

Q1 2014 Earnings Call

Company Participants

- Cristiano Correa de Barros, Chief Financial Officer
- Jose Aloise Ragone Filho, Chief Executive Officer
- Rafaela Gunzburger, Investor Relations Manager

Other Participants

- Unidentified Participant

Presentation

Operator

Good afternoon, ladies and gentlemen. We would like to welcome everyone to Taesa's First Quarter 2014 Earnings Conference Call. We would like to inform all participants that the presentation is available for download at www.taesa.com.br/ri. We would also like to inform you that all participants will be in listen-only mode during the company's presentation. After the company's remarks are over, there will be a question-and-answer session only for analysts and investors. At that time, further instructions will be given. (Operator Instructions)

Before proceeding, let me mention that forward-looking statements that may be made during this conference call relative to Taesa's business perspectives, projections, operating and financial goals are based on the beliefs and assumptions of the Taesa management as well as on information currently available to the company. Forward-looking statements are not guarantees of performance may involve risks, uncertainties and assumptions, because they relate to future events, and therefore, depend on circumstances that may or may not occur in the future.

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

Now, I would like to turn the conference call over to Ms. Rafaela Gunzburger, RI Manager, who will start the presentation. Ms. Gunzburger, you may proceed.

Rafaela Gunzburger

Good afternoon, everyone, and thank you for participating in this conference call. Here with me are Ragone, our CEO; Cristiano, our Chief Financial Officer and Investor Relations Officer (inaudible) and others who work with me in IR.

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As for the presentation, please go to page three, which is the highlights, for the first quarter 2014 and subsequent events. In the first quarter, we have some main events with Sao Gotardo II substation and subsequent events in April, the company rolled out [ph] R\$400 million promissory note which would mature in May at a cost of 104% of CDI, with two loans made possible by law 4,131 which altogether is 450 million. Total contract was R\$100 million with interest rates of 102% of CDI and a one-year maturity. The second was the R\$350 million with the interest rates of 103.5% of CDI and the two-year maturity. With that, there is a reduced cost and extended the maturity of this debt.

So focusing on financial management and risk mitigation tomorrow, May the 15th, we will be tackling the IDB debts for ATE III, amounting to \$139 million [ph]. So for the exchange rate exposure, it will be delivered as of tomorrow. In addition, on April the 30th, the extraordinary shareholders meeting which has break up of dividend payout amounting to R\$813, resulting from the payout of 91% of the net income, a proportion, 400 million, was paid in December 2013 and the remaining R\$414 million will be paid on May 28.

Traditional measure, (inaudible) became fairly long yesterday. And they said that the 2013 dividend payout will be tax free. So this is being discussed because this was anticipated and it was approved as expected.

Please turn to slide four [ph] where we see the main financial indicators both managerial and accounting, the major differences between the accounting results and the managerial results is that the accounting results consolidate the results are related and controlled companies following the equity income assets, while the managerial calculation considers result line by line, both results were in keeping with our expectations. Highlights going to be EBITDA margin increasing to 89.8% considering the managerial move of this 34% increase in RAP, annual, allowable revenue and this 34% increase in EBITDA came primarily from the acquisition of TBE that happened in May of last year.

Net income variation was negative. For the first quarter 2013, we had a positive non-recurring (inaudible) approximately R\$66 million on the Fiscal Regimen [ph]. Lack of this effect, the valuation would have been positive by 6% in the net income.

On the next slide, we give you the regulatory net revenues, which is 35% increase given the acquisition of TBE. We considered all other consolidated results and considering the consolidated results, increase was 8% in keeping with the percentage of the revenue annual adjustment.

On slide six, we give the regulatory EBITDA. Drop was the net revenue, there is this acquisition of TBE, the same goes for the EBITDA, the 37% variation in regulatory EBITDA, while because of the acquisition of TBE it was mainly because of inflation adjustments and cost reductions.

Please go to slide seven now. Given the historical figures for the EBITDA and the EBITDA margin since the acquisition of 100% of EBITDA [ph] concession, which happened in July 2012. It is important to highlight that after the acquisition, the company has been working

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on reducing costs and on inserting OEM which made it possible for the EBITDA margin to increase from 88.2% to 89.8% in less than two years.

Please go to slide eight. Okay, a little bit of net income and the variation of summer [ph] income. In the first quarter 2014 vis-a-vis first quarter 2013 and we can see the fiscal gain impacting those results.

On slide nine, as I mentioned, we have a general extraordinary shareholders meeting approving the payout of dividend R\$814, R\$2.36 per unit. As I said that this portion was paid in December of last year and the second portion, remaining amount R\$414 million, or \$R1.20 [ph] will be paid on May 28th for the shareholders that had shareholding on April the 30th.

On the next slide, slide 10. To give you the historical periods of dividend payout. With a maximum 91% payout referring to the 2013 results, which protests the company's commitment to bring maximum dividends and ensure some equity and the company has been growing with a strict financial management and with a maximum payout.

On the last page, slide 11, we will give you a little bit of high-tech provision. Net debt, managerial net debt in the first quarter was approximately 9 million. In the end of this quarter, if I look at the debt profile, we have 38% IPCA, 51% CDI, 4% BID, 4% BoC and 3% TJLP long-term interest rates. After the payment that we will be making tomorrow the IDB loan payments in the company, (inaudible) exchange rate risk by using the company's surplus cash. We won't be issuing any new debt. We'll go simply reducing our surplus cash. I guess that this is what we had to present to you in this quarter. It was a quarter not many surprises, very much in keeping with our expectations, but uneventful.

I will now give the floor to Cristiano and Ragone for their comments.

Cristiano Correa de Barros {BIO 4273820 <GO>}

Well, good afternoon. We are giving you the first earnings conference call and the first quarter of 2014 Rafaela Gunzburger is the IR department and she is handling this area. Ragone and myself are here at your disposal to answer questions about the company in addition to everything that Rafaela has presented. So we're here, available to your questions. We are here to answer all of your questions all at your disposal.

Questions And Answers

Operator

Thank you. We will now begin the question-and-answer session only for investors and analysts. (Operator Instructions) Our first question comes from (inaudible) from Goldman Sachs. Please proceed.

Q - Unidentified Participant

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(inaudible) actually. Thank you. I would like to ask about a possible participation in auction, we controlling. In the transmission auction, there was a lack of competition, they were considering for zoomed profit and the company has had a return of 9.5%, 10.5% quite interesting returns on investment in this kind of project, although we knew that interval always we are working at a brownfield and greenfield market. The main election year, it is complicated to think about brownfield acquisitions. So I would like to have some color on the company's take on the possible new auctions that the company would be willing to participate. And what kind of returns would the company be expecting in these future auctions?

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

Hello, Bruno [ph], this is Ragone. Thank you for asking. So in the first place, I would like to highlight that Taesa is focused on growth, using any opportunity as long as it will bring us a return on the investment and increase the value of the company. Sales growth so far was very much based on many transactions in the brownfield market, but we keep our eyes open all opportunities, including transmission auctions. I would like to remind you that we had a very competent participation mainly about one field auction where three companies consortia actually were bidding. We can now come with a second conclusion, which look financially very competent. We worked there with our partner to make that investment.

But unfortunately, giving the kind of discounts that winning the consortium they didn't make any sense to us. So I want to stress that our growth strategy is exclusively based on return on investments. Last week, we participated in the first auction in 2014, with it -- and one -- with it six [ph] lots. We participated and two of the consortium was Eletronorte and gently [ph] we were not able to find a solution that would make it feasible to present the bid in the C Lot with Eletronorte where Lot C and -- just give me a minute. Lot C, well, we were not able to get Lot E. We were not able to put together a winning bid. And for the other Lot J, again, we were not able and we were bidding blindly with Eletronorte. We also participated in Lot H and we were not able get a winning bid with our partners.

There were environmental and wild issue that were quite complicated and Lot L that also was a (inaudible) as the CapEx was valued that we were able get with the supply market did not allow us to have a solution that would provide the return on investment required by our shareholders. We also bid (inaudible) which made a lot of sense to us given this possible synergies associated with (inaudible) we were not able to get a solution.

And let me talk about a solution. I think it is important to highlight that this is basically linked to CapEx. Obviously, it will go to market and with new owners, with our engineering and supply departments and oftentimes the CapEx that we can get from suppliers (inaudible) suppliers would mean a CapEx above the one that was such as biannual and mentioned in the invitations of bid.

A number of things that is important in preparing for auction are one an environmental issue. The amount operators have been higher than those mentioned in the invitation to bid so that an improvement and let's talk about we have to price everything in our management, we were able to get a very interesting solution for Lot D, delta in Balia with a 9.14% of discount, however, the winning bidder one with a bid, with a discount of which

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was greater than 36%. So this was just to say then our strategy is to enjoy all good opportunities in the secondary market or in greenfield auctions. But those opportunities that will undoubtedly bring a return to the company with the bid in the auctions we actually bid in all of them and we will be analyzing future auctions as well. And I would like to draw your attention when we analyze in general assets of the last auction (inaudible) of last auction has no debt whatsoever even with a significant participation of Spanish company, even these companies were not able possibly to find a solution. We had five empty lots with no bidding in the last auction.

Q - Unidentified Participant

It is clear. Thank you very much.

Operator

(Operator Instructions) Thank you. There are no more questions. So I would like to turn the conference over to Ms. Gunzburger for her final remarks.

A - Rafaela Gunzburger

Thank you very much to all who were participating in this conference call. Thank you for the question about the auction. I will turn the floor over to Ragone and Cristiano for their final remarks. Thank you.

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

I would like to second Rafaela comments and thank you for your participation and interest in Taesa. Before closing, I would like to highlight three points. First, our constant search for operating efficiency. This was already seen in the first quarter 2014. While we have an operating margin of 90% and we will be closing the year, ending the year as planned and according to our work strategy. Again, our commitment was to return to our margin greater than 90%. My second point, as mentioned, we are constantly thinking a good financial position for our company. I would like to stress the supplement of our IDB debt (inaudible) which give us a lot of comfort because we zeroed our exchange rate exposure. When it comes to improve the constant vigilance and dedication of our team is to keep our company all ready, in keeping financial efficiency. And my third point, the size, the way it worked and prepared its stuff last year is now ready for a new representative cycle of growth in all senses. Financially speaking, structurally speaking, and efficiency, in terms of efficiency, we will be speaking about those opportunities that make sense to our growth strategy based on maximum return to our shareholders, the flexibility of the business and maintenance of our dividend, maximum dividend payout for our shareholders. I wish you a good day. Thank you very much and we'll remain available. We are at your disposal at anytime through our Investor Relations department Rafaela (inaudible) and the whole team. Thank you very much.

Operator

The first quarter earnings conference call of Taesa is ended now. Please disconnect your lines and have a good day.

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