

Y 2013 Earnings Call

Company Participants

- Cristiano Correa de Barros, Finance and Investor Relations Superintendent Officer
- Jose Aloise Ragone Filho, Chief Executive Officer

Other Participants

- Bruno Pascon, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to taesa's Conference Call about the Results of 2013. We would like to inform all participants that the presentation to be made is available for download at www.taesa.com.br/ri. We would like to inform you that participants will be in listen-only mode during the company's presentation. Afterwards, we will have a question-and-answer session for investors and analysts only, when further instructions will be given. (Operator Instructions)

Before proceeding, we would like to clarify that forward-looking statements that might be made during this call related to the business prospectus of the company, operating and financial targets and projections are beliefs and assumptions of taesa's management as well as information currently available to the company. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions and they refer to future events and therefore, they depend on circumstances that may or may not occur.

Investors should understand that general economic conditions, industry conditions and other operating factors may affect the future results of the company and may lead to results that differ materially from those expressed in such forward-looking statements.

Now, I would like to give the floor to Mr. Jose Ragone, CEO, who will start the presentation. Mr. Ragone, you may proceed.

Jose Aloise Ragone Filho {BIO 16438993 <GO>}

Good morning everyone. First, I would like to thank you very much for your participation and for your interest in -- on taesa. This presentation will be shared with Cristiano Correa de Barros, our CFO and IRO, Rafaela Gunzburger, our Investor Relations Manager and their team and (inaudible) analyst. I would like to start the presentation with slide number

three in which we highlight the four pillars of our management strategy focused on growth with a subsequent movement each of them start establishing a streamlined ownership structure and also a subsequent move in terms of a better use of our capital structure. All focused or all those efforts focused on actions that may bring added value and return to the company, always preserving our condition and our policy of maximum dividend payout.

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2013 was a year of consolidation. Our homework that we carried out in order to consolidate our business plans, we started 2013 by streamlining our ownership structure of strategy with the integration of four concessions, NTE, STE, ATE and ATE II, which were acquired by all companies have been good and indeed that was a 100% (inaudible).

In 2013, we also had the payment of debt by R\$400 promissory note issuance. More specifically regarding growth, the company added 14 concessions to our portfolio during the year. In May, we have the financial settlement of our TBE acquisition, which was an operation with Cemig, which got us another 10 concessions in August by means of EATE, one of our concessions, where we participated in TBE and the acquisition of 10% in three other concessions. And they are better (inaudible) which are definitely needed and we closed the year with a victorious participation in the last transmission auction.

When we conquered the concession of Lot A line, which is the (inaudible) line, our future Mariana transmission. And the auction was carried out in December 2013 in our -- in order to preserve our dividend payout policy. Last year, we paid R\$759 million over the years of which 359 million, we are referring to the 2012 results and R\$400 million as interim dividend and as well as interest on equity on the 2013 results.

And closing this first part of our presentation, I would like to highlight an action that has already been announced and that was concluded on September 15th last year, which was the in-sourcing of the O&M activities at the STE and ATE III and II actions.

We concluded and all the activities of incorporation and operation of the -- which were executed by a third-party, an outsourced company, which projects for 2014, the reestablishment of our result with a margin close to 90%.

Now going to slide number four. As you can see, in a nutshell, we show you our growth last year. As I said before, we added 14 concessions to our portfolio and more important than that 14 concession -- premium concessions increasing or upgrading the condition and the quality of taesa to 28 concessions.

Specifically of these 14, we have an increase of 36,00 kilometers in transmission lines, but mainly in line with our growth strategy, which is based on value aggregation -- value-accretion. 80% of revenues associated to the 14 concessions are within the Category II of concession. Concessions that mature in the long run and most of that matures after 2035. Okay.

Now, I would like to give the floor to Cristiano and I will come back later. I would like to remind you that at the end we will have -- although we will give you the opportunity to ask

questions and for clarification of any doubt that you might have.

Cristiano Correa de Barros {BIO 4273820 <GO>}

Thank you, Ragone. Good morning, everyone. Now we will go to slide number five, where we show you the main financial indicators for the company and the attractive growth of these indicators that all the measures that were mentioned by Ragone has brought about for the company.

I would like to tell you that as of 2013, there were some changes in the accounting rules of the company and only the results of the fully owned subsidiaries are now consolidated line by line. So, in order to facilitate the understanding of our results, we decided to present the managerial result, which is the one that you see here on this slide reflecting the participation of all these concessions in a proportional fashion.

As you can see, there is a substantial growth in the financial indicators of the company growing to 1.768 billion the RAP, 32% increase in the RAP. Regulatory EBITDA 1,418, 34% growth and net earnings 893, 52% increase and we will be -- on the next slide we'll be talking in detail about the drivers that brought about this growth for the company.

On slide number six, we analyze the RAP, the allowed annual revenue for the company in 2013. As you can see, we had R\$1.768 billion and 30% higher than 2012. The growth in the RAP was based on the acquisitions in the last couple of years, which together NTE, STE, ATE, ATE II, ATE III and TBE represented -- TBE represented this amount in the total RAP that is to say 44.2% or 780.2 million came from our growth in the last couple of years. And I would like to mention that TBE -- the TBE result is reflected only in -- seven months of TBE are included here.

On the next slide, slide number seven, we have the consolidated regulatory EBITDA and the managerial EBITDA, which indicates the company's capacity to generate cash. And this is the most faithful indicator that we believe that shows the operational competence of the company.

On the left, we have the consolidated chart that of all the concessions, taesa has a 100% stake. So, the regulatory EBITDA in this case and the consolidated reached R\$1.213 billion, 24% higher than 2012. And it was impacted by the acquisition of UNISA, which only as of July 2012 started to be recognized line by line, 100%. On the right, you will see the managerial result that already considered the proportional participation of each one of the concessions so that's why we have R\$1.418 billion, which was 34% higher than 2012 also due to the acquisition of UNISA and TBE.

On slide number eight, we gave you details of the annual RAP and here, we will give you the regulatory EBITDA per concessions. We can see that the acquisitions made in the last two years added R\$544 million to our regulatory EBITDA representing a 38% increase of this total amount R\$1.418 billion. I would like to remind you that TBE only is included for seven months because it came on board in May. So, we have only seven months of TBE.

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Regarding net income on page number nine. Here we have a comparison of the variation occurred in the items that makeup the net income of 2013 and '12. The EBT variation was 148 million, which is earnings before income tax and it shows the effective growth coming from acquisition and the RAP adjustment. We also have the positive variation of taxes 156 million. And this was basically by tax gain with the integrations and payment of interest on owned capital that occurred in December 2013, therefore the 52% increase in net income was very strongly impacted by the acquisition of 100% of UNISA, TBE and by the positive effect of these taxes.

Now, slide number 10, where we have the 2013 net income, the breakdown of the 2013 net income, 893 million. And the NTE, STE, ATE, ATE II and TBE acquisitions added 447 million to the net income, 42% of our total net income already the reversal of the provision -- the reversal of the provision that we had in 2013. The fiscal gains with the integration of these four confessions and also the payment of interest on owned capital amounted to 164 million breaking [ph] down by 73.5% the amount of taxes, they then increasing our net income by 18.2%. So, some are non-recurring effect that we will not have in the next few years.

On page 11, on slide number 11, we have the company's cash flow. The cash flow illustrates very well the company's growth strategy and our business model, which are supported by the quality of the 28 concession agreements that we have. Cash generation amounted to R\$1.178 billion the operating cash flow plus the dividend received from controlled companies. We have the financial management with the payment of R\$759 million paid as dividend.

The operating cash flow was more than enough in order to cover and to pay for this R\$759 million in dividend and part of the year 2012 and part already interim dividend of 2013 and we also use R\$536 million to amortize debt. This was necessary in order to integrate these four companies. And this was important also to reduce our exchange rate risk. We had some debt with IDB and we were able to relieve the cash that was in the company that were integrated.

In May, we paid TBE -- for TBE 1.700 billion payment for TBE and we closed the year with a consolidated cash of R\$534 million. And the resources for the payment of the TBE were the ones that we raised in the IPO in July 2012.

On slide number 12, we have the definition of the company's net income. We proposed for 2013 R\$571 million equivalent to R\$1.66 per unit as dividends proposed. And of this amount, of this net income of (inaudible) 242 were retained as reserves to be used for growth opportunities that might arise due to the possibilities that we see for 2014 and all this done with a lot of financial discipline. And this was proposed based on the tax policy, on dividends that we have in our country.

And now, slide number 13, where we talk about the company's indebtedness. The company has a very clear strategy to reduce the cost of debt as well as reducing our exchange rate exposure and rolling [ph] overall debt and the maintenance of the company leveraged in the long run and our spend vis-a-vis indebtedness is very proactive

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with a sound debt management bringing quite a lot of value to our business. So, we like the right size of our balance sheet.

And our exchange rate risk is only 4%, thanks to the settlement of debt that occurred in May 2013 through the promissory note that we issued and risk mitigation is very important in order to decrease volatility in our results. We are always focused on maintaining our results as predictable as possible. And also, we try to analyze our debt profile to the profile of our contractual revenues always rolling over and adjusting it to the flow of receivables. And after settling the acquisition of TBE, which occurred in May last year, our net debt became slightly higher and our capital structure got closer to the one that we considered as being the ideal. Our capital structure is around 50 debt and 50 equity.

Now, I would like to give the floor back to Ragone and then we will be opening for questions.

Jose Aloise Ragone Filho {BIO 16438993 <GO>}

In the last three years, taesa had a major growth focused only on operations that could bring about returns to the company. And all this supported by growth in the last three years of over a 100% in our revenues that are associated to concessions. And last year, we concluded some action in simplifying our ownership structure and optimizing our capital structures and increasing our operating efficiency.

After this growth in these last three years, now we will start doing another homework and this -- we started doing our homework and the homework was done already and this places taesa in an excellent position in order to experiment a new and important growth cycle vis-a vis the opportunities that we see in the transmission sector, in the secondary market and also the new opportunities or the new auctions that will be carried out by the agency. In 2014, ANEEL is projecting an additional four transmission auctions. The first one is also in a public hearing 001/2014, 13 concessions included in this first auction. Many of them very close to our current asset or across our current asset and with an expected revenue related to the CapEx that will be auctioned. We believe it will be close to 4.5 million in investment and taesa is already getting ready and positioning itself to participate in this auction as well as in the other future auctions.

So, after the growth cycle of the last three years and all the work that our team did, we consider that we are 100% prepared to start a new growth cycle based on value-accretion as announced before.

Before starting our Q&A, once again, I would like to thank you very much for participating in our conference call. Thank you for your interest in taesa. And I would like to reiterate the commitment on the part of the whole taesa team in terms of providing in 2014, we are delivering a consistent and positive result according to what this company and this team has been delivering in the last few years. Thank you very much. And now myself and Cristiano, Rafaela (inaudible) we are ready to interact with you. Thank you very much.

Questions And Answers

Bloomberg Transcript

Operator

Now, we will start the question-and-answer session for investors and analysts. (Operator Instructions) Our first question comes from (inaudible) from Merrill Lynch. (inaudible) you may proceed.

Q - Unidentified Participant

Good morning. I have two doubts. The dividend are you going to revise them upwards? And what about the auction in May? Are you interested in that or not?

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

Regarding the amount, the dividend amount, I would like to remind you that we will have a General Shareholders' Meeting that will be occurring in late April. And the shareholders' meeting (inaudible) in terms of to change anything regarding the destination of the company's net earnings. And by the end of April, there would be a clear definition of the evolution of MP629 [ph] that deals with taxation of surplus -- on surplus dividend.

So, with regarding the auction, taesa stands -- well, I can tell you that we are already working on that. We are participating in all previous auctions and this is an important moment. Because this auction -- any auction that might bring us an opportunity to add value to the company such as -- was the case last December, when we were the winning bidders in the last auction and we're already working to implement the concessions. And whenever we have a case like this one that brings a good result to the company, we will be participating. And I would like to take the opportunity to say that last weekend complying with the terms given by the regulator, we put in operation, our single type of concession that was conquered in the June 2012 auction.

And once again, taesa complies not only with the commitments with investors, but complies with the commitment with regulators in terms of -- according to the deadlines established, we started up another operation and we believe that this auction such as Belo Monte auction will be coming with better conditions than last year's auctions, the terms and ANEEL has already been evaluating the deadlines. And in each one of the lot giving a deadline, which is more compatible with what we have in terms of obtaining all the licensees that are necessary and the implementation of the whole project.

So we always analyze all the auctions. And we will be effectively participating in the lots that we deem interesting to the company in terms of returns and value-accretion. But no way we'll -- will we play a game in which you join the game just to be the winner. This is not our mentality. This is not our frame of mind. And in case we are the winners, I can assure you that this bid will bring results to the company.

Q - Unidentified Participant

Thank you.

Operator

Bruno Pascon from Goldman Sachs.

Q - Bruno Pascon {BIO 16451201 <GO>}

Thank you. Good morning. So, talking about growth and dividend. When you did your IPO, the third consecutive time was to consolidate the secondary market for transmission and the company could be working for the higher dividend payout than 50%. And due to the situation of interest rates that we saw in the market, you postponed plans in a prudent fashion, but the dividend payout of 64% for the year vis-a-vis an average since 2006 of 94%, is something that draws the attention. So have you changed your view going forward? We know that you have a very positive history in capital discipline in acquisitions via Brownfield or Greenfield.

So, I would like to know your position regarding growth vis-a-vis dividend in the absence of auctions or your participation in acquisition. Could we expect a payout closer to 95% or are you more focused on growth and not so much on dividend payout?

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

Christiano, this is Christiano speaking. Our idea is to grow with value growth and dividend, the two have to go hand in hand always growth and dividend. So, this is the company strategy because growth with the business structure that we have, it brings a lot of additional value to the company of course our recently [ph] leveraging. But on the other hand, we have this Provisional Measure 67, which brings some uncertainties regarding taxation. It is being analyzed by Congress today, as we know that there is a very good perspective for the approval without the need to have a taxation policy over on dividend.

But we would rather wait for the company's shareholders to come to a decision regarding what they want vis-a-vis the dividend payout policy regarding taxation. And if we do have this taxation in-force, we will have to adopt the higher dividend payout policy, but we cannot make a decision ourselves. We have to wait until late April, during the General Shareholders' meeting to see what the shareholders decide about that and also to see these measures.

Q - Bruno Pascon {BIO 16451201 <GO>}

Just a follow-up regarding the MP. We thought that if companies adopted this MP still within 2014, there would be no taxation on surplus dividend from 2008 to until the end of 2013 provided you adopted it voluntarily in 2014. And from the transmission view point, we thought it would be -- make sense to adopt it because then you would have the convergence of taxation, cash, income tax with the IFRS and as IFRS normalizes your revenues to 75% the RAP from the accounting view point of course, then you would have a lower expense, should you adopt the Provisional Measures still within 2014?

A - Jose Aloise Ragone Filho {BIO 16438993 <GO>}

I don't know whether I'm right or not in my interpretation. I believe MP (inaudible) that the dividends paid until the date the MP was published, which was December 16th, if I'm not wrong. These will be exempt, but any dividend paid after that even related to the previous year, the interpretation is that it will subject to taxation.

We believe this is not going to happen. We believe that until December 31st, we should be releasing -- the company should be releasing the profit result that they have and that could be the object of dividend payout. But in our case, due to the fact that if MP is not a large yet, we are being conservative. And we propose to by the end of April, the General Shareholders' meeting, we'll be able to change it the initial strategy that the company has always had vis-a-vis to investors.

Q - Bruno Pascon {BIO 16451201 <GO>}

Thank you.

Operator

(Operator Instruction) Thank you very much. As there are no more questions, I would like to give the floor back to Mr. Jose Ragone for his closing remarks. Mr. Ragone, you have the floor.

A - Jose Aloise Ragone Filho {BIO 16438993 <GO>}

Once again, I would like to thank you for participating in our call. And we reiterate that our whole strategy, our future strategies will be made -- will be based on sustainable growth, good value-accretion and exclusively focused on maintaining our maximum dividend payout capacity. This is our guidance and this is what we will be following for this year. So, I wish you all a very good weekend and a very good week. Thank you very much. And our Investor Relations team are available to you and myself, we will always be available to you to clarify any doubts that you might have. And wish you all a very good afternoon and a very nice weekend. Thank you for participating.

Operator

taesa's 2013 results conference call is closed. We thank you for participating and wish you a good day.

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