator

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

Q - Robert Otero

Good afternoon, friends. Thank you for receiving my question. My question will leave – set aside from the scope of the results, I think that you've covered very well, your operating dynamics and financials, but I would like to discuss your plan of incentives to corporations 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 are taking into account the legal framework and due to the Leniency Agreement 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 fixed issue has its origin in the necessity of CCR due to the nature of its activity of going after an 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 the CCR issues and our administration created an administrative committee, an 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 happened. And without understanding very soundly what had happened, we wouldn't have what to offer to the public prosecutors.

So, this was (00:14:26) on one condition to reach the agreement with the Public Prosecution Office in terms of having the cooperation of the current executives and 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 prosecutors.

In terms of the sum, this sum tried to base itself on the executive's compensation while working with us. Our concern was raised with this and throughout five years, these executives will have the financial support from the company in exchange for their continuing contribution with the Public Prosecutions Office. This, I must say, is a necessary condition for the company not to run the risk of losing all the agreements signed.

Q - Robert Otero

Well, thank you very much, Eduardo, but I would like to know this sum is distributed to these 15 former executives in proportion throughout these five years, or is it condition to

some type of specific operation? That's what I want to know if understood properly.

A - Operator

Well, it is. This amount will be uniformly distributed to the 15 executives throughout five years and they have to provide and change continuous cooperation to the public prosecution. Maybe the public prosecutors want explanations on some details on the actions they took and we have committed ourselves to offer them this counterpart in terms of cooperation.

Q - Robert Otero

Okay, understood. Thank you very much.

Operator

Our next question is from Rogério Araújo, UBS.

Q - Rogério Araújo

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 unbalanced figures, which those that you call for compensation from regulators. This year we realized that there was a great increase of BRL 400 million in ViaQuatro, BRL 500 million in Road 1L (00:17:28) ring road, BRL 300 million for ViaMobilidade, and BRL 350 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 it's today around BRL 2.6 billion investments and I would like to know of this BRL 2.6 billion investment, how much of it can you get compensation from the regulator for?

A - Operator

Well thank you for question Arthur. This amount in fact, every year whenever we announce the figures for the closing of the previous year, we make an adjustment in these 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 asses and add to this forecast of investment, a given amount that we consider contingent and - or else these are the investments that we consider could help us rebalance the numbers.

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

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

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 have a mixed situation.

A - Operator

Well, because 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, these 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 no 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 the country.

Q - Rogério Araújo

Well, thank you very much.

Operator

The next question comes from Felipe Vinagre, Credit Suisse.

Q - Felipe Vinagre {BIO 19282922 <GO>}

Hi. Good afternoon, Eduardo and Arthur. I have a question going back to the first topic, the incentive for collaboration program. I want to understand better your explanation, first, the risk. Is it connected to the past negotiations as the public prosecutors of persecution of (00:22:36) São Paulo announced that this has to do with that past negotiation and it depends upon the executive going on to - going on helping and cooperating with that? Or is there something in terms reimbursement of costs or lawyer fees, any type of payment that was made or will be made to these executives?

A - Operator

We'll, thank you, Felipe Vinagre, for your questions. Well, going back to the fixed topic again, we are committed vis-à-vis the public prosecutors, 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, the agreement is that they will go on contributing because if they stop contributing, all the agreement will go down. And the equivalence of one monthly salary during five years is part of the cost and we also have lawyer's fees and whatever fees that occur in order to make these depositions. And then, we'll calculate the total cost of the agreement. Thank you very much.

Our next question comes from (00:24:25).

Hi. I have still three questions related to PIC, they are connecting questions. First, the special instrument of working contracts that you disseminated on Item 8 I'm reading, as to the topics approved by the board of directors as a counterpart of what's said above depends of the remuneration, the compensation of a given quantity. What I understand from this is, this is a blank check. So, this BRL 71 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 BRL 1 million, who will pay this fine, the executive or the company? Because it says the word, indemnified.

So the second question, is it clear for you or to the independent committee, who was the beneficiary of the contravention that took place? 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, there is a possibility that the beneficiary is the one who really was a controller, but I guess now, is it correct to - if the controller does not vote in the next general meeting? Well, these are my three questions.

Hi, Juliano (00:26:46). Thank you for the three questions. I'll try to answer the three of them. The first, to maintain indemnified, 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 this. 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 individual also carried out individual negotiations and the sums were much smaller.

So, 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 (00:28:08).

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 amounts. 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 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.

Our next question comes from Fernando Abdalla, JPMorgan.

Q - Fernando Abdalla {BIO 15381888 <GO>}

Good afternoon, Eduardo. Good afternoon to all. I have two quick questions. Well, this topic received several explanation that'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 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 owners. And this is my first question. I don't know if there will be another option instead of this one because either I don't understand this aspect.

And the second, the São Paulo-Paraná agreement. I would like to know the Paraná agreement due to the difference in value is, could it cause the São Paulo agreement to be re-analyzed or could you give us the difference - the reason for the difference BRL 80 million, São Paulo, BRL 100-and-something million for Paraná because who buys CCR today is different. We're buying CCR knowing that there were wrong things in the past and now the company is clean or Metrô Bahia Rio de Janeiro could be affected also. Could we be sure that history is cleaner in this sense? Thank you.

A - Operator

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 interest of the company. So to some extent, the question whether it is 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 interest 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 (00:32:41).

And the second element, on the question whether other things may come up. Well, what we can state here is that everything that was found in the internal investigations and that has materiality 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 state to you now very emphatically.

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 the two states?

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A - Operator

Well fundamentally, it's the nature of the accusations; in the case of São Paulo, the nature of the accusation was electoral crime and in Parana, the nature was different, not electoral crime, and this leads us to a difference in amounts. Thank you very much.

Our next question comes from Paula Gomez (00:34:07) Bradesco BBI.

Good afternoon. Thank you for receiving my question. I want to understand better when you speak when you say that all the materials was included in the internal investigations 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 or the independent committee found that is yet not covered by the investigations and what the material amount you are considering?

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

Well, thank you very much. And then last question. In terms of the accountability for the events, do they fall only on the 15 executives or the members of the board could also be accountable for them. Paula (00:35:39).

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

Thank you.

Thank you, Paulo.

Thank you, sir.

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 São Paulo Parana or other states were also investigated, Rio de Janeiro, Bahia, whatever? Can we say 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 prosecutor's standpoint, what do they say about the potential conflict of interest of these executives that are (00:37:07) cooperating been receiving payment from the company being investigated?

This for me sounds like a potential conflict of interest.

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A - Operator

Felipe, thank you for the new questions. 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 award that sounded linked to it. So, I think that was a large, large encompassment and this is what I can say.

The second point on the conflicts of interest, this topic was discussed with the public prosecutors as part of the agreements (00:38:13) 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 eventual persons that are involved. So, they want these 15 executives to investigate other actors (00:38:44), other companies that could possibly be involved.

Q - Felipe Vinagre {BIO 19282922 <GO>}

Well, it's clear. Thank you.

Operator

All right. Next question in English comes from Stephen Trent, Citigroup.

Q - Stephen Trent {BIO 5581382 <GO>}

Hi. Good afternoon and thanks for taking my call and apologize that I joined the call a little late, but I would just like to understand, over what timeframe are the 15 executives going to be bound in their cooperation with the prosecutor's office. And I apologize I didn't catch all of that.

A - Operator

Thank you for your questions. These executives will have to cooperate with the prosecutors for five years. This is the term timeframe 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 learning and contesting contracts?

A - Operator

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 the interest of the population and with that, this would lead to the negotiation of our conference in view of extending terms. And from what we have seen, even due to the type of topic, we have seen that clearly the public is exactly *pari passu*, accompanying all the discussions that are being taken place.

Q - Stephen Trent {BIO 5581382 <GO>}

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

Operator

Our next question comes from (00:42:23) Investments.

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

Well thank you very much, Edson (00:42:57). These agreements have to follow the normal stages in the public prosecution and with the federal prosecution. We could wait for the homologation for 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. Thank you.

Our next question in English comes from Roberto Lampl (00:43:29)...

Hi there. Hello?

...hold your question, sir.

Okay, yes. My question is, going back to the solution 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 ones do you - are - do you think you have a bit of visibility over the next 12 months, that may come to fruition? Thank you.

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

Well, Robert (00:44:29), this is 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 contingent investments, (00:45:34) subject to some preconditions such as a tracker trigger in the given stretch in the highway.

If it reaches some traffic standard in the concession agreement, they call for a trigger, call in for an additional investment to build a new range, or another reason for our adjustment relates to the tradition as you can say. Postponement of investment due to different reasons and these eventually are announced like we are doing now, we announce the total amount for the year, but for several reasons, the (00:46:34) for the coming year.

So, if we can say, this is a reassessment process which we carry out year after year, and this year the amount was - the estimated amount was BRL 2.4 trillion, sorry.

Q - Operator

Great, well...

We 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 (00:47:35) and the Lines 15 in São Paulo recently, and these are evidences of our great opportunities for the future and my confidence in the ability of CCR 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 8th.

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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