

Q1 2013 Earnings Call

Company Participants

- Cristiano Correa de Barros, Chief Financial Officer and Investor Relations Officer
- Jose Aloise Ragone Filho, Chief Executive Officer
- Paulo Ferreira, Investor Relations Manager
- Unidentified Speaker

Other Participants

- Maria Carolina Carneiro, Analyst
- Unidentified Participant

Presentation

Operator

Good afternoon, ladies and gentlemen, and welcome to Taesa First Quarter 2013 Earnings Conference Call. We inform you that this presentation is available for download on www.taesa.com.via/ri.

We also inform you that all participants will be in a listen-only mode during the company's presentation. At the end, we will hold a Q&A 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 regarding the company's business outlook, operating and financial targets, and projection, our 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, as they refer to future events and therefore depend on circumstances that may or may not occur.

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

And now I would like to ask Mr. Jose Aloise Ragone Filho, Director of the Company who will start the presentation. You may proceed, Mr. Ragone.

Jose Aloise Ragone Filho {BIO 16438993 <GO>}

Good afternoon and thanks to you all for your interest in Taesa. And now we will start our call and present our earnings of the first quarter 2013. We have here with me, Cristiano, our CFO and Market Relations, (inaudible) and Analyst of Investor Relations, Rafaela.

And, first I would like to draw your attention to our new brand, a brand which identifies and translates more faithfully our identity, our way of acting and that's identifying Taesa, which we have today.

On this first page, you may see an index of summary of the subjects we will present. And on the second slide, we have our focus for 2013 after 2012, which was characterized by a strong external growth. And within our management strategy we have three actions, which we have developed in three different areas. The operating or operational focus, corporate and financial.

In the operational, we would like to draw your attention to the redemption on this seeking of increasing the magic of the acquired concessions. We will go into further detail later on.

And the corporate focus always -- when it is interesting from the financial point of view, we seek to simplify our ownership structure. And the -- bring the shareholder closer to the cash flow and bring about better financial situation, financially, and the financial structure and we are always attentive to seeking refunding possibilities of paying our debt as our required companies, which for the merging of these subsidiaries.

So first of all, we work first more intensely on the financial and corporate side, but we are also dedicated in our plan on our acquisition strategy of assets and also closure of the -- on the operating front to establish our margin.

The next slide and we talk here about the Approval of TBE, which is already in the last phases. We now managed in April to win the Approval of the regulator and this will add to our RAP basis another R\$ 361 million, 328 million associated to concessions of Category II.

Our expectation is, well it's not an expectation, more precisely. We think that this next, the second half of this year we will close this operation and very probably this will occur by the end of May.

All we need now is just to clear up an issue of our creditors. But this will be solved probably this week and with great possibilities that by the end of this month this will be done.

Our next slide and here we have the EBITDA Margin Evolution, a recovery of our margin due to the strategy. Our strategy in replacing hired labor, we think this is a CE [ph] II and III last year, we would draw your attention that that transaction we also had another conversion which at the first moment.

We had the acquisition of 100% and OEM and this replacement of contracted labor which is already a global strategy by us as being successful advantageous to the company. This

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was done last year and the acquisition of the three concessions in two phases just to remember you we acquired 50% and association with the (inaudible) and last year between the second and third quarter, we acquired the remaining 50% and we have defined a strategy for the replacement of this (inaudible) of operation and this is already evident from the 15th of September.

Take on the operations of these four concessions and also on this opportunity, all the labor. So this trend shown here of the recovery of our margin will become reality, as from next year with positive effect with the fourth quarter of this year. Now I'd like to ask (inaudible), who will continue with our presentation.

Unidentified Speaker

Thank you very much. Good afternoon and just to add to what Ragone has said, the questions of the funds of the corporate and financial plans. In the corporate plan, we have carried out the reorganization of the corporation in January of three companies. We have merged the Taesa with these three companies, who have now nine concessions and making our holding much more robust, and this increases our leverage capacity and it improves our credit position and gives us more financial flexibility, so this we can adopt.

Dividend payment policies, debt payments and also with this merger, we have the reduction of admin costs, which is very significant as well. In February, we registered at ANEEL another request for the merger with another two companies ATE I, II and III and short-term, we will be merging ATE II. At III, we are still evaluating some fiscal questions and of debt with the IDB.

On the next slide, we will talk about the financial strategy. In our financial strategy, the company is -- well, our strategy is clear, it is to reduce the cost of debt and our foreign exchange exposure, the extension of the debt and maintain the company always leveraged long-term.

In this strategy, we carried out two important operations at the beginning of this year, in the first half, regarding the merged companies. The first was in March, and it was the prepayment of the BNDES and with these merged companies about R\$ 280 [ph] million worth and this was carried out with our own resources and cash.

The debt was prepaid to the BNDES with (inaudible) which has given us a reduction of the average cost of our debt.

And the second operation will happen in May or one done in May with the issuance of promissory notes of 4 million at the cost of 140% of CDI and these results will be used to prepay debt of ATE II with the World Bank, reducing the foreign exchange risk of the company and the debt cost with the BNDES.

This operation still have the advantage of releasing extravaganza the BNDES, the IDB and financial reserves and give us a certain release from the BNDES and allowing us to use strat fund that was still in emerged companies

I would now like to ask Paulo to take the floor, who will talk a little bit about the results of the first quarter.

Paulo Ferreira {BIO 17353954 <GO>}

Good afternoon to you all and thank you. And the next slide, number nine, we have the results of the first quarter '13. We show you the comparison of net revenue between the first quarter 2013 and '12 and the same comparison for the EBITDA and then for net income.

So all -- you have all the charts there and today with the IFRS, the main phenomenon or the main phenomena that led to the growth of our net income. While an accounting increased because of the fiscal benefit, because of the merger of the company as already mentioned and because of the remain -- because of the increase of the net revenue and EBITDA, which you can see on the chart, this growth is a result of the change of accounting rules, rather than the growth of the company, not in the net income, the net income growth was influenced by the acquisition of UNISA.

Comparing what happened in practice was that now through the new accounting practice we can only consolidate line-to-line, those items where we have a 100% of the control. And in the first quarter 2013, we did not have -- we do not consolidate line of Etau and Brasnorte was -- in the results in the first quarter 2012, we did not consolidate the item of Etau, Brasnorte and UNISA.

So this is a variation that we have in the net revenue against EBITDA, it is generated by the fact that all results 50% of UNISA in the first quarter of 2012 compare these two lines, but the net income does because the results of UNISA and Brasnorte were accounted for every item of stockholders equity.

Then we have the cash flow First Q '13. We have the important results of an action that Cristiano has already mentioned, the prepayment of the project finance debt. We started in 2013 with 514 million in cash and we take out Brasnorte 5 billion, so we'll have 539 [ph] million. This column just closes the number, which appears in our statement as cash provision.

We generated 543 in the fourth quarter and a cash flow 314. This gives us a impression that the cash flow was very high, but in fact this is the full prepayment of the BNDES debt. And we did this in the first quarter.

And including cash investments and other that we haven't used for the CD and also adding the cash balance of Brasnorte and Etau, we have R\$ 2.6 billion in cash position.

And this is important here. This is a mirror of our strategy as Cristiano mentioned are prepaying the debt that we think we have now and that are extensive and make no sense to us.

And also strong cash position between 2 million and 600 between 1 billion a bit more will be used to pay CPE [ph] and 70 billion for the dividend of 2012.

So our cash position in fact -- who look at our cash position should take into account these two facts or these two steps we'll take in the next few months.

Next slide, the indicator we like to see the Regulatory EBITDA, Non-IFRS. This is the indicator that we always like to show that we recognize as being faithful to our operating competence and we don't want anybody to have the wrong impression, that we had an improvement better than we actually had comparing the accounting of the first quarter '13 with the first of 2012, it seems that we grew our EBITDA, 77 million, 44% from one year to the next.

But in fact, we grew 18%, 47 million and this is a little bit of inflation as well, but here quite clearly, it's a reflection of our growth strategy and our growth strength. And also because of UNISA and to close today, we have the evolution of the net income and we go back little bit to the accounting question in the quarter unfortunately it competes with a factor of complications to understand the numbers.

This was not an option of ours, but we are obliged to do this and we can see how our net income went from 96 million in the first quarter 2012 to a 171 million in the third quarter '13.

So what I have tried to show you in this chart is that when we add the EBITDA, increased EBITDA with a reduction of equity and we have EBIT -- this is the impact of the growth. This in fact is what we manage to generate of income before the taxes, because of the 50% more of the UNISA and also because adjustment of inflation and everything which stems from that.

And in orange, 53 million, this was from the merger, the fiscal impact of the merger. We had here accounting gain, which then from the write-off of a fiscal liability, which we had accounted for before when we bought the companies back then.

In this way, we closed the first quarter with a 171 million. So that is what's we have to show you, and now we are at your disposal for the questions answers. Thank you.

Questions And Answers

Operator

Thank you. (Operator Instructions) This is Carolina Carneiro from Santander has a question.

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

Good afternoon. I would like you to elaborate a little on the last transmission auction, it was an interesting result, some lots were not auctioned off, some of them were won by a

specific company.

So I'd like to know your opinion regarding the results of the auction and the return expectation, which you have from the next auctions. And do you think that the government will revise upward the loan for this auctions after the result of this last auction?

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

Carolina this is Ragone, thank you. The first question and the position as we always say Taesa is always well aware of opportunities and this could be a good opportunity, we have analyzed it and the additional approach was to analyze these lot, all of them made, sense to the company. When we analyze this synergy and the scale gains that our locations made, but also the initial approach led us to choose those which made more sense to us.

For a very objective question, risk return, it didn't make sense for the company's results and our strategy to always be associated to adding value, value accretive regarding a risk return, we did not present any proposals.

So replying to one of your questions, this is something which concerns us and this week it has been very commented on in the sector. And we hope that the four lots that were not vote, show the government and show the authorities, that it is necessary to review this as that was reviewed also for the railroad concession.

Our participation was the same as in former auctions, we tried to find solutions, technical solutions, financial solutions for those lots that would make sense to us. Given the return associated to risk of each one of the project we did not buy.

What is good for Taesa is that since we were not able to win anything, there was a good side the reselling companies won and this brings new prospect for next four years of these assets, come back in a more favorable way, and will please us much more.

So, the fact that these companies won them is a good result. We look at the long term, we are operators, and we have our future strategy. We always want to grow with value accretive. Thank you.

Operator

Thank you, Carolina and your service.

Carolina Randews [ph] from Goldman Sachs has a question.

A - Unidentified Speaker

Good afternoon. I have two questions. Could you give us an idea, I know that you can't say too much, give us too many details, but more conceptually about the M&A markets in the

second half of last year, it was quite stopped because of the government rules.

Now my question is that as time has gone by now because after the initial debt, is the market going to pick up again in transmission, has it showed any signs of recovery, will would be ahead more transactions closed.

My second question, this is for Cristiano. The question, the tax question, now in the second, third quarters regarding the transfer of TBE, will we have a fiscal impact, which should impact the Taesa's results when this transfer is concluded or do you not think this will happen, and I can work with a calculation of a more normal tax for Taesa.

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

Thank you, this is Ragone. I think you have summarized the M&A market, in transmission there was a slowdown in the last couple of years because of the low 579.

We think that the market is warming up again. We are ready and obviously, we will be analyzing things always focused on return to the company if it makes sense, you are quite certain that we will briefly, very soon announce something obviously if it makes sense to the company and another thing, we'll always report that Taesa's strategy is to grow with a greater number -- not with greater number of assets, but a sustained growth focused on long-term results.

And a question also which is important, the winner of the last auction was (inaudible) and they have their own assets, operating assets which can indicate that operations like this come to market.

So we are ready and we will be prepared for whatever happens. Thank you.

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

This is Cristiano, regarding your question the TBE transfer will have no tax impact. And what's happened was in this quarter, the fiscal impact which occurred become associated to the merger of companies.

So and regarding the TBE, we have no prospects for Taesa.

Q - Unidentified Participant

Well, there is no kind then of tax impact, because you are not going to merging, is that correct. Thank you.

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

This is Ragone. Well, the effect of the 579 are clear in the M&A market and in the sector. But another important aspect and it's important that this be highlighted is that our care doubles when we analyze opportunities the M&A markets as well is being affected by the delay of understandings which should be operational.

Here we have questions of budgets, attention of licenses for implementation. We have buildings, constructions that should have come into operation and the licenses for implementation have not yet been obtained.

So this two is a factor which quite certainly led to the fact that the expectation for M&A opportunities would be delayed. And in some way as well, it draws our attention as I have said, when we evaluate the auction opportunities. Thank you.

Q - Unidentified Participant

And if I may a third question. You were already talking about before the first quarter, there might be an increase of expenses with service materials, because of construction in Sao Gotardo, going on to the second and third quarters, will there be a maintenance of these expenses or will there be a reduction of these construction expenses?

A - Paulo Ferreira {BIO 17353954 <GO>}

This is Paulo. Well, in Sao Gotardo we will have an increase because now we were going into the final phase of the building and we will be concluding the work in the next quarter. So in specifically in Sao Gotardo there will be an increase. In the first quarter in Taesa there has been a high value, well, high, 20 million in CapEx.

So it's not all that high, but higher than we had because of the reinforcement of TSN and I think that this amount, if we maintain the level of the work the same pace, we will have still a high value in the second quarter at this level.

And it should increase, because the work is intent, we know how difficult it is to project result. But fortunately on one hand and unfortunately in the other, this is not all that relevant for our revenue base, unfortunately and fortunately because if we had the opportunity of having a really good project on a good base, we obviously would be fortunate and happy.

Just ratifying the Taesa track report, regarding reinforcement on the 15th of July next we will be connecting and bring in to operating the reinforcement of (inaudible). We are certain the requirement to connect the operation of this new substation and once again meeting the term, the deadline and Sao Gotardo in-line with the dispersement profile that we will have.

Also within the physical schedule, which has been faithfully complied with -- which reinforces decision to bring forward by three months the conclusion of Sao Gotardo foreseeing deadline is February and our schedule is showing that we will conclude this work by November of this year.

Q - Unidentified Participant

Great. Thank you very much for the details.

Operator

(Operator Instructions) If there are no more questions, I would like to Mr. Cristiano de Barros for closing remarks. Mr. Barros, you have the floor.

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

So thank you all for the participation on our call. We wish to thank you all very much for your interest and for your attention and we will be together over the next few months trying to add value to Taesa for the benefit of all. Thank you very much.

Operator

Thank you. The first quarter '13 results call is now concluded. Thank you very much.

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