

## Q3 2016 Earnings Call

### Company Participants

- Joao Procopio Campos Loures Vale, Chief Executive Officer and Business Development Officer
- Marcus Pereira Aucelio, Chief Financial Officer and Investor Relations Officer

### Other Participants

- Arlindo Carvalho, Analyst
- Carolina Carneiro, Analyst
- Marcelo Farin, Analyst

### Presentation

#### Operator

Good afternoon, ladies and gentlemen. Welcome to TAESA's Conference Call to talk about the results of the third quarter of 2016. We would like to inform you that this presentation will be made and afterwards it will be available for download at [www.taesa.com.br/investorrelations](http://www.taesa.com.br/investorrelations).

And 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. Entering the session, further instructions will be given for you to participate. (Operator Instructions)

Before proceeding, we would like to clarify that forward-looking statements that might be made during this call related to the business perspectives of the company, operating and financial projections and targets, our beliefs and assumptions of TAESA's top management as well as information currently available to the company.

Forward-looking statements are not guarantees of performance, they involve risks, uncertainties and assumptions as they refer to future events and therefore they depend on circumstances that might or might 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, we would like to turn the floor over to Mr. Joao Procopio Campos Loures Vale, who will start the presentation. Please, Mr. Vale, you may proceed.

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## **Joao Procopio Campos Loures Vale** {BIO 18054226 <GO>}

Thank you very much. Good afternoon, everyone. Today, TAESA will be talking about the results achieved with a lot of satisfaction, because for years we have been talking about growth of TAESA and due to the adverse conditions that we have, mainly regarding auctions, this did not materialize. But as of this year, as of April this year, we have already won in auction -- in the last auction in October, we had a very positive results for the company, because we had an effective participation with a very excessive number of lots, and we won four lot, part in subsidiary, part in partnership, and part individually, so we split our strategy vis-a-vis our participation in the auction before.

Let's dive into TAESA, BRL315 million in revenues, 1.6 billion in investments, and 1,500 kilometers of line. Also another important factor in October was the fact that we carried out and follow-on a secondary issuance. We sold 65 million units of TAESA, and the shareholders received BRL1.3 billion in funds from the sale. And the big news of this follow-on is that, it's very good for all debentures. The free float went from 34% to 53%, TAESA has 53% of its shares traded directly in the stock exchange. We will be talking about the results, but this is the big news that I wanted to convey to you.

Now, I would like to give the floor to Aucelio to make the presentation.

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

Good afternoon, everyone, and thank you for participating in the call. On page number three of our presentation, we have the highlights up to October, including the subsequent events which are the follow-on and the results of the October auction, as Joao Procopio said.

(Operator Instructions) There was a technical problem with the call, so let's go back to where we started regarding the presentation of the company about the third quarter.

On page number three, we have the presentation of our highlights and including the subsequent events. As Procopio said, in March the company issued BRL350 million in order to rollover the debt with Citibank; and July 1st, we have the new RAP cycle, 11.1%; and the IPCA was 9.3%. Some reinforcements of the concessions that we have went through a tariff review of the reinforcement by category III, although the initial concession is category II and the impact of this review was really negligible on the company's revenue, it's equivalent to 0.1% of the total RAP.

And also in the cycle two concessions reached the 16-year of operation -- 16th year of operation, and because of that there was a drop in the RAP. So the calculation was made based on the average of the months with a full RAP and the other that when the RAP fell by 50% to the equivalent RAP was of only 3% of the total RAP for the company.

Now going to the next slide on page four. The main highlights of the third quarter in terms of our figures was very sound and consistent that we have already been delivering over this year and a quarterly comparison of the RAP adjustment was lower than the annual

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adjustment by inflation on the 2016-17 year, because of the drop of the RAP by half because of the 16th year of operations. But at the same time, the EBITDA margin for the quarter was 90.6% [sic] and this prove the capacity of TAESA in terms of managing its operating costs.

On the other hand, the IFRS result was impacted by the monthly adjustment by the inflation. And in this quarter, it was higher than the third quarter of 2015. Besides, net income IFRS increased by 36.8% and in this quarter we also paid out almost BRL200 million as dividend and interest on the equity.

Referring to the results of the second quarter of 2016, IFRS net revenue in the third quarter increased by 5%, because of the monthly adjustments by inflation or the restatement comparing just the recognition of the inflation in the third quarter. The amount was BRL86.6 million, whereas in the second quarter of 2016, it was BRL75.1 million [ph], which is 11 million difference on this comparison.

The regulatory EBITDA on the next page, page number six, was 8% higher than the third quarter of '15 and the margin of 90.6%. After the implementation of the IFRS, it's the regulatory IFRS that should be analyzed as an indicator of the operating and financial performance of the company and not the IFRS EBITDA.

On page number seven now. The adjustment by inflation was a positive impact on the IFRS net income both for TAESA and for the controlled companies and jointly controlled and also associate company, and this is calculated by equity income and the payment of interest on equity and tax benefit of SUDAM/SUDENE reduced by 28% our income tax comparing this to the third quarter of '15, so the IFRS net income was 37% higher than the net income of the third quarter of 2015.

Now going to page number eight, we show the cash flow for the year, the year-to-date, the nine months of the year. And this shows the effectiveness of our business model at TAESA with the strong cash generation once the assets are already operating and with a high dividend payment. This year, we paid quarterly dividends amounting to, considering the result of 2015, BRL743 million and the debt service, BRL89 million paid, and cash generation by the company was BRL1,200 million, considering the dividends received. And the only debt that was rolled over this year was of BRL315 million [ph] and this occurred in March.

Now on page nine, we talk about our indebtedness. As you can see, net debt BRL3 billion with a longer profile of balanced structure and also no exchange rate exposure. The absence of dollar-denominated debt is part of the company's strategy. Hence, our revenues are 100% in reals. Comparing the gross debt, the third quarter of 2016 close in line with the second quarter. And even with the maximum dividend payout, the cash generation went from 300 million to 600 million in the last three months, and this is the reason why our net debt went down on a quarterly comparison.

Now, I would like to open for questions.

## Operator

I would like to remind you that Procopio and Aucelio are here, available to answer any doubts that you might have. Thank you.

## Questions And Answers

### Operator

Thank you very much. Now we will start the question-and-answer session for investors and analysts. (Operator Instructions) Mr. Marcelo Farin from UBS.

### Q - Marcelo Farin

Good afternoon, everyone. I have a question about growth. I think, a little before the offering, after the follow-on, a little before the follow-on, you said that you could participate in the auction, there was up to BRL3 billion CapEx and it was 1.6 billion, so for the next auction do you believe you will have the same kind of participation?

And the other question has to do with your dividend policy. If you have the same participation in this next auction, about BRL3 billion investment, do you believe you will revise the dividend payment policy going to 60%, 70%? Thank you.

### A - Joao Procopio Campos Loures Vale {BIO 18054226 <GO>}

Marcelo, this is Joao Procopio. Thank you for the question. Our intention, especially regarding the follow-on, we said that our investment capacity would be around 3 billion for this auction. As time goes by, our leverage changes and we increase our capacity. And the fact is that, in the way we operate, we are extremely cautious in terms of the return to be obtained from our investments and what happened in the auctions, I think, you have followed it.

We analyze a lot, around 18 batches alone to TAESA and others through Citi. And of course you'll know that it was very tough dispute and we were able to get the free lots with full RAP and Citi also with another lot with full RAP. And will continue to participate in auctions in the same way that we have participated now until that we've transaction capacity, so we are getting ready to participate in the next auction and we are seeing 3 billion now, maybe next year this number could go up depending on our projections and also depending on the way we win these auctions; the higher the profitability, the higher our figures will go.

Regarding the dividend policy, as we were saying, we have to go step-by-step. The first step is to take advantage of our total leverage capacity. And after that, on the next step, we have to discuss the issue and we will check whether it's still possible to change our dividend policy or not. Of course, we intend to grow. However, we have to grow in a profitable manner.

### Q - Marcelo Farin

In M&A, do you see any possibility for growth in M&A or just auctions?

**A - Joao Procopio Campos Loures Vale** {BIO 18054226 <GO>}

No, we always analyze opportunities for M&A and we continue to evaluate. And depending on the time and the conditions, it could even help us grow. As TAESA deleverages very quickly, the opportunities of M&A will always be interesting for TAESA. In the auction, you pay for the total investments and then afterwards you have the payment that matches the flow. And this is really a case-by-case situation. In a nutshell, M&A's are very adequate for TAESA to grow. Everything depends on the return on the investments made. We continue to study the possibilities for M&A.

**Q - Marcelo Farin**

Thank you.

**Operator**

Carolina Carneiro from Santander.

**Q - Carolina Carneiro**

Good afternoon. A follow-up on the previous question. Going back to the auctions. Just to clarify two points. We have been talking about some of the agents in the market and some of these agents have participated in the market mentioned the possibilities of bringing forward revenues because of the additional period in order to establish the lines, and more specifically for some of the loss this could be possible. So we would like to hear from you, if you see this as a possibility to bring forward revenues. Does it make any sense to you?

And the second thing has to do with M&A, we saw that ANP 735 put many clauses that have to do with the sector and some of these players of the agency in the market said that some of them are helpful in terms of re-auctioning some problem assets and making it possible to sell some of these assets. But some agents say that it is quite the opposite. They say that some of these articles or clauses are -- will be detrimental because of the -- because you would have to carry these problem lot. So could you tell us your opinion about the 735 ANT [ph]? And do you believe that they would be helpful to you in terms of some problem assets? Thank you.

**A - Joao Procopio Campos Loures Vale** {BIO 18054226 <GO>}

Carolina, thank you for the question. In relation to this bringing forward of the operations of this loss, if you talk about the history of -- if you go back in history, we have no history about this and we have no adequate visibility regarding the process of environmental licenses, because there were two different move, they increased to 16 months, the term, for the auction in order to accommodate the time that is necessary to obtain the environmental license. And I believe that bringing this forward as an assumption from the start, from our viewpoint, is quite risky. I think it should be very risky to consider this. Please understand this correctly.

There are difficulty in obtaining the environmental license and I wouldn't put this condition in my evaluation. We have all the history of the sector in terms of this point and, of course, we are going to work for that and this will bring additional value for our shareholders. Of course, we will be working to get there, but as an assumption I think this is not very safe, because you really have to know this more in-depth mainly regarding the environmental license, regarding the 735 in our understanding.

I believe that it will unlock some problem things. The problem is not the lot itself, if you have these assets that are in the middle of the process, these are the problem itself. This would have to be done case by case, but in a way this gives at least a possibility of going back and re-auction or re-offer, but these are right in the middle of the concession, the evaluation is more complicated and the risk is higher, and those that have not received any local investment in that have been interrupted for some reason or other. They are likely known asset to be offered in an auction in fact.

### **Q - Carolina Carneiro**

Thank you.

### **Operator**

Arlindo Carvalho from Credit Suisse.

### **Q - Arlindo Carvalho**

Thank you for the question. Going back to the CapEx, the auction CapEx, I would like to know do you have any indication of any discounts regarding ANEEL. Some people are talking about some 3% to 5% discount and still along the same lines, do you have a partnership already defined, you already know who is going to do this or something more specific that you could review to us?

### **A - Joao Procopio Campos Loures Vale {BIO 18054226 <GO>}**

Arlindo, thank you for the question. ANEEL makes an evaluation. They have a product suite. And it's not very easy to get a reduction of CapEx vis-a-vis the ANEEL CapEx in the series of launch that we participated in. In some of them, we were able to get a CapEx below the ANEEL CapEx, it's not easy to get that, however. Some of the laws (inaudible) that they want, they already came with a pre-contract, previous signed contract. And when we see that the price is adequate and that we have reached the limit of our negotiations with suppliers, we signed the contract, but not all of them have a pre-established contract.

And there is a way of evaluating and our way of evaluating these opportunities is very strict, very careful. We go very in-depth, very much in-depth into discussion of each project. Analyzing everything, including the environmental difficulties. When we have the necessary comfort that EPC, that CapEx offered by our suppliers is okay, then we sign the pre-contract.

And in some other cases when we are not sure that we will be able to obtain this even after winning the auction and it is a different case, so it's really case by case. You have to

talk with the substation suppliers, suppliers of services, and all kinds of equipment, cables and towers. So, I wouldn't be able to mention everything involved in such a short time that we have here.

## Q - Arlindo Carvalho

Thank you.

## Operator

(Operator Instructions) As there are no more questions, we would like to give the floor back to Mr. Joao Procopio for his closing remarks. Mr. Procopio, you may proceed.

## A - Joao Procopio Campos Loures Vale {BIO 18054226 <GO>}

Thank you very much for participating in our call. Once again, I would like to reiterate that TAESA continues to grow with financial discipline and always growing with the adequate returns for our shareholders and seeing still the transmission sector as a sector of many opportunities and we intend to tap into them. This is a big bottleneck in the power sector, so we are ready to take advantage of our investment capacity and tap into the opportunities that we see both in M&A and in Greenfield opportunities.

We continue with a very strict policy regarding cost control and delivering very adequate results that you saw in our last few year always in line. So, thank you once again the for participating in our call and hope to see in the next one. Thank you very much.

## Operator

The TAESA Conference Call of the third quarter of 2016 results is closed. Thank you for participating, and we wish you a very good afternoon.

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