

## Q4 2017 Earnings Call

### Company Participants

- Cristiano Prado Grangeiro, Unknown
- JosÃ© Aloise Ragone Filho, Unknown
- Marcus Pereira AucÃ©lio, CFO, IR Officer & Member of Executive Board
- Raul Lycurgo Leite, CEO, Chief Legal & Regulatory Officer and Member of Executive Board

### Other Participants

- Maria Carolina Carneiro, Head of Utilities

### Presentation

#### Operator

Good morning, ladies and gentlemen. You're welcome to the teleconference for the fourth

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We would like to inform all participants that the presentation that we're going to use is available for download at this website, [www.taesa.com.br/ri](http://www.taesa.com.br/ri) and also in the platform, MZiQ. (Operator Instructions)

And before we move on, I would like to clarify that events or information provided during this teleconference regarding the business perspectives or the company projections and financial operations targets are -- represent the beliefs of the company. These forward-looking statements are highly dependent on market conditions overall economic situation in the country

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and therefore, depend on circumstances that may or not take place. Investors must understand that overall economic conditions, conditions of the industry and other operational factors may have an impact on the future outcomes of the company and can direct to different results, which will be expressed in such future considerations.

I would now like to turn the conference over to Mr. Raul Lycurgo. Please, Mr. Lycurgo, proceed.

## Raul Lycurgo Leite {BIO 19066621 <GO>}

Good morning, everyone.

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We have our Financial Director, Marcus Auc lio; and Technical Director, Jos  Ragone; implementation and new businesses director, in addition to our team and support team (inaudible) to being together in this conference to present and introduce the results for Taesa in the 4Q for 2017. I thank you all for your participation and interest in our company. And I invite you to participate in our presentation and then later in our Q&A session.

Before we present our results, I would like to highlight a few aspects, which were very important in the year 2017.

Taesa is a differentiated company and a reference in the energy sector. And this is a result of our very successful strategy always based on the pillars of efficiency, financial discipline, generation of value to our shareholders and all of this combined to our most important asset, our technical team, which is extremely dedicated and competent. And it is because of our attitude and commitment with these pillars that even in such periods of macroeconomic uncertainties, we have had major achievements.

Our operating cash has maintained a good status. And our discipline has enabled us to have good margins. Even though the decrease of 50% in some of our concessions, we closed 2017 with a margin of -- EBITDA of almost 49% (sic.) (89%). I would also like to highlight that Taesa has been dedicated to maintain its performance. And in 2017, just for you to have an idea, the availability rate of the company remained above 99.9%. And it is the -- only presented 1/2 of its consolidated rate. This -- it's wonderful result. And this performance is the result of the dedication and commitment of Taesa's team in the operation and maintenance of our transmission and operations. And the company is considered an operational benchmark in this sector. The successful growth of Taesa was always based on financial discipline, operational efficiency and its careful evaluation of new assets, always trying to obtain those that will indeed turn into good returns for the company.

And in 2017, it was the same. In the beginning of the year, we obtained Lot 1 in the auction, the best one. The investment amount for this lot is of BRL 1.5 billion -- I'm sorry, BRL 1.9 billion to be more precise. This represents an increment of over BRL 130 million in addition to adding synergism and possibility to work with other areas of the company.

In November, we concluded a contract for the purchase of almost 50% of the M Lot, which was obtained in the first of -- part of the auction in 2015. And this is going to increase our RAP in BRL 20 million (sic.) (BRL 29.8 million). And we're only waiting for ANEEL's approval to consolidate this operation. And this will probably take place in March.

And finally, I would also like to highlight that in November 2017, we concluded the transfer of the participations of CEMIG. This operation added BRL 24.3 million to Taesa's RAP and

has now placed us in a very relevant position. And this will enable us to sell the minority shares of Eletrobras.

In addition to what we already had, another good example is our participation in the last transmission auction, which took place in December 2017. Our attitude clearly indicated the results in the auction. And we are going to continue growing guided on these assets. It's important to remind you that we have 7 ongoing projects, which represent in total BRL 4.6 billion in investments with a total RAP of BRL 825 million.

In the 7 projects, we're talking about BRL 542 million and BRL 2.92 billion. Right now, our priority is to deliver this project -- these projects, which are under construction and if possible, anticipate their delivery. The objective is to leverage the return of these investments.

Also, in 2017, we had (inaudible) in Taesa's control block in addition to experience in the energy sector.

This has provided relevant contributions for the strategic discussions in this for -- this combination of -- confidence of our shareholders in combination to our technical staff has placed Taesa among leaders in the transmission sector enabling us to generate value.

And I now turn over to our Financial Director, Marco Aucioli, to talk about the details of our financial numbers. Thank you very much.

### **Marcus Pereira Aucioli**

Good morning, everyone.

We are now going to move on to Slide #3 with the main highlights of the 4Q for 2017. When we analyze the results under the IFRS, we can see a recovery in the 4Q. And therefore, our net profit has provided a growth of 544% when we compare to the 4Q in 2017 (sic.) (2016). The main reason for this recovery in our profit was the improvement in the net revenue with 21.9% (sic.) (20.9%) when compared to the same period in 2016.

This recovery of revenues under IFRS had to do with the macroeconomic impact. The 4Q had an accumulated GP-M of 1.2% and 0.9%, respectively, when compared to 0.3% and 0.5% in the same period in 2016. And I would like to remind you that we had 93% of our

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also because of the inflation rates, we had an increase in our growth in the 4Q of 2017. And also the social contribution and tax income will be explained in details later on.

The financial results include, when compared to 2016 -- especially because of the decrease in the interest rates and also because we had a decrease in the EPCA (sic.)

(IPCA).

I would like to highlight that when we compared to 2016, our expenses were cut in half in 2017. We paid BRL 680 million (sic.) (BRL 608.3 million) in dividends and -- which is equivalent to BRL 1.70. The board of the company approved yesterday the results for 2017 of an additional value of BRL 159 billion (sic.) (BRL 159 million) in dividends. And in the near future, we are going to have an assembly, which will approve the results for this year, for 2017. Once approved, the payout for 2017 is going to be 91.5%.

Now I would like to talk a little bit about the regulatory results. So we had a debt of BRL 2.4 billion, 19% smaller than the debt recorded for 2016. And with that, at the end of the year, we had 1.5

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when we paid interest rates in the order of BRL 1.1 billion. And this is a result of a strong cash generation and also because we had low debts. This places us in a very favorable position when pursuing for new projects even though we had relevant investments last year.

The net regulatory revenue. You can see here for the (semester). And for the year, it totaled BRL (499) million.

For the third -- fourth Q, we had a net margin of 88.4% of margin regulatory EBITDA.

Finally, our operational performance, as highlighted by Raul, the maturity rate of our lines were 99.99% (sic.) (99.97%). We had a reduction of 73.7% (sic.) (63.7%) when compared to 2016, which is equivalent to 0.5% of our RAP. So once again, the highlight here is the work done by our technical team demonstrating that Taesa is positioned as a benchmark in the market.

I will now turn over to Cristiano, who is responsible for our Investor Relations. And he is going to present the outcome for the 4Q.

**Cristiano Prado Grangeiro** {BIO 20213891 <GO>}

Thank you very much, Marcus. And good morning, everyone. I'm going to get into more in-depth results, as highlighted by Marcus. And then we'll move on to the Q&A.

So in Slide 4, we presented our net revenues, which is BRL 375 million in the quarter, which is much better than in 2016. And as you can see here in the graph, this has an impact in the net revenues. And as Marco mentioned, income in the -- the increase in the income was relevant and the most important impact was in this line. And the macroeconomic results had an improvement in 2017 with an increment of BRL 37 million in our net income -- net revenue.

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So I'm going to talk a little bit more about the recovery in the IPCA and IGP-M in these 2 periods. In 2017, we had an accumulation of 1.19% whereas in the same period of 2016, the accumulated IGP-M -- this is basically due to the evolution of the Miracema project, whose impact was of BRL 32 million in the period. Also, we had improvements and reinforcements and the impact was observed in 2017. We had an increase of about BRL 7 million, which was due to our better operational results. And when we analyze 2017, we had BRL 1.77 billion in a year with reduction of about 23% when compared to the previous year.

In this case, the main reason was the financial exit -- assets and a correction. And I will later talk a little bit more about this and about the macroeconomic behavior.

And so I would like to talk to you a little bit about the macroeconomic impact on the IFRS revenues. So moving on to Slide #5. We have 2 graphs. One for each one of the inflation. Blue deck for 2016 in light blue and in darker blue for 2017. In one graph, we have IGP-M and in the other one, we have IPCA.

From the financial asset point of view, between (inaudible) is anticipated by the IGP-M. And currently, we use more the first index. And as we mentioned in the past quarter, 2017 was an atypical year in terms of IGP-M. Between April and July, as you can see here the results. It's an expressive growth when compared to 2016, especially for IGP-M.

I'm going to concentrate my discussion on IGP-M for obvious reasons. And I will show you a little bit of what I had already shown in the past quarter. So that we can see what the direct impact was. So for the First Quarter, we can see that correction according to the inflation rate -- so in 2016, we had an inflation rate of 2.94%. And in 2017, we only had 1.27% after February as you can see on the graph. And with that, the impact on the budget for the period was of almost BRL 97 billion negative if you observe in the other part of the slide -- in the lower part of the slide.

And when we move on to the second Q, we can see even more differences explained by the differences in April, which was minus 1.1 in April and minus 0.9 in May. And with that, the accumulated amount had minus 2% for the second Q in 2017 compared to 1.66% in 2016, representing BRL 172 million when we compare one year to the other. In the 3 -- the third Q, there was a minor recovery in August. But even so, we have 1 more semester of accumulated inflation. In last year, it was minus 0.28% (sic.) (minus 1.28%) compared to 2.02%. And therefore, the income or the results were expressive, however, they were lower than the one recorded for 2017, showing some signs of recovery, as I had mentioned for the previous quarter as well.

And now when we analyze the last quarter in the year, we had a recovery of IGP-M, leading to an increase when compared to 2016. The accumulated inflation was 1.19% in 2017 compared to 0.33% in 2016.

We had an annual growth of almost BRL 37 million, which eliminated the impact of the decrease of inflation right in the year-end. So when we analyze this here in this slide, you can see the results for 2017.

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In the next slide, we can see that the accumulated IGP-M revenues for 2017 had a significant decrease when compared to 2016.

I'd like to remind you that the accumulated inflation rate for the year takes into account the period from December to November. Within this period, some -- we had 7.12% in 2016 and minus 0.88% in 2017. As I mentioned before, because of the results in the IGP-M, we had a negative impact of BRL 372 million when we compare one year to the other as we can see in the other table. And this is probably the main reason for a retraction of our gross revenue when you compare 2017 to 2016.

The expectations for IGP-M and IPCA will be close to 4.2% for 2018, which will have an impact on the company as a whole.

And now we're going to move on to Slide #7, where we present the costs, the expenses, depreciation and amortization in IFRS.

In the Fourth Quarter, this totaled BRL 117 million with a growth of 27.1% when we take the whole year into account. We had an increase of almost 25% when we compare one year to the other. And the main reason here is the Miracema project, which is under construction. And this has an impact when we compare the -- semesters and the year. We had an increase of 3.7% when we compare the Fourth Quarter in 2016 and 2017. We also had an increase in the employees and the investments. This also explains the increases we had when we compare one year to the other.

We had more expenses with travel, third-party services. And when we compare 2017 to 2016, this represented almost 20%. And this was probably a result of our expenses with consulting and third-party expenses.

In Slide #8, we have the equity results. And we had a decrease in the macroeconomic results in 2016 and 2017.

The results are explained by the macroeconomic indices, which had an impact on our financial assets and our participation. And in addition to that, we had a positive act -- effect on IFRS with the development of the law from 2016 to 2017, the company included IFRS with a 32%. However, based on the legal opinion, we had a change of presumption taxation rate of companies that are in presumed profit regime, going from 32% to 20%. We also had a decrease in PV and a reduction of financial expenses, which had an impact.

In 2017, our results went down 28.5%, which is explained by a decrease in the macroeconomic indices between 2016 and 2017. And we had already mentioned that before.

And now moving on to Slide #9. We present our consolidated financial results. We had a decrease of 31% when compared to 2016, totaling BRL 222 million in one year with a reduction of almost 42% (sic.) (almost 45%) which is equivalent to BRL 172 million (sic.) (BRL 178 million). When we compare this amount with -- the explanation is given by the

decreases in CDI. We also see this when we analyze the year as a whole. We have debts of over BRL 1 million per year, which has contributed for our financial results.

Moving on to Slide #10. Here, we can see the net income for the Fourth Quarter in the order of BRL 277 million, an increase of over 51%. This is a -- this is due to an increase in macroeconomic indices in our different lines. And in the lower graph, the impact is still negative. The net profit was BRL 648 million with a decrease of 24%.

We had an impact of the lower inflation rates recorded in 2017. And in 2017, Taesa paid dividends. And the last payment was made in December 2018 in a total of BRL 98 million. Our board has already approved BRL 193 million payment for this proposal regarding 2017 -- the dividend for 2017. And we are now waiting for approval of the results for the year and the distribution of dividends.

We are moving now to Slide #11 and talk about the regulatory net revenues. We closed the quarter with BRL 553 million with an increase of 2% when compared to 2016. And if you take into account all of the participation, the net revenue was of BRL 153 million. This is due to an increase in PV, which -- and we also had a reduction of 50% in the RAP of some concessions in 2017 and 2018 cycle. When we compare 2016 to 2017, the net operational revenue totaled an increase of 3.7% when compared to 2016.

The overall income in 2017 was BRL 2.187 million. This was due to inflation adjustment for 2017 and for the 2017 and 2018 cycle as we had already mentioned before.

When we talk about the EBITDA. In 2018 -- we can see -- we can see the regulatory EBITDA is the best way for us to show our results. In the 4Q '17, you can see here that we had an increase of 1.4% when we compare it to 2016 with an EBITDA margin of 88.4%. And if you take into account all of our associated concessions, the result was 95.3%. For the year, we had BRL 1 billion. And we see -- and all of the participation, the EBITDA for 2017 was BRL 1.944 billion. I don't think I need to repeat the explanation for the impact. But I'd like to say that as opposed to (DCRIF) the investments are not considered as an operating expense. These investments in projects are only shown as much as depreciation and amortization.

And now I'm going to move on to Slide #13 where we present Taesa's results. We closed at 2017 with BRL 2,409 million of our net debt. Nowadays, the debt is corrected by IPCA. And last year, our results were comparable to what we presented in October. At the end of the year, we had BRL 723 million, which is 43% lower than what we had last year.

The amortization of interest and the payment of dividends are shown for the quarter. And as a consequence, our net debt was BRL 2.4 million at the end of the year, which is reduction of almost 19% when we compare to 2016 and a participation of 1.2% q-o-q. At the end of the year, we had a 1.5x net debt and EBITDA.

And as mentioned before, we have important results for Taesa, which place us at a comfortable position to evaluate our growth. And I would now like to open for Q&A. Thank you very much for your attention.

## Questions And Answers

### Operator

(Operator Instructions) Our first question is from Carolina Carneiro from Santander Bank.

### Q - Maria Carolina Carneiro {BIO 16342681 <GO>}

I have 2 questions. The first one is regarding the -- what you mentioned in the presentation for the results consolidated in the (inaudible). Could you try to understand what the impact is going to be? And if -- I want to know if the impact is going to be recurring or whether you have made a decision to do this based on a legal opinion or whether you still can try to have an inspection agency analyze it again. And just for us to better understand to what extent in this last quarter, we had different shares than in the past. So that we can understand what the effective amount is going to be from now on for us to use for the subsidiaries. And the next question is regarding the bidding process disseminated by Eletrobras -- I'm trying to -- regarding participation. Some of them included CDI. So this is maybe a question more for Eletrobras than for you. But I just want to know what your decision is about this auction? And how it should take place since we may have a right of preference. So I would like to know do you have an idea of how this process should be done. So that we know what your potential growth is going to be.

### A - Marcus Pereira Aucioli

This is Aucioli. I'm going to answer your question -- your first question. And then Raul will answer the second one. Regarding the amount you mentioned -- went to 32%. Even though ECTE operated with a former rate, we anticipated the difference in our balance. And because of the legal decisions that were made (in ECTE) according to the decisions made in different transactions in the first and second degree, we had a favorable decision. And as we -- and we also consulted a specialized office, (inaudible). And they gave us a favorable opinion. And therefore, because of this legal opinion and also because of the results, we reviewed our anticipations. And that has resulted in a reduction of BRL 40 million. And so from now on, we won't use this former amount of 22% (sic.) (32%). And the results -- so this has an impact in the 4Q results we just had. But from now on, we're going to use the different amounts.

### A - Josi Aloise Ragone Filho

Thank you very much for your contribution. This is Ragone now. Regarding your question. Those who have followed Taesa over the years, you know that Taesa is already getting prepared to work with this transaction with Eletrobras. We have good expectations. But I think it's important for us to arrange for the definition of rules. And in the case of transition Eletrobras has different participation and different agreement. But we believe that this auction is going to be individualized taking into account the respective agreement that must be respected. And we're going to use all of our rights. We have direct or indirect participation in 5 of those transmission lines.

### Operator



(Operator Instructions) If we have no further questions, I would like to pass -- to turn over to Raul Lycurgo for his final considerations.

## A - Raul Lycurgo Leite {BIO 19066621 <GO>}

Ladies and gentlemen, we would like to thank you all who participated in this conference. And especially to investors who were interested in our strategies for the year.

We have consistent strategies prioritizing value generation to our shareholders. We're very happy for having being built over almost a decade this credibility with you, investors. And we're going to continue dedicated to attain excellent outcome for Taesa.

I would also like to thank Taesa's team, which has worked hard with competence, professionalism and efficiency. So that we can construct a larger and more profitable company. We have had a history of success. We are a solid company with sustainable future. I would also like to remind you that Taesa will always keep in mind the 3 pillars we highlighted here earlier on: financial discipline, generation of value to our shareholders. I thank you all for your attention and hope you have an excellent day.

## Operator

Thank you very much. Our teleconference for the Fourth Quarter of 2017 is now closed. Please disconnect your lines now.

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