

## Q3 2015 Earnings Call

### Company Participants

- Jose Aloise Ragone Filho, Chief Executive Officer
- Rafaela Gunzburger, Investor Relations
- Unidentified Speaker

### Other Participants

- Carolina Carneiro, Analyst
- Carolina Yamaguchi, Analyst

### Presentation

#### Operator

(Starts abruptly) I'd like to inform you that the presentation to be made will be available afterwards for download at [www.taesa.com.br/ir](http://www.taesa.com.br/ir). 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 relating to the business perspectives of the company, operating and financial projections and targets 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. 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 also 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 Mrs. Rafaela Gunzburger who will start the presentation. Mrs. Gunzburger, you may proceed.

#### Rafaela Gunzburger

Good afternoon, everyone, and thank you for participating in the call. Today, we've Cristiano and Ragone with me via conference call, they're not here physically in the office because there was some change in their agenda, but they are participating in the call as well as the whole IR team.

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In order to start, I would like to mention what you can see on page number three, which are the highlights of the last nine months, as well as the subsequent events. And the main points of the incident is the fact, if the financial discipline of TAESA focused on reducing the cost of debt, optimizing cash management and also generating returns to shareholders by means of the maximum dividend payment policy that we have in place.

In March, we had this fiscal benefits of full concessions released for an additional 10 years and ETSE which is a concession of the TBE Group became 100% operational in April we paid. Based on the Law 4.131 with a swap of 102% of CDI, we paid our debt BRL136 million paid beside 254 million paid in April as dividend referring to the results of 2014 ended June, we paid almost 40 million in interest to the holders of the second debentures series that will be maturing in December 2017, and in July we settled the first issue of debentures by means of payment of interest and amortization amounted to 257 million paid cash, so we didn't roll out this debt. We again eliminated this on our balance sheet.

And on July 1st, the new RAP cycle became operational with adjustment translation to CDI concessions went through tariff revision. And in September, we paid the first (Technical Difficulty) of dividends referring to 2015 amounted to BRL310 million, equivalent to BRL0.90 per unit. And also in October this year, we paid an additional BRL181 million in interest to the holders of the third series of debentures. So you can see the main events of this year and you can see that focus was to reduce the cost of our debt and leverage and clean up our balance sheet for the next cycle.

On page number four, we have the main highlights for the third quarter of 2015 with a sound consistent result according to our expectations, ensure the capacity of a company to manage operating costs which guaranteed a managerial EBITDA of 90%. Managerial, we consider TAESA to be adjust that 90 as well.

On a quarterly comparison, both -- well the RAP had an increase of 4.7% during the year, which was in line with inflation and the equity again is our main indicator. Variation that we also saw in the EBITDA it's fundamental impact occurred on the IFRS results which was impacted by the accounting estimates as of the third quarter of 2014 instead of having an annual inflation adjustment, this is now on a monthly basis. And when you compare the third quarter to 2015 to the third quarter of 2014, you can see a very dramatic reduction in this figure, because of this operation that occurred in the third quarter of 2014. So in 2015, we have only the monthly adjustment and no longer the annual adjustment.

On page number five. As I said, during the previous slides, the IFRS result was impacted by the change in the accounting estimates, BRL418 million on our net revenue IFRS. So in this comparison what happened was that in the third quarter of 2014, we have the 418 effect and also the monthly adjustments for the inflation. And in the third quarter of 2015, we only had the monthly adjustments by inflation as this explains the negative variation of 44% at TAESA.

Besides the monthly recognition by inflation in the third quarter, it was negative by almost 70 million in the third quarter of 2014 because of the IGPM and in this variation of 145

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million that you can see on the slide. It occurred because of that, there was a negative impact in the third quarter of 2014, and it was almost 37 positive in the third quarter of '15.

And now on the next page, regulatory EBITDA. You can see that there was a 3.3% increase at TAESA and 4% Managerial in line with the adjustment by inflation and in the transmission companies after submitting IFRS, the regulatory EBITDA should be seen as the operating and financial performance indicator for the company in the IFRS EBITDA, because in IFRS, you lose a little bit in terms of your results.

On page number seven, we show the historical series of EBITDA, and the EBITDA margin. The Managerial one, since the 100% acquisition of the UNISA concessions in June 2012. So the operating efficiency based on cost reduction or the operation and maintenance of our own personnel shows the capacity to add value to the assets that were acquired with the objectives of maintaining the EBITDA margin at the 90% level.

We have to make a comparison, a very simple comparison, as soon as UNISA came on board in 2012, TAESA had 88.2 EBITDA margins. And after all the operating improvements, we have almost 90% EBITDA margin. So this is the value addition or value accretion that we have after the acquisition.

And going to page eight, quarterly net income, it was also impacted by the accounting estimate. The 68% reduction was impacted by the monthly inflation adjustments, and net updates in 2014, 2015. In this cycle, the positive variation of 132 million in the EBITDA occurred due to the difference between inflation that are accounted for on a monthly basis, and the third quarter 2014 occurred due to the same impact of the monthly inflationary adjustment. In the income tax line, the amount paid in the third quarter of '15 was lower than the third quarter of '14, also impacted by the reduction in revenue. Thus the net income was 68% lower on a quarterly comparison.

Talking about the company's indebtedness. TAESA always seeks to maintain a balanced capital structure and to the low debt amortization profile as you can see on this chart, the first chart on the slide. And besides, we have no direct denominated debt, because it's part of the company's strategy, once our revenues are 100% in reals.

Besides the debt profile, it is divided into CDI in a -- as a way of hedging as our revenue is adjusted by inflation as well, 21% short-term, 79% long-term maturity. So you can see that this is quite long and as balanced capital structure with 54% and 46%, as you can see on the slide, 46% net debt, and 54% equity. So we wanted to show you what happened with the company in the last quarter and we are very much in line with what we have been presenting since the beginning of this year. The company is well structured and would focus on debt reduction and the cost of debt, mainly.

Now, I would like to open for questions. And as I said before, both Ragone and Cristiano are participating remotely. So we are available now to answer your questions.

## Questions And Answers

## Operator

Now we would like to start the Q&A session for investors and the analysts. (Operator Instructions) Mrs. Carolina Yamaguchi from JP Morgan. Carolina you may ask your question.

### Q - Carolina Yamaguchi {BIO 18419061 <GO>}

Good afternoon. Thank you for the question. 005 auction scheduled for November. Are you considering this auction? Do you have any specific interest in the auction and what about funding? Could you give us some color about your funding? Thank you.

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

This is Ragone, Carolina. Thank you for participating. According to our growth strategy, all the auctions are evaluated by our technical financial team and this is no different in the 005 auctions. Already has more favorable conditions in terms of WACK [ph] and some lots that will be considered in the 005 bidding process already have included the longer term for the implementation.

So we are evaluating this and we do not have a specific lot, but given the position of our assets, a national footprint of our concessions we evaluating a lot that in the future we could derive gains from exploring synergy and gains in terms of an integrated operations due to geographic proximity. But anyway, TAESA in a very disciplined fashion, it's very much focused on the return to be derived and evaluating all the possible alternatives.

### A - Unidentified Speaker

Just adding to what Ragone said regarding the funding, Carolina, we believe that this investment will be 60% funded via BNDES infrastructure and 40% our own capital. We are evaluating the market conditions and we know that costs are going up and the conditions are different from some time ago, but our target is to try to fund the project with 40% of our own capital and 60% third-party capital.

### Q - Carolina Yamaguchi {BIO 18419061 <GO>}

Very clear. Thank you very much.

## Operator

Carolina Carneiro from Santander.

### Q - Carolina Carneiro

Good afternoon, everyone. I have two questions. First, I would like to have an update about the renewal of tax incentives, the claim that you submitted for some lines, is there anything new that you could inform us about the schedule for the approval and confirmation of this extension? And secondly, we saw that ANEEL gave some indications about the order lines that had renewal of about 6.7% of real return. Do you have any opinion regarding this return vis-a-vis the return from the new auctions. Do you believe that the returns from now on could be better than that? Thank you.

## A - Unidentified Speaker

Regarding the tax incentives as Rafaela said, in March, we renewed factually all aligned that have benefits to be tapped into. There is a small one, that is still -- we are still checking all the information, and although it's a small one, we do not have a date for that. But this is not material vis-a-vis the company. And with relation to the regulatory work, we believe that it has already improved, but given the current market conditions and the political and economic conditions that bring some stress to the market.

We believe that it will be necessary to achieve something additional to that, but we are getting ready to participate in this auction, taking into account the current conditions and stressing the model a little bit, so that we may build into the model this current market stress in terms of financial conditions.

## Q - Carolina Carneiro

And I would like to ask one last question. I remember that at the beginning of the year and at the last call, you said that you were talking about M&A, and I would like to know if you have any progress, do you feel that the market is stagnant because of new macroeconomic variables that could cause some difference in the evaluation of the assets or would you like to highlight something, how do you see the M&A market? Is it better now?

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

Carolina this is Ragone. Yes the macroeconomic situation has been impacting the electric power sector as a whole and the market is not very active right now. And of course, we pay attention to any operations or M&A operations, and we are ready for that. I think the most important thing is that, to say that, TAESA is ready to comply with its growth strategy. Of course, we are not going to do this at any cost, auctions. Point two, an improvement in terms of return as yourself ask about. Nevertheless, they are supplementary and external conditions and variables that involve environmental issues and land issues and everything will be considered in our model. But what is important is to say that we are ready to tap into opportunities, be it in M&A deals or auctions, but we will only participate in any deal, any auction in a very objective fashion and always doing these details if they give the necessary return to our shareholders.

## A - Unidentified Speaker

Adding to that Carolina, with the market trends that we see today, certainly many companies are facing difficulties in terms of making their investment projects feasible, the auctions that were host [ph] by some of these companies in the past. And we are being contacted very often by these companies in order to try one way or another to carry out the partnership or either the acquisition of some assets from these companies, and I think this shows the difficulty of these companies that are construction companies, the difficulties that they are facing in order to conclude their investment project within the schedule and within the deadline, but as Ragone said, we only go ahead with the transaction if it creates real value to our shareholders.

## Operator

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

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

First, I would like to thank you very much for participating in our call in which we are talking about the results of the third quarter of 2015. The message I would like to leave with you is that TAESA is ready. We have been working to tap into the opportunities that we see now for the growth and expansion of our sector.

And our company is placed in a differentiated way and our growth is always based and sustained by returns. Return to our shareholders and returns that may preserve our financial, our cash conditions and our conditions in terms of dividend payout. I will be very careful with our routine, our daily routine in our management, our operations, and I believe this is very well evidenced by the results that the company has the delivery in a scenario of adverse economy and unfavorable conditions in our economy, and our TAESA is very careful and clearly [ph] told responsibility, all our executive committee and our people is very much careful about the future and the presence of our company. Thank you very much and I wish you a very good day.

## Operator

Thank you. TAESA's third quarter of 2015 conference call is closed. Please disconnect your lines. Thank you.

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