

## Q1 2015 Earnings Call

### Company Participants

- Andrea Fernandes, Investor Relations
- Unidentified Speaker

### Other Participants

- Marcio Prado, Analyst
- Rodrigo Olivares, Analyst
- Rogerio Araujo, Analyst
- Sara Delfim, Analyst
- Stephen Trent, Analyst
- Unidentified Participant
- Victor Mizusaki, Analyst

### Presentation

#### Operator

Good afternoon and welcome to EcoRodovias' Conference Call referring to the First Quarter of 2015 Results. Today with us, we have Marcello Guidotti, CFO and Investor Relations Officer; Mrs. Andrea Fernandes, Investor Relations Manager; Mrs. Raquel Turano and the Investor Relations team.

We would like to inform you that the presentation is being recorded, and all participants will be in listen-only mode during the company's presentation. Afterwards, we will have a question-and-answer session exclusively for analysts and investors in the industry and then further instructions will be given. (Operator Instructions).

The audio and the slides of this call are being broadcast simultaneously on the internet at [www.ecorodovias.com.br/investor-relations](http://www.ecorodovias.com.br/investor-relations), where you can also find the respective presentation for download at the webcast platform Investor Relations section.

Before proceeding, we would like to clarify that forward-looking statement that might be made during this call relating to EcoRodovias' business perspective, projections, financial and operating targets are beliefs and assumptions of the company's management, as well as information currently available. They involve risks, uncertainties and assumptions as 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 performance of EcoRodovias and lead to results that differ materially from those expressed in such forward-looking statements.

Now, we would like to give the floor over to Mrs. Andrea Fernandes, Investor Relations, who will make remarks about the first quarter of 2015 results. Mrs. Fernandes, you may proceed.

### **Andrea Fernandes** {BIO 21294199 <GO>}

Good afternoon and welcome to Ecorodovias Group earnings conference call. And we thank you very much for your interest and your participation. In order to start, we would like to mention that, we won a bid for the Rio-Niteroi bridge on March 18, which was ratified on April, 16 with a signing date of the concession agreement estimated for this Thursday, May 14. At the end of the presentation, we will give you more information about this concession.

This quarter, the truck drivers law was approved and among auditing, it adopted the non-charge of empty trucks with suspended axles, which has been implied to our concession areas, except for the concessions of the State of Sao Paulo and determined by attesting [ph]. According to this degree, that regulated a lot, old trucks with suspended axles will be considered empty and should be exempt from toll collection until the regulation is published by ANTT which has already stated that the contract will be reviewed.

In April, the shareholders meeting of Ecorodovias was held and among other issues approved BRL235.9 million in dividend referring to the fiscal year of 2014 and the distribution will be approved during a Board meeting.

Starting with the explanation of the results obtained in the first quarter of 2015, we can see on slide number two, that consolidated traffic of equivalent paying vehicles grew by 25.7% in the quarter excluding the ECO101 traffic, there was a 2.7% reduction in the quarter. And this reduction is driven mainly by the truck drivers' manifestations in February 2015 that paralyzed some highways in the country, also the reduction in soybean export and the overall slowdown in the economy.

On slide number three, we show you data from Ecoporto Santos whose number of containers handled in the quay operations decreased by 18.7% in Q1 '15, while the warehousing operations decreased by 0.5% in the same period. The quay operation was influenced by the cancellation and the need for docking of ship in another terminal due to the change in the operational system of Ecoporto Santos. Operations were also influenced by competition from new market entrance, that will not yet in full operation in Q1 '14, as well as the overall economic slowdown.

It is important to say, that when we compare Q4 '14 with Q1 '15, there is a 15% recovery in the average warehousing tariff, in relation to the Group's consolidated performance on slide number four in a compared pro-forma fashion, net revenue reached BRL633.1 million in Q1 '15, growing by 6.5%. Revenues were positively impacted by the start of toll

collection at ECO101 in May 2014 and contractual increases in the toll tariff of highway concession. Nevertheless, they were negatively impacted by handling in Ecoporto Santos.

On slide five, we show you the cash cost that reached BRL281.1 million in the first quarter of 2015, a 5.6% increase below inflation in the period. You can also see an increase in payroll cost due to the launch of the ECO101 operation and the implementation of salary increases resulting from the collective bargaining average of 7% across the business unit as of March 2015. The comparable pro-forma EBITDA in the quarter was BRL352.7 million with the 5.7% increase and 55.7% margin.

As you can see on slide number six, the highway concessions sector showed a growth of EBITDA of 12.2% in the quarter.

Moving on to slide number seven, net income during the quarter was BRL28.6 million and to that are comparative figure, we excluded from the first quarter the sale of interest and equity income of STP that was sold in March 2014 obtaining a comparable net income of BRL77.2 million.

The effect of the variation between the quarters can be observed in the chart, increase in net financial expense of BRL81.7 million due to the variations in the IPCA, the dollar and the SELIC rate and also an increase in the gross debt. Increased depreciation and amortization of 9.8 million due to the higher asset base and the negative results of equity income amounted to BRL8.1 million, as well as increased provisions for maintenance of BRL3.4 million.

Regarding investments on slide number eight, we show how we maintain the company's commitment to invest in accordance to the contract and the business needs, highlighting the initial work of the ECO101 and also works of Ecopistas. The estimated CapEx for 2015 proportional to EcoRodovias share is approximately BRL650 million.

Moving on to slide number nine, we show the debt by instrument, 77% long-term debentures and the pro-forma net debt, pro-forma EBITDA indicator of 2.9 times in March 2015.

Going on to slide number 10, we can see our debt per index, 47% IPCA that is to say the same index used for the tariff adjustment of our main concessions, highway concessions. Here we also show the debt amortization schedule in March 2015 and we highlight the issue of BRL600 million in EcoRodovias trade debentures last month, which we used for payment of BRL307 million of the fifth Promissory Notes issue and consequently the Group's debt profile lengthened.

Now we would like to talk some important aspects about our newest concession Ecopatio [ph] . We will present the main premises contained in the EcoRodovias' proposal, the start of toll collection by EcoRodovias on June 1, 2015, with the current equivalent paying vehicle tariff of BRL3.65 already adjusted by the IPCA of the period and the contractual tariff adjustment index.

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Our traffic studies indicated the volume of 31 million equivalent paying vehicles for 2015 and 31.5 million for 2016 with an average annual growth of 1.3% over the entire concession period. It should be noted that the average traffic growth over the past 15 years was 1.4%.

In addition to the expected GDP growth over the next 30 years, the increased traffic is supported in the short run by the reduction in the tariff charge in the medium run due to the completion of major traffic inducing work, especially the implementation of the connection between the bridge and the Linha Vermelha. And in the long run, by the use of technology and infrastructure solutions aimed at increasing capacity.

Regarding the operating results, we estimate 48% EBITDA margin for 2015, 52% EBITDA margin for 2016, 56% EBITDA margin for 2017 and at the end of the concession in EBITDA margin of around 75%. Deduction of taxes of the usual revenue for highway concessions and operating costs were considered and operating costs considered, the full use of the shared services center and all the experience gained in the operation of major highways in the country by EcoRodovias.

The estimated CapEx for the 30 years of the concession is of about BRL1 billion of which BRL725 million will be invested in infrastructure and operating systems by 2020. When the major works that will improve the flow of traffic in the region will be executed, such as the connection to the Linha Vermelha, the underpass Niteroi, and the connection between the bridge and the port avenue. And the remainder will be invested in operations and maintenance systems as of 2021. A sources of funding, we will use in the next 18 months. A BRL120 million from capital contribution, as well as cash generated by the project and in the following periods, we expect financing through debentures issuances to the market with an average estimated rate of IPCA, plus 6.7% a year, with 175 million in 2017, 250 million in 2018 and 140 million in 2019. And it is worth mentioning that for cash flow purposes, the IPCA variations will be settled only at the moment of amortization of the principal amount.

Finally, we estimate a 34% income tax rate and consider the additional profits generated by the use of our shared services company. With this information, we reiterate our confidence in value creation proposal in our -- and we are certain that Ecopatio [ph] will be another successful business for the EcoRodovias Group.

Thus we conclude our presentation and now we would like to start our question-and-answer session. Operator, we are ready to answer questions from analysts and investors. Thank you.

## Questions And Answers

### Operator

Thank you very much. We will start now the question-and-answer session for investors and analysts. (Operator Instructions). Our first question Rogerio Araujo from Brasil Plural.

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### Q - Rogerio Araujo {BIO 17308156 <GO>}

Good afternoon, everyone. Thank you for the opportunity. I have two questions. One has to do with the Ecoporto, why did you lose the shipping line and what is about your negotiations with the ship builders that are still there? The contractor with (inaudible) should be maturing at the end of this quarter, and what about the negotiations going on? Are you were able to keep the ship builder there, have you given any discounts for them? And in the warehousing of Ecoporto, we see Ecopatio [ph] gaining many contracts of (inaudible) fraction [ph] cargo. Do you feel this competition already? And what about competition for the second quarter? Then how do you expect this competition in LCL to affect your warehousing operations?

### A - Unidentified Speaker

Good afternoon, Rogerio. Thank you for your participation. This was happened last year and this year we are maintaining so far, the lines and we are still negotiating with the lines that you have just mentioned. And we expect to maintain them, we are still negotiating and we do not expect to lose anything. We have to check, of course, the level of cost and the tariff and the rate at the close of the negotiations. The Board is focused on keeping the current clients and is paying attention to all the moves of the ship builders by means of consolidations, et cetera. And we know there is pressure, the volumes are going down.

So we have to be proactive in the sense. And in this sense, we are negotiating with (inaudible) and we will continue to monitor the market. This is the dynamic and the cargo stored while competitiveness continued. And we have the amount of average tariff for storage and we intend to keep our competitiveness in terms of prices, and there is some very good signs already, but of course there is competition. And we are going to work throughout the year in order to avoid prices to continue to go down.

### Q - Rogerio Araujo {BIO 17308156 <GO>}

Thank you very much. My second question has to do with your leverage. Net debt-EBITDA of EcoRodovias has been increasing substantially in the last year. And one of the main reasons was dividend payout in the second quarter of '14, 270 million and in April, we've announced 236 million in dividend payout, an additional one. And my question is a following, what is your dividend policy from now on? As you're controlling shareholder at a very high level closing 2014 at 5.9 times net debt-EBITDA ratio? And until when which is -- what do you think is a comfortable leverage level for you?

### A - Unidentified Speaker

Rogerio, if you compare the last quarter to the first quarter, it was flat last year. In the EBITDA, we had the sale of STP and readjusted the price and we are in line. Including the net debt-EBITDA over the year, it depends we announced dividend payout.

It'll depend on the operating result and it will depend also on our debt, and the investment cycle divestment is relatively moderate this year. We are already decreasing the CapEx for this year and cash generation will be very important. Even considering the expected traffic reduction and we expect to generate cash and it also depends on the opportunities that will appear until the end of the year.

A ratio by higher, let's say then 3.5 times net debt-EBITDA, this is something that would really bring us, let's say, a yellow light blinking.

**Q - Rogerio Araujo** {BIO 17308156 <GO>}

Thank you very much. Have a good day.

**Operator**

(Operator Instructions). Rodrigo Olivares from Votorantim Brokerage.

**Q - Rodrigo Olivares** {BIO 17393856 <GO>}

Good afternoon. I have two specific questions. One has to do with Ecoporto, where your April volumes affected by, what happened to the Right Bank? And Andrea talked about the bridge, the 1.6 billion CapEx, is it comparable to the 1.3 billion that we had in the bid notice?

**A - Unidentified Speaker**

Yes. The volumes were affected by the events on the Right Bank and there were traffic interruptions and the figures were affected. So the results in the month of April do reflect there. And you are asking about the Ecoporto, there is an estimated reduction in the CapEx for Ecoporto.

**Q - Rodrigo Olivares** {BIO 17393856 <GO>}

Thank you very much.

**Operator**

(inaudible), Bank of America.

**Q - Sara Delfim** {BIO 1759641 <GO>}

This is Sara Delfim. Could you give us an update about the Belo Horizonte beltway? What is our expectation regarding signing the contract and what about investments? And regarding the bridge, what is your expectation, when do you expect to sign and when do you expect to start your investments there? Two questions.

**A - Unidentified Speaker**

Sara, good afternoon. The contract for Belo Horizonte beltway, we are waiting to sign the contract, and the government is analyzing the contract among other things. So we do not have a very clear date to tell you. This could be postponed for the second half of the year, but we are waiting for the definition by the government that is dealing with other subject as well. But we are tracking this very closely, and I would say that investments in this project will not happen this year yet.

And the other question has to do with the bridge. As we informed, we have already talked about that and which has to do with Niterói under path and link or the connection with Linha Vermelha and these are the main areas where we will be working in the next five years. And the contract that we have already announced, we believe we will be signing this contract on the 14 of May and on June 1st, we will be consolidating 100% of the result of the bridge.

**Q - Sara Delfim** {BIO 1759641 <GO>}

Thank you.

**Operator**

Victor Mizusaki from Bradesco BBI.

**Q - Victor Mizusaki** {BIO 4087162 <GO>}

Good afternoon. I have two questions. What about your long-term strategic plan and when are you going to inform us about that? And the second question is the following. Regarding your strategic plan, do you believe it will be necessary for you to bring forward, your signature of the extension?

**A - Unidentified Speaker**

I have already mentioned that we are in the finishing moment and now we will have more detailed information and we will be publishing this in a timely fashion. And of course it has to do with logistics and all the analysis regarding our position and our portfolio in general. So it has to do with our portfolio positions and of course our ultimate objective is to create value and we are analyzing our whole portfolio.

**Q - Victor Mizusaki** {BIO 4087162 <GO>}

In the case of your strategic plan and you are getting into the details as you said, could we expect this to be published in the second quarter?

**A - Unidentified Speaker**

As you know we have the equity, and if we are not able to do this on the second quarter then it'll be on the third quarter and giving you more details about that. I would say more towards the third quarter not the second.

**Q - Victor Mizusaki** {BIO 4087162 <GO>}

Thank you.

**Operator**

Marcio Prado from Goldman Sachs.

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**Q - Marcio Prado** {BIO 15398968 <GO>}

Good afternoon, everyone. Thank you for the call. A follow-up on the previous question about the renewal of the fourth contract. Could you give us an update, there was a recent decision about before 1983. And also an update of how you see maybe an update about how you see this affecting Ecoporto and about traffic there was some recovery in April already according to this year. And could you say something about that and still about dividends, so that I may better understand that? Is this a proposal that was approved already and when will you be looking in place this 273 million about Ecoporto?

**A - Unidentified Speaker**

We are analyzing, we're concluding our study for the beginning of the renewal process. And we intend to have a very clear definition about that, about the renewal of the concession and we are very much focused on this objective and we are tracking this objective in a very clear fashion.

About traffic of course, we saw this improvement in April, with a slight drop of 0.6% of the axles, but this does not include the suspended axles, okay, in this calculation. So, traffic would have been positive in April, if you compare this on the same base.

You asked about the dividend and I didn't jot this down. The proposal was made during the General Shareholders' Meeting, and it will depend on the decision on the part of the Board until the end of this year.

**Q - Marcio Prado** {BIO 15398968 <GO>}

You mentioned that in April, considering the suspended axles, the drop would be 2.7?

**A - Unidentified Speaker**

No, 0.7 April vis-a-vis the previous April, but you don't consider in this calculation these suspended axles. If you adjust for the non-collection or the non-charging of the suspended axles in April it would be positive. It would have been positive if we consider that, okay.

**Q - Marcio Prado** {BIO 15398968 <GO>}

Thank you.

**Operator**

(inaudible) from Banco do Brasil.

**Q - Unidentified Participant**

Good afternoon, everyone. I would like to know, in the first quarter of 2014, regarding Ecoporto, were you benefiting from the removal of the tax on payroll? And would it be possible to see an increase in the taxes on payroll and if this does happen, what do you intend to do in terms of cost reduction in order to offset that?

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## A - Unidentified Speaker

Good afternoon. Last year we already benefited from the non-collection or non-charging of the tax and we are evaluating the possibility of this being maintained. And there are some cost reduction initiatives already be implemented, especially regarding labor. But in 2015, we still have room for additional reductions.

In the first quarter, as we said, the operation of the new system will allow us to have a very good reduction in labor costs, and the RTG equipment as well, will allow us to have a better operating efficiency and because of that, we will further decrease our cost and labor, so ultimately this will offset the tax reduction that might happen. Thank you.

## Operator

(Operator Instructions). Stephen Trent from Citigroup.

## Q - Stephen Trent {BIO 5581382 <GO>}

Hi, good morning. Can you hear me? Hi. (Technical Difficulty) This is Stephen Trent. Just a couple of questions. What is essentially you're seeing in the government auction plan and what's your ideals of relation with respect to the availability of new projects coming on line and do you have any -- I guess, any projects -- now that remains?

## A - Unidentified Speaker

You're talking about the internal rate of return from the new packages being announced by the government?

## Q - Stephen Trent {BIO 5581382 <GO>}

No, just I'm naive on that. Just what -- how much expenses do you see in 2015 for our (inaudible) for growth?

## A - Unidentified Speaker

We are expecting everything and we also know that the government is announcing may be the privatization of airport and also some studies regarding ports. So in the next few months, we will know exactly how much the government will intend to invest with very high interest rates in Brazil. Today and also with the fiscal squeeze maybe the government will not have so many funds to take this ahead. But we expect new project to have higher internal rate of returns, so that we may have.

And of course in order to raise interest on the part of players the internal rates of return have to be higher and we are very much focused on the study of all these possibilities.

## Q - Stephen Trent {BIO 5581382 <GO>}

Okay. And so, you don't think like you are optimistic on overall project line, is it more airport and what do you expect?

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## A - Unidentified Speaker

You're talking about the airport, ports and highways, the government. But I would say that, we are considering the privatization of four major airports. And in highways there are some packages and that have been delivered and some will be delivered in the next few weeks. And maybe the studies regarding the port, will take more time because they are reassessing their studies.

But I would say that, it would be more towards the second half of 2015 and the beginning of 2016. If some of them will come before or after, we don't have this kind of information or visibility, but these are the indication that we get from the government, so far.

## Q - Stephen Trent {BIO 5581382 <GO>}

Okay, great. Great color. And then also I guess, just coming back towards, what is your strategy on foreign investments such as (inaudible) are you trying to -- I think you said, you use CapEx for the port [ph]. For 2015, what about overall investments in port for the rest of the year and maybe next year?

## A - Unidentified Speaker

If I understood your question, you're talking about the CapEx for the port.

## Q - Stephen Trent {BIO 5581382 <GO>}

Yeah.

## A - Unidentified Speaker

We have already made major investments mainly in equipment. The interpreter apologizes I have totally lost sound. Please stand-by. We're talking about the CapEx for Ecoporto. Well the portainers and RPGs have already been acquired and now we have a maintenance CapEx about 40 million estimated for this year.

And the main CapEx investments have already been made. In terms of our OpEx, we are all the time revising our OpEx regarding the volumes, and find to get the cost reduction of feasible tax reduction and we believe we still have room for additional cost reductions.

## Q - Stephen Trent {BIO 5581382 <GO>}

Okay, great. Thank you for the color.

## Operator

Now we close the question-and-answer session and I would like to give the floor back to Mrs. Andrea Fernandes for her closing remarks. Mrs. Fernandes you may proceed.

## A - Andrea Fernandes {BIO 21294199 <GO>}

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I would like to thank you all for your participation in the call and the Investor Relations team will be available to you, if you have any questions. Thank you very much.

## Operator

EcoRodovias conference call is closed. We thank you for your participation and wish you all a very good afternoon.

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