

## Y 2019 Earnings Call

### Company Participants

- Marcus Pereira Aucelio, Chief Financial and Investor Relations Officer
- Raul Lycurgo Leite, Chief Executive Officer and Legal and Regulatory Director

### Other Participants

- Carolina Carneiro, Analyst
- Unidentified Participant

### Presentation

#### Operator

Ladies and gentlemen. Thank you for waiting. And welcome to the Taesa conference call. We would like to inform you that all listeners will be on listen-only mode during the presentation. Subsequently, we will have a Q&A session where further instructions will be provided. (Operator Instructions) Now, I would like to give the floor to Mr. Raul Lycurgo Leite, CEO of Taesa. Mr. Raul, you have the floor.

#### Raul Lycurgo Leite {BIO 19066621 <GO>}

Good morning to everyone. We would like to thank all of you ladies and gentlemen for participating in our conference call regarding the results of the fourth quarter and 2019. With us we have our IR Director, Marcus Aucelio and the Technical Director, Marco Faria and our IR team. Before starting the presentation, I would like to talk about the main highlights of the company.

The year in which Taesa celebrated its 10 years after closing 2018 signing the purchase and sales contracts of four Ambar assets with the winners of three lots in the Eletrobras option and lot in the December ANEEL auction. We started 2019 with the challenge of completing these acquisitions moving forward in the construction of concessions not yet operation as well as looking for growth opportunities. In the brownfield, we completed the acquisitions of the three lots in the Eletrobras auction, subsequently we bought Bipar shareholding in Brasnorte owing now a 100% of the concession. We signed a purchase and sale agreement for the Rialma 1 concession and proceeded to complete the acquisition of Sao Joao and Sao Pedro completed in February 2020. In 2019, we invested BRL718 million in the works and equipment of the projects under construction.

We energize two of the three projects under construction, Miracema and EDTE which added to Taesa BRL99.6 million in RAP. The company stood out last year in the debt market leading the movement to extend the terms of infrastructure debentures in Brazil

Taesá and its projects issued in 2019, BRL4.7 billion in debentures, out of which BRL3.7 billion in debt, which -- with a 25-year term, this movement was only possible due to our credibility with the market as well as highest credit risk rating.

In the operational field, Taesá remained at the benchmark level in the transmission sector recording a 99.9% availability rate for its line. And a variable portion of 0.98% of our consolidated net income closed the year again above BRL1 billion and we continue with our commitment to maintain the regular payment of earnings to our shareholders.

I would still like to reinforce our attention and commitment to sustainability. In 2019, we established environmental social and governance actions ESG and issued four green infrastructure debentures. We also adhere to the UN Global Agreement and one of the best place to work.

Great place to work and best company in the area of safety and health at work, which reinforced our commitment to the safety, health and well-being of our employees. We continue to focus on the strategic pillars of sustainable growth, financial discipline, operational efficiency and value creation to our shareholders.

We have been working hard to make the company more competitive, both in the auctions and in M&A. In addition to maintaining our leadership position and being a reference in energy transmission in the country. I will now turn it over to our Chief Financial and Investor Relations Officer, Marcus Aucelio, who will present the results of the fourth quarter and 2019.

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

Thank you, Raul, and good morning to everyone. I would like to initiate our presentation on Slide 3. This is a summary of the earnings results of the fourth quarter of 2019 and 2019 for our results for the IFRS. In this quarter, the net income totaled BRL177.5 million, a drop of 34.1% when we compare it to the fourth quarter of 2018 and for 2019, our profit closed at BRL1 billion, registering a drop of 6.4% vis-a-vis 2018. The main factors that explain this drop are number one, a reversal of BRL80.6 million during the fourth quarter, from the construction revenue for the improvements, we also had a drop of monetary reinstable because IGP-M and lower IPCA, this drop in the year was BRL182.2 million because of the variation of these inflation indexes.

And there was an increase in the net financial expenses because of the fund raisings that were carried out in 2019. I'm going to explain the reversion of BRL80.6 million. This was because of a conservative position from the company that we classify the very small improvement as an O&M cost generating a decrease in the balance of the contract access related to this project. Now this reversion actually was because the ANEEL positioning and ANEEL signals that investments of small improvements of bidded companies would have no additional recognition in terms of revenue as of January 1, 2018.

So therefore, Brachi [ph] and Transmineiras have discussed this together with ANEEL regarding the way that they position themselves, but due to the technical ruling of ANEEL,

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we decided to be conservative and therefore, we carried out the reversal of BRL80.6 million. This drop was offset positively with earning increase -- with the results of shareholders' assets because our projects under construction. So we are already seeing the results of the projects under construction and also the margin of the Taesa projects that are 100% Taesa. This is why our adjusted net income, which excludes the effects of CPC 47 totaled BRL711 million, we have to remember that we've been including the effects of CPC 47 for the purpose of dividend distribution, once this effect is purely accounting not cash and this way, we do not compromise our cash, and the leverage position of the company.

So 2019, the CPC adjustment was BRL291.3 million and the current balance of the special reserve is BRL501.2 million that will be distributed in the future. Therefore, after the allocation of all of these reserves, the distributable profit totaled BRL655.9 million, this is during the fiscal year of 2019. That is the equivalent of 92.3% payout when we compare it to the adjusted net income as we had already paid BRL594.2 million between dividends, and interest on non-capital in 2019, our Board approved yesterday, the remaining amount of BRL61.8 million to be distributed as additional dividends that will be submitted for approval at the shareholders' meeting during the month of April.

Now we go to Slide number 4, and we will talk about the regulatory result. Here, I would like to highlight four points. Number one would be the net revenue during the fourth quarter, it was BRL339.5 million and this is an increase of 2.3%, when we compare it to the fourth quarter of 2018 and this is explained by the inflationary adjustment and the operation of Novatrans reinforcements and this was also an accounting reclassification that was carried out in the fourth quarter of 2018.

Now, in the year, the net revenue closed at BRL1.39 billion with a drop of 8.7% basically due to the RAP cut of some concessions. Subsequently, we will show you a slide that explains the measures that we have been adopting and what have we done in order to minimize these impacts of these cuts of in a RAP. A second point would be the operating cost and expenses, which totaled BRL81.3 million during the quarter and BRL240.5 million in the year, an increase of 13.2% in the quarter, 8.5% in the year and this is because of higher expenses with personnel, third parties and services and an decrease in the inventory related to the conclusion of Novatrans reinforcements, so we ended last November and we replace four capacitors.

So they weren't totally depreciated and they were taking out of our assets and this impacted our cost and very specifically, of course, during the fourth quarter and this represented BRL15 million, so with this, the Company's regulatory EBITDA totaled BRL258.2 million during the fourth quarter and BRL1.15 billion during the year 2019 presenting a drop here. Now the third point would be the gross debt of the company, which totaled BRL5.3 billion and the cash position was BRL2.4 billion, resulting in a net debt of BRL2.8 billion.

The net debt over EBITDA ratio ended the year at 2.2 times, as a result, we reinforced our strong liquidity and adequate levels of leverage. Last and not least as Raul had already highlighted, we close 2019 with a line availability rate of 99.9% of variability installment of only BRL15 million and our PV regarding the consolidated RAP of Taesa was 0.98%. Now

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let's go to Slide number 5, where we will talk about the inflation impact on our shareholders' results, when -- we always mentioned in our teleconference that impacts of macroeconomic indices of Taesa's results. And this -- and they can have a significant impact on IFRS monetary revenue, the three months that impacted the GP-M presented an inflation of 0.97% in comparison to 1.92% registered of the fourth quarter of 2018, the IPCA was 0.57% vis-a-vis 0.72%.

So with this, we had a drop in monetary reinstatement. This is a 48.4% in the revenue of monetary correction. When we see the year, we had an IGP-M of 2018 of 9.68% and IPCA of 4.05% and in 2019, we had IGP-M of 3.97% and IPCA of 3.27% and therefore, there was a loss in the revenue -- monetary reinstatement of BRL182.2 million, this explains the drop of the company when we compare it to 2018.

Now, I want to go to Slide number 6. I would like to explain what we have done to offset the impact of the RAP cut because here we have 20 concessions that are of Category II, if we analyze the total RAP of all of our 38 concessions, 31 operational and 700 construction, we had an increase of 2.7%, the BRL73 million additional when we compare the cycle of 2018, 2019 to the cycle 2019, 2020 even with a RAP cut of almost BRL300 million. Therefore from the 2018, 2019, the cut was carried out in a concession.

Therefore, when we have a view of our operational RAP, the news is even much better because when we observe a growth of BRL143 million from one cycle to another and I believe our construction projects will become operational soon and also when we see our new acquisitions, we believe that in the proximal cycles, we will be able to improve our RAP.

Now when we go to Slide number 7, we will talk about our projects under construction. Today, Taesa has nine projects under construction. We have already delivered EDTE Miracema during the month of April, we expect to deliver Mariana and we will be able to deliver in advance, the other concession Aimores, Paraguacu, Santa Ana, Ivai. A very important point is that, all of these projects under construction or these concessions under construction in December 2019, we already carried out the necessary funding for all of these project, as Raul already mentioned, during 2019, if we funded BRL4.7 billion and BRL3.7 billion in infrastructure debenture over 25-year term.

Now when we go to Slide number 8, regarding the updates, regarding our CapEx, it is very important to highlight the nominal CapEx over concessions, here we're talking about projects that below 100% to Taesa. The CapEx that was realized was BRL314 million that was below our minimum projection that was BRL410 million. So this difference of almost BRL100 million, the explanation is due to three reasons.

In Janauba concession, we postponed it for the payment of part of the cables, that was postponed for 2020 because the need of these cables would not be necessary during 2019 and with together with our suppliers, we were able to postpone the payment for 2020 and we also totally re-created the retention of payments of services that were carried out in 2019.

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But as there were some technical pending issues, according to the contract, we can retain the total value although most of the services have already been rendered in 2019. Now regarding Mariana, although we have seen that the rains in Minas Gerais were very strong during the month of January and February, the rainfall had been already observed since the month of November.

So as a consequence of the rainfall, we diminished, we slowed down the construction works during November and December, January and February were also complicated months in Mariana. But now with firm weather, we believe that we will be able to deliver this concession during the month of April.

Now regarding SantAna, we also -- there was a postponement of payment of land indemnities and it will be paid in 2020. Now regarding Miracema, well, we had here a CapEx savings. So it is important to highlight that the delay in CapEx does not compromise the conclusion of the Janauba bonds, SantAna concessions and although Mariana has been postponed for the month of April. So this has already been anticipated in our timeline of concession contracts.

So we reviewed 100% of our CapEx projects for the year 2022, therefore the CapEx projections were BRL941 billion [ph] in '20 and it's been updated between BRL1040 billion or BRL1,130 million nominal CapEx projections for years 2021 and 2022 remain unchanged. I finish here my presentation of 2019 and now, we will have our Q&A session.

## Questions And Answers

### Operator

Thank you very much. Now we will initiate our Q&A session. (Operator Instructions) Our first question from Carolina Carneiro, Credit Suisse.

### Q - Carolina Carneiro

Thank you very much for your call. I have two questions. Could you confirm a piece of the information that you just mentioned regarding your CapEx, just to be absolutely sure that we understood correctly, therefore in reality, you reviewed because of the displacement of the events of 2019, which delayed the construction work. So this is a displacement of time and not of CapEx and this actually is not affecting the timeline of all your construction works.

And the second question is I would like you to comment if it's possible, about the expectation of the auction that will take place in the middle of the year. If you have a clear view, if you're interested in participating in this auction and what type of changes do you have in mind in terms of your strategy.

If you're thinking about changing your strategy because this may impact the debt market due to the stressful moment that is something very current.

**A - Marcus Pereira Aucelio {BIO 19965152 <GO>}**

Good morning, Carolina. Now, regarding your first question and the second question, now we will hand it over to Raul, so there -- if there is no expectation in increasing our CapEx. In the case of Miracema, we had a drop in our CapEx. Now regarding Janauba, this postponement is because we saw an opportunity to pay the cables in 2020 and this would improve the return of the project. And in the case of Mariana was because of the rainfall.

So we just displaced activities from one year to the other, but this really didn't impact the total CapEx, and this does -- will not also cause problems in the new concessions. Thank you Carolina for your questions. Now regarding the auctions, well Taesa will participate in the auctions in the middle of the year. And during the second auction, during the month of December investor, the auction, at the end of the first semester is a small auction actually therefore the auction of the end of the year will be a bigger auction. There is similar to the past auctions that we've seen in the recent past.

Yes, we will participate in both auctions. We have internally studied everything in order to present proposals that are highly competitive. Nonetheless, always focused on our financial discipline and we, of course, we have to generate value to our shareholders. We will never take a step ahead of our pillars, therefore, internally we have seen that with these new constructions that will become operational with CapEx efficiency, we -- and this is helping us in order to make up competitive bids.

And we also -- I'll said [ph], you has been able to create great efficiency. Last year, we had a very successful fund raisings at very proper prices with very long terms, therefore, yes, we have focused to be more and more efficient with responsibility and always focused on our financial discipline. Now, of course, and this has to be included in our bid.

**Q - Carolina Carneiro**

Thank you very much for your answers.

**Operator**

(Operator Instructions) We have Alexandre Nunistaky from Nucpar SA [ph]

**Q - Unidentified Participant**

Good morning to everyone. I would just like to know about the stake of Cemig in the company. How do you see the movement of Cemig's privatization in the future and if this would represent a loss if Cemig sells 36% and you have 21%.

Thank you for talking about shares.

**A - Marcus Pereira Aucelio {BIO 19965152 <GO>}**

Alexandre, thank you for the question. Regarding this point, Taesa is focused on generating the most efficient results for our shareholders. If Cemig -- we cannot speak on

behalf of Cemig because they have their own governance nonetheless. We are independent, we are totally independent to conduct the company, the best way possibly generating the best results without thinking if they will privatize or not.

This actually does not affect the performance of the company in no given moment, this has been analyzed by the Board of the company. Well, our first point here, is to create value to the Taesa shareholders. So we focus 100% on Taesa's shareholders.

## **Q - Unidentified Participant**

Thank you very much

## **Operator**

(Operator Instructions) Vinice Andrade [ph] just sent a question via our webcast. I'm going to read his question. Good afternoon. I would like to know if your third parties have been replaced. So you no longer have incidents with third parties that affect your availability.

## **A - Raul Lycurgo Leite {BIO 19066621 <GO>}**

Vinice, thank you very much for your question. Very interesting to approach this point. I would like to remind you that Taesa was the first company in the past in 2017 to determine the replacement of these third parties. We identified a family of third parties, CTH 550, yes CTH 550. In the past this was ATE in Taesa in 2017 determined that they would totally replace all the CTHs, we carried out the purchase in the end of 2017, beginning of 2018, all of them haven't been totally replaced but most of our peers have been replaced. What are we doing? We have laboratories that analyze the oil of all of these, all of this equipment in order to see which equipment presents the most critical situation, and then we replace regarding in terms of how critical, the situation is. I believe that the latest by the end of the year, all of them will be replaced, all -- everything has been purchased since the end of 2017, beginning of 2018 and the -- and in 2019, we replaced most of them -- more than half of them and now during 2020, we are replacing the remaining amount, but I would like to reiterate that the replacement isn't done randomly. It is according to the information that we have to see which situation is more critical or not.

## **Operator**

(Operator Instructions) We kindly request you to wait, while we receive more questions through our webcast.

Now regarding the webcast. There is a question from Gabriela and she asks the following. If the company is already observing restrictions in the credit market, and what will be our financing level this year and the upcoming years?

## **A - Raul Lycurgo Leite {BIO 19066621 <GO>}**

During the last month, we observed a deterioration in the credit market and of course this is a result of the Coronavirus crisis. Taesa has always had a strategy, we've always had

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liquidity, we ended the year with BRL2.4 billion in cash and we had already anticipated the fundraising for our projects. In December, all of our projects have sufficient resources to -- for the company's future investments.

I believe that this year, we will have to roll out our debt by the end of the year. We still have cash flow to continue until the month of October of this year. But as Taesa is a company, we have a AAA rating by three agency, Moody's, Fitch and Standard & Poor's. We really don't see any major problems in rolling out our debt and we are also going to follow and to observe and see what is the best window in order to attain this funding, despite the crisis, the company does have cash flow and does have credit, in order to undergo these moments.

## Operator

(Operator Instructions) So we bring our Q&A session to an end. I would like to give the floor back to Mr. Raul Lycurgo for his final comments.

## A - Raul Lycurgo Leite {BIO 19066621 <GO>}

I would like to thank all the participants of this conference call. But before we end the conference call, I would like to congratulate the company for its 10 years of achievements with a very successful trajectory in the transmission sector because a team that has been fully dedicated and throughout the year has worked excellence -- excellently, I say that we have 38 assets, but our best assets are the people that we have in the company.

This is an extremely skilled team. So let's go forward and let's conquer the next 10 years. Thank you very much and have a very good day.

## Operator

The Taesa conference call has come to an end. We would like to thank everyone for your participation and have a very good afternoon.

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