

## Y 2018 Earnings Call

### Company Participants

- Marcus Pereira Aucelio, 'CFO Investor Relations Officer & Member of Executive Board'
- Raul Lycurgo Leite, 'CEO Chief Legal & Regulatory Officer and Member of Executive Board'

### Other Participants

- Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. Welcome to the Conference Call to announce the results of FourthQuarter of 2018 for Taesa. We inform the participants that the followed presentation is available for download at [www.taesa.com.br/ri](http://www.taesa.com.br/ri).

We also inform that participants will be in listen-only mode. And after the presentation, we will have a question-and-answer session for investors and analysts only and further instructions will be given at this time. (Operator Instructions) Before we continue we would like to clarify that the statements that will be made during this call relative to the company's prospects, projections and operating and financial targets, are based on the beliefs and premises of Taesa's management and are based on information currently available for the company. Future considerations are not a guarantee of future performance and they involve risks, uncertainties and (inaudible), they refer to future events and they may therefore not occur.

Investors must understand that these economic conditions they affect the future results of the company and they lead to different results, different than those expressed in this call. Now, I would like to ask Mr.Raul Lycurgo to start his presentation.

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

Good morning everyone. First of all I would like to thank all the participants of this call, we are now announcing the results of quarter four 2018.

And I would like to invite you to take part in our question-and-answer session at the end. In this call we also have others representatives (inaudible) Dr.Mark is our Financial Director and IR Director, Marco Faria, Technical Officer to the going on new business venture and the rest of the team. 2018 was a year of great achievements for Taesa. We reaffirmed our very successful growth trajectory.

FINAL

Always based on financial discipline, operational efficiency and the rigorous evaluation of potential new assets trying to acquire only those that will bring a lot of attractive returns for the company. In terms of acquisitions in March 2018, we finish the acquisition of ETAU with Taesa of 24.95% and 50.10% through the non (inaudible) company with a (inaudible) has 49.9% I also highlight our participation in the auction of Eletrica September in 2018, where the company brought a lot and 2,000 meters and also a Eletrica share in Transmissora, also in December 2018, so is it celebrated and a contract buying four assets of Ambar Energia. 100% of SAfo Pedro, 100% of -- Sao Joao, 61% of ANEEL (inaudible) -- and 51% of the shares of Triangulo Mineiro Transmissora. All of these acquisitions, we'll bring BRL212.6 million to the RAP of the company and an approximate investment of 1.5 billion.

Regarding the greenfield projects Taesa participated of the zero for 2016 auction. In December last year and it won Lot 12. Currently called Sant'Ana Transmissora investment of Taesa's investment of BRL610 million, and in RAP of BRL58.9 million it is also worth mentioning that we have nine projects under construction, they represents a total of BRL5 billion in investment in a total RAP of BRL905 million of this total BRL584 million will be added to Taesa's revenue. I must also add to his number the implementation of a new Bank of capacitor in our line.

This is a reinforcement with a CAPEX of BRL234 million and an additional RAP of BRL33 million . Implementation timeline is December 9, 2019 our main priority at the moment is to deliver all these projects on time seeking to gain efficiency optimize the CapEx, I think better financing conditions and even anticipating the delivery of some of these projects to better leverage the returns of these investments. Regarding our operational efficiencies the availability rate of our transmission line accumulated for the accumulated in 2018 was 99.92% and the PV for the same period represented only 1% of the RAP of a company, which reinforces Taesa's commitment to always maintain very high quality in the operation and maintenance of its assets. We will continue to study all the growth opportunities that we have in the Brazilian market.

We have to be very agile considering with rapidly transforming macroeconomic environment and is very competitive transmission industry. We have vast experience in this industry, we have best coverage throughout the country and Taesa also those very well the risk of our business and we are prepared to continue this very successful trajectory and we will continue to pursue financial discipline, sustainability of our business and most importantly value generation to our shareholders. Now I would like to pass the microphone to our Finance Director, Marcus Pereira Aucelio.

**Marcus Pereira Aucelio** {BIO 19965152 <GO>}

Thank you, Raul.

Good morning everyone. We will now start our results presentation. We will start on slide number 3, as highlight of 2018. What does for 2018, we had a net income IFRS of BRL327.1 million an increase of 17.8% when compared with the same period last year.

In 2018, we had a profit of BRL1.71 billion a growth of 75% in comparison with '17. The main factors impacting the process in the quarter four in the year of 2018 was two factor key adoption of IFRS 15 or the CPC 47 and the higher inflation rate. The IGP-M increase 9% in the year and 0.86% adjustment had a very strong influence in the monetary restatement revenues of contractual assets with an impact of 370 million. This had an impact also in our equity method.

For the adoption of the IFRS 15 this had a positive result of 116.9 million. With no impact in the company's cash. The costs and expenses increased 112% , 58.6% due to the high investments in projects under construction, mainly reinforcements and improvement. The equity method in the year 2018 was 301.3 million year-on-year increase of 78.7% this was also a consequence of the higher macroeconomic indexes and the effect of the adoption of the CPC 47 and also our direct state in Transmissora.

It's important to note that in order to reflect the operational reality of our business we excluded the non-cash effect of the results of the adoption of the CPC 47 for the payment of dividends. Therefore, we will consider the adjusted net income of 954 million with real dividends of 89.9%. This represents a profit to be distributed of 858.1 million of this total 800.9 million were already distributed in 2018 and we have an outstanding amount to be paid of 57.2 million or BRL0.17 per unit. Now let's move on to the regulatory results.

Revenues in quarter fourth 332 million in the year, 1,526.7 million with a reduction of 25.5% when we compare the same quarter of 2017, and 12% year-on-year. These variations can be explained mainly due to the 50% cost of the RAP in some of our confession. Our regulatory EBITDA in quarter fourth was also reduced from was ahead of reduction of 33.9% in the quarter, and 15% reduction year-on-year, due to our legal contingencies of 14 million with a non-recurring effect on our results. So the EBITDA margin was 78.4% in the quarter and 85.5% in the year.

If we exclude the non-recurring effect the EBITDA margin would be 83.7% in quarter four and 86.6% in 2018. It is very much in line with our budget. The company ended the year with a growth debt of 3.27 billion reduction of 11.9% and our total cash balance was 823.8 million. The net debt was 2.4 billion and the net debt, EBITDA ratio was 1.7 times, even with the drop in the EBITDA the company is maintaining its financial solidity with very robust financial indexes, and a solid cash position.

Which has allowed us to maintain our maximum distribution of dividends to our shareholders. As mentioned by Raul, in 2018 we had very positive achievement for the company, which is very much in line with our strategy towards growth and accretion of value to our shareholders. Does we expect to go back to the same level of revenue before we started to see that 50% drop in the RAP of our confession. For category 2 and we expect to go back to a higher EBITDA margin level.

Now slide number 4. Here we see the concept based on the construction margin after the adoption of IFRS 15 or CPC 47. In the previous model before, we adopted IFRS 15 investment were recognized as financial assets at almost size cost and the rates that we

use was the rate known as (inaudible) which was very much in line with the Tier costs. Now with a new methodology.

The IFRS revenue, now reflect the contractual assets and no longer the financial assets. So the main changes with the adoption of the new methods was five. First, the discount rate is now the market rate at the time of the auction and these (inaudible) six after the start of operation until the end of the concession. Taesa choose to use this market rate, the real rates at the time of the auction.

So at the time of each of the auction, each of the development as the project rate that will be applicable only to the companies built by the company or the company is under construction. Regarding the concession for which we made acquisition, we made no changes to the rates (inaudible). And contractual assets are calculated most on a monthly basis, based on the future growth of receivables based on this project rate, so the real rate from a ANEEL used for each auction, the efficiency generated in projects under construction are accounted for as construction margins. In the revenue, which is calculated based on the difference between the present net value of RAP and the future cost of construction at the time of the start of operation as shown in this illustration view.

So the construction revenue is calculated based on the construction costs, were the construction margin in the pre operational period and the Remuneration is calculated based on the project rate, and the balance of the contractual assets and the resulted is considered only after the start of operation. And the anticipation was supplier now in fact the result as construction cost in its previous method in -- this was only calculated in the equity as financial asset. And finally, these adjustments in the accounting method do not have any fact in the company's cash. And this is accounted for in our financial calculations, after December 31, everything that started after December 31, we were entered in our special reserves 113.4 million.

For the contractual assets for the 2018 fiscal year, they were recorded in our financial statement 116.9 million and 5.8% were in our legal reserve account and 111.1 in our special reserves. The amounts accounted for in the special reserve account will be futurly [ph] leaders distributed as dividends. Now slide number 5, it's important to highlight the relevant of the macroeconomic indexes for our historical results. Especially due to the impact they had in the fourth quarter of 2018, when we look at the IGP-M and the IPCA in 2018, 2017, the IGP-M was 9.68% in 2018, so there was a deflation of 0.86% in 2017 and the IPCA was higher in 2018 was 4.05% against 2.83% in 2017.

The impact of these indexes in our monetary restatement revenues in 2018 was positive 278 million, against a negative result in 2017. On slide number 6, its important to highlight the net income the IFRS net income in 2018 was 1.71 billion of growth of 65.3% year-on-year for 423 million higher than the same period in 2017. As I already mentioned in a previous slide this strong performance performance of our net income is due to the positive impacts in our monetary restatement revenue, a growth of 370 million and also the consequences of the higher inflation rate and the adoption of the CPC 47. It's important to mention that the net income to be considered for the payment of dividends will be the adjusted net income 974.4 million, not considering the non-cash effect of 160.9 million generated by the accounting change.

From the adjusted net income of 974 million, 858.8 million will be invested into the payment of dividends, a payout of 89.9%. In the last slide we have our 9 projects under construction. These projects are currently ongoing, under management of Taesa and our partner, a total of nine projects representing an RAP of 964 million. Of this 964 million, 643 million refers to our participation with an investment of more than 5.5 billion being managed [ph] by and 3.8 billion of this R\$5.5 billion are being managed by Taesa.

The preview sizes (inaudible) they were all issued in 2018 but we're still waiting for the previous license for Sant'Ana and for the 500 KV licenses of Ivaí. These are the most recent projects that we started. The installation lies ahead for ECTE in Mariana were issued in 2018 and in Mariana, we have already obtained our operational license as well. In 2018, all the tax benefits for Sudam and Sudene were approved, (inaudible) were approved in September 2018 and (inaudible) were issued in October 2018 more important other financing conditions that we were able to obtain for these projects.

On July 13, we issued 525.7 million debentures, infrastructure debentures, here to be used as equity in a project with a 7-year maturity period. In September 2018 we signed of financing contract in the amount of 700 million approximately with a cost of an IPCA plus 2% or 3% per year for 20 years. In the end of December, we were able to sign a loan contract for EDTE with very low interest and a 10-year period and in February 2019, we issued the first debenture for Naja Nahuba [ph] 224 million at EPCA plus 4.5 per year for 4.5 years. This was our presentation for quarter four 2018 and the year 2018.

And now we will open for questions. (Question And Answer)

## Operator

Thank you. We will now open for questions. This session is open only for investors and analysts.

(Operator Instructions) The first question is from Victor Zolsa [ph].

## Analyst

Good morning, everyone. My question is about the company's strategy for new acquisitions in the secondary market. After your recent acquisitions, are you still looking for new assets, do you see new opportunities.

Some players, that both lost in the recent auctions, they are now moving to the secondary market. So, what is the company's take for the coming years? Are you looking for these opportunities or do you think the recent acquisitions will be sufficient? Good morning and thank you.

## Marcus Pereira Aucelio {BIO 19965152 <GO>}

Good morning, Victor and thank you for your question. Yes, we are in the looking for new opportunities.

We are focusing on looking for new opportunities in the Brownfield market. Recently the Minister informed that in 2019, we will have one single auction in December '19 and he estimates that this auction will be 7000 kilometers of line so this is a great opportunity for us to focus on the delivery of the projects that we have ongoing. And also we intend to strongly focus on our M&A area, which has always been one of our strengths.

## Analyst

Thank you.

## Operator

(Operator Instructions) There are no more questions. Now, Mr.Raul Lycurgo, will make his final consideration.

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

Ladies and gentlemen, once again I'd like to thank you all for participating in this conference call, especially our investors and the trust that we receive from our investors is due to the consistency in the execution of our strategy. We always value the most the generation of true value for our shareholders and for nearly a decade, we have been building this story of excellence and consistency.

We would also like to thank our team who have been working tirelessly to build this very profitable and robust company. We are building a story of success and a solid company with a very sustainable future. Thank you all and have a great day.

## Operator

Thank you.

This conference call to announce the results of quarter four 2018 of Taesa is now closed. Thank you and have a great day.

*This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.*

