

Q2 2013 Earnings Call

Company Participants

- Cristiano Correa de Barros, CFO and IRO
- Jose Aloise Ragone Filho, Chief Executive Officer
- Paulo Ferreira, Chief Financial Officer

Other Participants

- Pedro Manfredini, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. Welcome to Taesa's Second Quarter of 2013 Earnings Conference Call. We would like to inform you that the presentation to be made will be available for download at www.taesa.com.br/ri. 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 and then 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, as well as financial and operating targets, and projections, our beliefs and assumptions of the company's management, as well as information currently available to the company.

Forward-looking statements are not guarantees of performance as they involve risks, uncertainties and assumptions. They refer to future event 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 affect the future results of the company and they lead to results that differ materially from those expressed in such forward-looking statements.

Now we would like to give the floor to Mr. Ragone, CEO, who will start the presentation. Mr. Ragone, you have the floor.

Jose Aloise Ragone Filho {BIO 16438993 <GO>}

Good afternoon, everyone. Cristiano Correa de Barros, our CFO and IRO; Rafaela Gunzburger and Paulo Ferreira our IR Manager. Thank you very much for your participation in our call to talk about the results of the second quarter of 2013.

And I would like now to give the floor to Cristiano Barros.

Cristiano Correa de Barros {BIO 4273820 <GO>}

Thank you very much for your presence and what I can say is that this first half has been very active for the company. We have been through all the stages of our growth strategy and you will see that it was a half year with very positive results.

Paulo is our IR Manager and he will be making the presentation and Ragone and I will be available to answer any questions that you might have, which are forwarded to us.

Paulo Ferreira {BIO 17353954 <GO>}

Good afternoon, everybody. This is Paulo Ferreira. Could you please go to slide number three, so that we may start the presentation. This slide shows a timeline with all the actions that we have taken during the first half of the year and we will be highlighting the actions in the second quarter.

I think that the main message that we would like to convey to you is that the company continues very firm in the execution of its business plan, and which is refinancing restructuring and growing, always maintaining the dividend payout policy at all times.

We started in May by issuing 400 million in promissory notes, in order to prepay the debt of ATE II and the objective of the operation was to reduce our exposure, our Fx exposure and also improving our average cost of debt.

And it was really very good as we will see later on. So these two operation at the end of May, we finally were able to pay 1.691 billion that we were able to settle. So our result in Q2 already brings this result in our equity income.

And in the quarter, we integrated ATE II, which is a consideration of philosophy of heading a leaner corporation in order to bring our shareholders closer to our cash flow.

As Cristiano said, we achieved good results, our regulatory EBITDA without the IFRS was R\$ 581 million in the first half, a 187.6%. Net revenue IFRS 527 million and net income IFRS, 274 million, 61.1% higher year-on-year that is to say, comparing to the first half of 2012.

On the next slide, we show the cash flow for the first half of the year and we like to show this kind of slide because our company cash flow mirrors the strategy of the company very well.

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We started the year with 2.600 billion in cash and cash investments already considering Etau and Brasnorte and all the companies that we acquired from the Abengoa, UNISA and NTE.

We generated 516 million in cash, and we paid 359 million in dividend referring to 2012. In financial management, we prepaid over the half year all the debt that we had in NTE, STE, and ATE and we prepaid ATE II all the debt, due in part, the company's cash and in part the resource raised R\$200 million by our promissory note as I said before.

As you can see that this trend the middle of the chart shows interest rates and amortization and promissory notes and funding and it shows how correct is the company is always in the management of its debt and its financing needs.

And lastly payment of TBE 1.691 billion, which reflects the growth strategy of the company and the year indicates new resources that we raised during the 2012 IPO, so we closed the half year with R\$ 700 million in cash, in our cash approximately considering our subsidiaries and R\$ 772 million.

On the next slide, we talk about the integration of ATE II, and this is a point that we like to highlight during our meetings with investors and analysts, about our strategy of whenever possible integrating the concessions that we have 100% of under our listed company.

In our view, the integration of concessions under the listed company creates a company with a better credit quality and creates a company that has a better leverage capacity and eliminate cash, which is held at the level of the subsidiary gives us more financial flexibility and has a secondary effect.

It also improves our management and the operating efficiency in a way, but mainly the idea is to bring the shareholders closer to our cash flow on how the company has ten concessions today, and the company that you see UNISA, Etau and other subsidiary to raise that we do not have 100%, so we cannot integrate ATE III in a future step, there are some fiscal issues or some peculiarities that make this not very advantageous for us, over that we are still being built and it will probably not be integrated because of the tax regime NTB which is part of our group -- is a group of ten concessions in fact in which we do not have a 100%.

So these are concessions that we do not be integrating, but those that we were able to integrate we did and the idea is to do this whenever this is interesting for the company.

In the next slide, we talk about the subsequent event of the first half, which was the acquisition of Transmineiras that we disclosed last week. We bought 10% of Transleste, Transudeste, Transirape, by means an associate company ATE that is part of the Group, the IRT and EATE will be paying R\$ 34 million for the three concession for 10%.

And in a quick evaluation for us the return was very interesting, because the concessions are all in group number two, 70 million RAP that will add 343 kilometers to our current

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lines and there are some geographical synergies not quite a lot, but they are located in the Southeast of the country and they are very much in line with our growth strategy, which is to look for very good assets and with predictable cash flow and good quality and with an operation that we are familiar with.

(inaudible), in spite of a small deal, I think this transaction confirms our intention to grow and to look for good assets in the transmission market.

On the next slide, we talk about the results for the second quarter of the year. And I would like to talk about the accounting issue here in a way that we consolidate the company and also the reasons why we have these two different charts on this page. Currently, our consolidated result does not include (inaudible) and all the concessions of the ATE group.

In the second quarter of 2012, we did not include UNISA because we only had 50% of UNISA at the time that we did not include that (inaudible). In the consolidated results and those two led -- it only includes the concessions where we have 100% stake, due to the accounting change, and also due to the characteristics of the shareholders agreement at TBE.

If you compare the results of Q2, 2013 with Q2, 2012, it may give the impression that we had a higher growth than our expected growth, and this is the reason why we have these two chart.

On the left, you have the regulatory EBITDA or the consolidation grew R\$ 289 million with a 43% growth year-on-year. In fact our growth was 30% and we closed the second quarter with 320 million EBITDA. And the main reason for the variation between the regulatory EBITDA that is without the IFRS with the acquisition of 50% stake in UNISA in mid-2012, and also one month of TBE.

I think that the main message about the regulatory EBITDA here is to reinforce the capacity that our company has to generate cash and from the regulatory EBITDA shows, very well, our revenues and expenses.

And also, it shows that our growth strategy is a good one, that brings cash generation for the company immediately.

On the next slide, we can see the variations of net revenue IFRS and we made this chart to illustrate step-by-step until we get to the accounting net revenue. The first part of the chart, where you have pro-forma Q2, 2012 is the sum of all of the companies that we had in 2012, regardless of the accounting rule, the currency standard 217 net revenue, FIP Coliseu, Brasnorte, UNISA 50% NTE and Taesa as a whole.

And comparing to the same group ahead Taesa, UNISA and NTE brought an increase to net revenue about R\$ 50 million. And this reflects the addition of 50% that we acquired from UNISA, 266 (inaudible) decreased 8 million vis-a-vis the previous quarter and here

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you have the consequence of the tariff review of Brasnorte, which will be import in Q3, 2013.

But as we already knew the results, we had to provision now in Q2 for that. And TBE brought to our result 15 million in Q2, 2013. And with that we have a pro-forma net revenue of R\$ 274 million and what does that mean. I would like to remind you that it is a sum of all the companies that we have regardless of the current accounting standard and adjusting to the current accounting rule, you eliminate 10 million and some subsidiaries and associated companies you have 263 million that is the net revenues that we have in our income statement.

On the next slide, the same thing, but for the IFRS EBITDA, it insist our net revenue, also impacted our EBITDA and EBITDA has a similar behavior of the net revenue 21 million, coming from 50% UNISA and a growth of Taesa and NTE, a reduction of R\$ 8 million, Etau, Brasnorte and Sao Gotardo.

In this case once again, it is a consequence of Brasnorte and we have a pro-forma EBITDA, IFRS of a 199 and eliminating subsidiaries and related companies, associated companies for you see a R\$195 million in our IFRS EBITDA.

On the next slide, we have the same thing for financial expenses. On this slide, our financial expenses, we have the negative Fx variations that we saw in Q2 with a small expansion, it shows that we have 83, it was offset by the increasing financial income for two months. We've still had all the cash of the IPO in our cash.

If we compare the pro-forma Q2, 2012 of the result of Taesa and NTE, we see a reductions in financial expenses. Quarter-over-quarter, we had 3 million. So you can see comparing the pro-forma Q2, 2012 and the pro-forma Q2, 2013, there was no change whatsoever, the values are the same and very small differences really negligible.

And if we eliminate the subsidiary and the associate companies, we end up with 92 million, which is the financial expenses that we have already reported in our income statement.

Now talking about net income. In the case of net income, there is no relation with the accounting method, because it is not impacted.

So in Q2 we have 74 million going to a 102 with a 28% growth. And you have here an increase of 18 million in EBT and you can see the difference between the growth in EBITDA and the net financial expenses with a positive impact, a tax impact.

Aiming from the integration of ATE II, and there is a non-recurrent effect in this quarter that will not happen again in the next quarters, once we have no -- to be done in 2013.

Now the last slide talks about our indebttness. And this is a point that we reinforce when we talk with our investors very much because of our proactive stand in terms of managing

our debt because of good management of our debt brings very good value to our business.

We closed the second quarter with a Fx exposure of 7%, thanks to the issue of promissory notes that we gave in May. Our objective here is always to minimize this risk of our business. And the issue of promissory note is very much in line with our strategy of mitigating the Fx risk and decrease volatility in our results.

Regarding the maturity of our debt, there is a message here, which is a considerable product of our debt, which is a short-term and which should be extended in the future, in the near future.

We have reissued the promissory note and will probably have a longer term from the promissory note. So this pie chart should be further improved. The result is already very well aligned with our concession that is to say, it is much more concentrated in the long run than in the short run, but towards the end of the year, this debt profile will be even better than it is today.

And the last message which is a good message has to do with our capital structure that has improved vis-a-vis the previous quarter. As you can see our debt, equity, considering the book value here, in the previous quarters we were still carrying all the cash of the IPO and with that our net debt was very low, now the net debt was very low, now the net debt is already at the level that we expected after paying for TBE. And we start to have a capital structure, which is closer to the one that understand is the most adequate for our business.

Okay, so the presentation is over and now we would like to stay here and answer any questions that you might have and thank you very much for participating.

Questions And Answers

Operator

Thank you very much. Now we would like to start the question-and-answer session for investors and analysts. (Operator Instructions) Mr. Pedro Manfredini from Credit Suisse.

Q - Pedro Manfredini {BIO 21633245 <GO>}

Good afternoon, everyone. Good afternoon, Paulo. Thank you for the call. I have a quick question, two about work. M&A, we saw Taesa in the last few days acquiring 25% of some small operations. And what about your pipeline for acquisitions. Other possible M&A's in your radar screen, there is anything relevant in the pipeline or will we continue to see Taesa buy small assets and stake in small assets. The other one has to do with auctions, we have already talked about very extensively, but could we talk about auctions.

There will be a very big auction in the next few months and maybe some smaller ones afterwards and some assets that were not acquired during the previous auctions. What

about the trends goal and the government. Have you been knocking on the door the ministry and saying, well the returns are too low and we need something more than that in order to participate in the auctions.

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

Okay. This is Ragone, M&A first. The acquisition was a 10% acquisition. The operation hasn't been closed yet. All the M&A operations that makes sense for our company is a growth arm for the -- all the other opportunities will be, to be analyzed and regardless of the size, whatever makes sense for us, we will be paying attention to the concessions that are interesting class, and under the concession of giving us good results and give dividend payout, second auctions bidding processes, Taesa always analyzes all the auctions that are established and we study whatever makes sense to us.

But what we haven't seen in the last few auctions, and this has been extensively discussed by the sector is the following. The conditions in the last few auctions are not favorable. So our growth strategy in Greenfield -- our intention is not to grow in terms of assets.

Our intent is to grow in terms of adding value to the company. We participated in the large auction of December 2012, and we prepared ourselves technically and financially for that bidding process, and the same thing in April.

We prepared ourselves and what we always reinforce with that, we've been -- participating in the auction, just participating and winning is not part of the strategy. We will have two smaller auctions before the end of the year and that will be a great challenge for these sectors.

There is one concession that is very important, which is the one for (inaudible) for the distribution of energy of available in TAESA for a quite a few months already is getting ready to participate in this auction and with the technical analysis, the market analysis because its involved a new technology 800 continues voltage and we are getting ready to submit our bid regarding the result, what we can say is that.

The market can't be sure, that our solution if we are the winning bidders, will be to integrate is to our concession portfolio and bringing a result that is comparable to the result that we have been delivering so far.

Still talking about growth, TBE being integrated in May, we see CEMIG with some transmission assets still mainly due to assets that were renewed very recently.

Q - Pedro Manfredini {BIO 21633245 <GO>}

Do you have any idea of transferring these assets to TAESA because under CEMIG it is not a bad position or alternative, are you discussing this in your group?

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

Well, we would like to enforce there is nothing concrete about that, there is nothing concrete. Whatever was more concrete we have already published last week about the Transmineiras and all the that alternatives that might improve our results and sustain our growth strategy. We'll always be discussed on an on-going basis, however there is nothing more concrete than that I think changes right now.

Q - Pedro Manfredini {BIO 21633245 <GO>}

Thank you.

Operator

(Operator Instructions) Thank you very much. As there are no more questions, I would like to give the floor over to Mr. Jose Aloise Ragone for his closing remarks. Mr. Ragone you have the floor.

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

I would like to thank you very much for your attention. On behalf of the Taesa team and we expect to continue when we disclose our results for the third quarter and of course we are always at your (inaudible) team and very good afternoon.

Operator

Thank you very much. Taesa second quarter 2013 earnings conference call is closed. Please disconnect your lines.

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