

Q2 2011 Earnings Call

Company Participants

- Arthur Piotto, CFO, IR Director
- Marcus Macedo, IR Manager

Other Participants

- Augusto Ensiki, Analyst
- Eduardo Couto, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. Thank you for waiting. We are welcome to the Companhia de Concessões Rodoviárias, CCR conference call for the discussion of the results of the Second Quarter of 2011. (Operator Instructions)

Before continuing, we would like to clarify that any inventory statements made during this conference call relating to the Company's business prospects, projections and operating and financial targets represent mere beliefs and assumptions on the part of CCR's management, as the currently available information from the Company.

Forward-looking statements do not assure future performance. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend upon circumstances that may or may not occur.

Investors must understand that general economic conditions, conditions within the industry and other operating factors may affect the Company's future results and could lead to results that materially differ from those that are expressed in the forward-looking statements. I would now like to give the floor over to Mr. Marcus Macedo, IR Manager. Please, Mr. Macedo, you may proceed.

Marcus Macedo {BIO 15022391 <GO>}

Many thanks, Operator. Good morning, to you all and thanks for being present at the conference call regarding the earnings results for the Second Quarter of 2011. With us today are Arthur Piotto, our CFO and IR Officer, Flavia Godoy and Danilo Cabrera, part of our IR team.

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We would like to report that our quarterly earnings results report is available on the Company's website at www.grupoccr.com.br/investors. Before speaking specifically regarding the results, I would like to quickly run through some of the macroeconomic indicators that we believe are important for the performance of our business.

The year of 2010 showed an economy undergoing good recovery and the beginning of 2011 maintained this heated up pace, although we had already seen signs of a slight cooling off in the economy as a result of macroeconomic measures that have been adopted to control inflation.

On the positive side, the unemployment rate at the end of the Second Quarter of 2011 was 6.2%, a continuous improvement compared to the 6.4% in May 2011. And the 7% seen in July 2010. Average real income of workers in June 2011 was BRL1.5 thousand, which compares to the same amount in the June 2010.

In the Second Quarter of 2011, the industrial sector's performance was positive compared to the same period of 2010 and advanced 0.7%. The accumulated index for the six first months of this year showed an expansion by 1.7%. The annualized rate, accumulated over the past 12 months, continues to be positive, although now on a downgrade trajectory that began last October, reaching 3.7% in June.

In the quarterly comparison, with the immediately previous quarter, industrial production also showed signs of slowing, going from an expansion of 2% during the First Quarter of the year to a decline of 0.7% in the following quarter.

The latest information of credit from Central Bank, from March to June, 2011, has been positive. The information shows that -- shows a growth in volume of free and direct resources of 20% in the month of June this year, compared to the same period of the previous year, with credit for individuals growing 22.9% and credit for financing -- for vehicle financing rising by 42% during the same period.

Each -- one should remember that the automotive sector is intimately linked to the growth of traffic and is very important to Brazilian GDP. The number of licensed vehicles increased 15% during the Second Quarter 2011, versus the same period of 2010, while production increased 3% over the same period of time. We are maintaining a positive outlook regarding the Brazilian economy and we are quite confident about the future.

On the results, as you can see through our report, since 2010, the Company has begun to disclose its financial statements, incorporating the new IFRS standards. You will remember that in our 2010 press release, which is available on our website, you will find support materials seeking to facilitate the understanding of the impact of these new rules on our financial statement.

On the traffic, the consolidated traffic of our concessionaries grew 12.3% in the Second Quarter compared to the same period of the previous year. Using the same comparison base, consolidated traffic was up 5.9% in the Second Quarter 2010 versus -- 2011, versus

Second Quarter 2010. This result was mainly due to the economic activity, coupled to the increase in disposable income with a highlight for light traffic vehicles.

Also, regarding Second Quarter traffic in 2011, we observed a strong growth mainly in passenger vehicle flows. Using the same comparison base, the flow of passengers' vehicles increased 7.4% compared to the same quarter of last year. In the case of commercial vehicles, the growth was 4.2%.

We are pointing out that preliminary data for July continues to show a growth -- an annual consolidated growth rate in traffic that is in line with our expectations for the year, which is approximately 1.5 times GDP. In our press release, you will find more information regarding the growth of traffic among our concessionaries.

From the EBITDA margin, we highlight that during 2010, our results were affected by business in initial phases that generate costs. But limited revenues, thus putting temporary pressure on the EBITDA margins. For this year, we believe that there will be an improvement in this effect, resulting in consolidated EBITDA margin expansion for 2011 to 64%, which should continue to improve further in future years as the businesses that, today, are in initial phases, develop.

In fact, we ended the Second Quarter with EBITDA margin at 61.2%, with still some business in initial phases and not reflecting full potential. It should be noted that as previously disclosed, even with the consolidation of SPVias, the third-party services cost item declined 4.4%, mainly a result of cost reductions regarding conservation, maintenance and operations by Nova Dutra and also the large concessionaries.

With regard to our debt, the leveraging of the Company, as measured by net debt to EBITDA ratio, was 2.2 times. Despite the fact that we understand that this is a comfortable level to face the organization's future prospects, we must also emphasize that this indicator contains all the indebtedness, due to the acquisition of SPVias in October 2010. Therefore, the leverage is expected to continue -- the deleveraging is expected to continue along this year.

On the dividend side, dividend side, the Company's management is proposing the distribution of intermediate dividends of BRL1.59 per share, totaling BRL701 million. Taking into consideration the fact that the supplemental dividends for the fiscal year of 2010 in the total amount of BRL0.22 per share were paid on April 29th of this year, we reached a dividend pay-out, cash effect, of approximately BRL1.82 per share, which represents a dividend return of 3.8%, using the average price of BRL47.35, calculated between January and June of this year.

Having said that, we are now concluding our comments regarding two -- Second Quarter 2011 results and we are at your disposal to answer any questions that you may have. Operator, please proceed.

Questions And Answers

Operator

Excuse me, ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Mr. Eduardo Couto from Goldman Sachs.

Q - Eduardo Couto {BIO 15918458 <GO>}

Hi. Good morning, Marcus. Good morning, Arthur. I have two questions, actually. The first one, in relation to the dividends, CCR's paying quite high dividends now in the middle of the year. When we look at the dividends that were announced, they are actually -- they represent a pay-out ratio of more than 100% of the earnings that the Company reported last year. So my question is, the idea of the Company is to continue to pay very high dividends, not only in nominal terms. But also with this very aggressive pay-out ratio? That's the first question, Marcus.

A - Arthur Piotto {BIO 4777038 <GO>}

Hi, Eduardo. This is Arthur. From our perspective, the Company is doing the same as we have been done in the previous years. As you know, the dividend policy that CCR has in place at the moment requires us to pay at least 50% of net earnings and from, I would say, minimum -- as a minimum obligation and a maximum obligation, our commitment is to pay as much as possible or as high as we think it's reasonable, according to our strategy and our comfort to keep on expanding the business.

So from our perspective, again, we are just keeping the same commitment we have been assumed some years ago, with the capital markets or the equity markets.

Q - Eduardo Couto {BIO 15918458 <GO>}

So, Arthur, can we assume that basically if we don't have a very strong pipeline of new projects or just some specific projects, the Company can continue to pay very high dividends as you guys have been done in the recent years, right?

A - Arthur Piotto {BIO 4777038 <GO>}

Yes. Yes. And that's an area you described. Certainly we'll pay as much as possible. Although we have to consider, naturally, a kind of ceiling from our leverage capability or our balance sheet constraints to do that. But as Marcus has already anticipated, with the initial speech, from our perspective, the way the business, our portfolio, is structured, the deleveraged trend is being -- is the very inner characteristics of our business.

So if we don't have other destinations for this capital, our policy is that accumulated earnings belongs to our shareholders. So we should pay out as a dividend and if they are happy with the Company, they can always buy more shares. That's our understanding towards this strategy or portfolio expansion spin.

Q - Eduardo Couto {BIO 15918458 <GO>}

Okay. It makes sense. And just a second question, Arthur.

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A - Arthur Piotto {BIO 4777038 <GO>}

Yes.

Q - Eduardo Couto {BIO 15918458 <GO>}

Of -- in relation to the electronic toll system, the Sem Parar?

A - Arthur Piotto {BIO 4777038 <GO>}

Yes.

Q - Eduardo Couto {BIO 15918458 <GO>}

Does it make sense to spin off the electronic toll system, in your view? And separate that as a completely independent company? And if you could talk a little bit, how do you compare the Brazilian system with other countries and if you think Brazil has the right electronic toll system or if it -- if we can use the -- if you can change that a little bit to make it more, I would say, affordable or in a way that the system could grow even faster?

A - Arthur Piotto {BIO 4777038 <GO>}

Yes. From our side, I think somehow, this -- the electronic toll collection company, it's already a spin-off company. It -- CCR has just 38.25% of that company. We know that we have to share the Company with the other controlling group, controlling shareholders. So it is a completely separate administration. So from -- I think at the first part of your question, the answer, from our perspective, is that it's already a spin-off company.

From -- on the second part of your question, our opinion about this potential change of tolling scheme that has been talked about by the granting authority, I think from a technological standpoint, we have no constraints to put that in place. If you take a look to other countries, you're going to see that you have, in particular Europe, it's well developed and the big difference between Brazil and these other countries, certainly, is about the way the concessions were granted.

As you know, here, most of our toll roads was created from brown -- or an existing road. And in these other countries, some of these roads have been built from the scratch. Like the greenfield project, which makes a lot of -- more easier to come up with this new concept of tolling schemes. You will like the Rodaneio projects works from that particular field. You -- it's the only project in Brazil that 100% of the traffic is effectively tolled.

I mean, the big question that remains on the table is how to be sure that the enforcement to make the big number of road users will be really paying the tolls. This is, from our perspective, it's really a political issue rather than a technical or the willingness from the concessionaries or any part involved with this process to make it effective.

Q - Eduardo Couto {BIO 15918458 <GO>}

But, Arthur, do you think the -- Brazil can move to a system with less toll plazas and more electronic toll systems, in terms of we can charge the users without necessarily a toll plaza? Or do you think we're going to continue to be dependent on that?

A - Arthur Piotto {BIO 4777038 <GO>}

I think what seems to be reasonable for us is that we're going to -- or would make -- we are going to see a move towards this situation. At the end of the day, unfortunately, we are not -- this is very much a culture question. And, I think what seems reasonable to admit is that we're going to see a mixed combination. The way we are at the moment, plus in those roads where it's easier to implement this new charging scheme, we expect to see that happen.

Q - Eduardo Couto {BIO 15918458 <GO>}

So, do you think that's possible, right?

A - Arthur Piotto {BIO 4777038 <GO>}

Yes.

Q - Eduardo Couto {BIO 15918458 <GO>}

Okay. Thank you, guys. Congratulations on the results.

A - Arthur Piotto {BIO 4777038 <GO>}

Thank you.

Operator

Excuse me, our next question comes from (inaudible) from Santander.

Q - Unidentified Participant

Hi, just a very quick question, following up the previous question regarding the new charging scheme, or, perhaps, the third kilometer charging that could be implemented over the next years. In my view, the potential electronic system to be implemented for this new charging system or scheme is still not defined.

So, it could be either STP or any other system, right? So, this is one question that I have. And, the second question is if there is this possibility, would you see this as an opportunity for STP or as a threat for STP?

A - Arthur Piotto {BIO 4777038 <GO>}

Hi, Alesani[ph]. This is Arthur, again. You know, I think at this point in time, it's really hard to believe that what type of change on the technology pattern we're going to see down the road. Or, in the near or medium term. Any kind of outcome might happen. This doesn't change at all the outlook for the STP or the company, where we have our stake.

So, from our perspective, as long as these new technologies, if that really happens to be adopted, it was capable to deliver assurance that you won't see evasion rates or delinquencies, very high standards. I think it's just a matter to see if the governments come up with these type of requests. It's a matter to see how we can get along with that. So, it's not that -- this is very much a government issue rather than an STP issue.

Q - Unidentified Participant

Great, thanks a lot for the answer. Just in your opinion, do you think that this potential new charging scheme is something that would materialize more in the short term, like one to two years or something that could take significantly more time than that?

A - Arthur Piotto {BIO 4777038 <GO>}

It's, really, difficult to predict. The timeframe for a change like that. As I said, we are very aware that this is not a technological issue rather than a political issue towards how to secure the players in this sector, the new technology or the new scheme or the new tolling scheme will be really effective.

And, you can be sure that you won't have industry prices. You can -- just to give you information, actually, CCR -- the electronic toll collection that accounts for approximately 64% of toll revenues for CCR, for our concessioners.

So, this is -- I'm giving you this information to let you know the importance that this assurance that should be provided and ought to be provided by these other technologies, if that really happens, in order to allow the concessioners, not only CCR. But all other concessions that have these in place, that we will turn it viable.

Q - Unidentified Participant

Okay, Arthur. Thanks a lot for the answer.

A - Arthur Piotto {BIO 4777038 <GO>}

Thank you.

Operator

Excuse me, our next question comes from Mr. Augusto Ensiki from Morgan Stanley.

Q - Augusto Ensiki {BIO 15988025 <GO>}

Hi. Good afternoon, gentlemen. I came on late in the call. So my apologies if this has already been touched on. My first question was regarding the status of additions to the existing contracts. I'm wondering if there was any timeframe or any view as to when we might expect an announcement on that.

And, the second question, in regards to ViaQuatro, you talk about the extension of operating hours and the opening of new stations. When are we going to begin to see real

revenues start to come from that business? Thank you.

A - Arthur Piotto {BIO 4777038 <GO>}

Augusto, this is Arthur. The first part of your question has to do with the contract amendment, isn't it?

Q - Augusto Ensiki {BIO 15988025 <GO>}

Yes, that's right.

A - Arthur Piotto {BIO 4777038 <GO>}

Yes. You know, if I'm not wrong, today we had an announcement from the state authorities here in Sao Paulo towards its intention to grant approximately BRL350 million as a new CapEx obligations to one concessioner. This, certainly, will be working like a milestone for our industry, for our sector, because it will be, I would say, after a long period of discussions, negotiations. And trying to put things together in process, between concessioners and receipt of Sao Paulo government.

In order to open up a very relevant source of investment opportunities. And the information I have indicates that it's very likely that the rebalancing processes will be through an extension of the concession's life which means that this will work at the end of the day, as I said, towards the perpetuity of all concessioners that have reached this agreement with the government.

But, this is something that we should take a very close look at it, because this is just an announcement. Yet, we are not aware that this amendment is really signed off, which means that we are very anxious to believe that is really effective now which means that, certainly, CCR can be the next one or CRR or our concessioners. Unfortunately, we don't have a timeframe for that. But, we believe that after this announcement, this should take place very soon.

Q - Augusto Ensiki {BIO 15988025 <GO>}

Okay.

A - Arthur Piotto {BIO 4777038 <GO>}

The second part of your question is about ViaQuatro. We, actually, have four out of the six stops operational phased. And we do expect for the next one month or two to see the remaining two other getting operational as well. Which, will be the conclusion of the first phase of this project.

So, once that happens, we'll be able, also, to expand the working hours of the trains. And start to operate according to the public system on the regular hours. So, going straight to your question, I believe that at the very end of this year, we're going to see these projects to start revenues collection at full capacity.

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Q - Augusto Ensiki {BIO 15988025 <GO>}

So, already by, say -- I'm sorry, Fourth Quarter, or more towards the end, like, November-December?

A - Arthur Piotto {BIO 4777038 <GO>}

I would say Fourth Quarter, yes, the beginning of Fourth Quarter.

Q - Augusto Ensiki {BIO 15988025 <GO>}

Okay, excellent. And, I'm sorry, just to follow on to that, you show integrated passengers and exclusive passengers. Can you just remind me what the difference between those two are?

A - Arthur Piotto {BIO 4777038 <GO>}

Yes, integrated passengers means those that get into line four and goes to other sections of the subway or goes from, or comes from, other sections of the subway and gets out into the line four.

Q - Augusto Ensiki {BIO 15988025 <GO>}

And, those are charged -- is there a difference in terms of your revenue collection between those two passenger types?

A - Arthur Piotto {BIO 4777038 <GO>}

Integrated passengers means we are entitled to collect 50% of the regular fare. And, on the other side, we have, those passengers that gets into and out into line four, where we hold 100% of the regular fare. And, just to remind you, on our business plan, we have forecasted that integrated passengers would account for 95% of the total traffic. And the remaining 5% will be exclusive passengers.

Q - Augusto Ensiki {BIO 15988025 <GO>}

Perfect, thank you very much for that.

A - Arthur Piotto {BIO 4777038 <GO>}

Thank you.

Operator

Excuse me, this concludes today's question and answer session. I would like to invite Mr. Macedo to proceed with these closing statements. Please, go ahead, sir.

A - Marcus Macedo {BIO 15022391 <GO>}

Once again, together with all the members of CCR, I would like to thank you for your time and interest in the Company. Please do not hesitate to contact any of us, in the event you

have additional doubts. Our company information is available on our release and on our website, at www.groupoccr.com.br/investors. There, you will find additional information regarding our company. Thank you.

Operator

That does conclude the CCR audio conference for today. Thank you, very much for your participation. And have a good day.

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