

## Y 2014 Earnings Call

### Company Participants

- Andrea Fernandes, Investor Relations Manager
- Marcelino Rafart de Seras, Chief Executive Officer

### Other Participants

- Fernando Abdalla, Analyst
- Rodrigo Fernandes, Analyst
- Rogerio Araujo, Analyst
- Stephen Trent, Analyst
- Unidentified Participant

### Presentation

#### Operator

Good morning, and welcome to EcoRodovias' Conference Call for the Fourth Quarter and Year of 2014 Earnings. Today with us we have Mr. Marcelino Seras, the company's CEO; Marcello Guidotti, CFO and IRO; Andrea Fernandes, Investor Relations Manager; and Raquel Turano, Coordinator for Investor Relations.

We would like to inform you that the presentation is being recorded, and all participants will be in listen-only mode during the company's presentation. Afterwards, we will have a question-and-answer session for analysts and investors only, when further instructions will be provided (Operator Instructions).

The audio and the slides of this call are being broadcast simultaneously at [www.ecorodovias.com.br/investor-relations](http://www.ecorodovias.com.br/investor-relations), where you will find the presentation for download from the webcast platform at the Investor Relations section.

Before proceeding, we would like to clarify that forward-looking statement that maybe made during this conference call relating to EcoRodovias' business prospects, projections and operational and financial targets are based on the management's beliefs and assumptions, as well as information currently available. They involve risks, uncertainties and assumptions as 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 affect the future performance of EcoRodovias and lead to results that differ materially from those expressed in such forward-looking statements.

Now I would like to turn the floor over to Mrs. Andrea Fernandes, Investor Relations Manager, who will make the initial remarks about the fourth quarter and year of 2014 results. You may begin Mrs. Fernandes.

## **Andrea Fernandes** {BIO 21294199 <GO>}

Good morning and welcome to another results conference call of the EcoRodovias' Group for the fourth quarter and the year of 2014. We thank you for your interest and for your participation.

To begin, as you all know, yesterday EcoRodovias submitted the batch proposal at the federal government auction for the operation, maintenance, monitoring, and conservation, and improvement of the Rio-Niteroi bridge. The amount of the proposed tariff was R\$3.28, a discount of 36.67%, these are the data's that established in the bid notice, the concession term is 30 years. The future concessionaire, we'll have to carry out many different works, not only in the 13.2 kilometers extension of the bridge, but also on its axis ways, or ways with the object of solving specific problems of the highway systems, especially those related to improving traffic flows and user safety.

The next steps are the analysis of the qualification documents by the granting commission, ratification of the result, and invitation to sign the agreement, which is scheduled to take place on May 22. We would like to highlight investments amounted to R\$187 million incorporated in the concession contract of Ecosul, related to the paving repairs and maintenance of the Pelotas highway hub between 2015 and 2026. As a result, we were granted annual tariff increases between 2015 and 2021 to ensure the economic and financial balancing of the agreement.

Moving on to the fourth quarter of '14 results. We can see on slide three that the consolidated traffic in terms of equivalent paying vehicles increased by 27.9% in the quarter, and 20.1% in 2014. Excluding traffic from ECO101, there was a 2.3% increase in the quarter, and an annual growth of 4% in 2014. The quarterly variation was mainly due to increased passenger vehicle traffic. Thanks to the favorable weather conditions and which offset the reduction in commercial vehicle traffic, driven by lower soybean and corn exports and the economic slowdown.

On slide number four, we show the Ecoporto Santos operating performance, whose container handling operations in the port operations fell by 7.1% in Q4 2014, and 21.5% in the year of 2014. The Warehousing operations on the other hand climbed by 2.9% in the fourth quarter and fell by 4% in the year of 2014, both operations were influenced by the tighter competition due to the new market entrants and the overall slowdown of the economy.

Regarding the Group's consolidated financial performance on slide five. In a comparable pro forma fashion, you can see including the proportional consolidation of Elog and excluding construction revenue and revenue from STP, which was sold, net revenue totaled R\$642 million in the fourth quarter of 2014, up by 6.6% and R\$2.4 billion for the year of 2014 up by 2.9%. Revenue was positively impacted by the beginning of toll

collection at ECO101 in May 2014. And traffic growth in the existing concessions and negatively impacted by the reduced handled volume and lower tariffs at Ecoporto.

On slide six, this shows the cash costs, which were R\$316 million in the fourth quarter of 2014, down by 3.7%. And in the year, the cash costs reached R\$1.2 billion, up by 1.3% below the inflation rate of the period. Excluding the STP cost, which was sold in March 2014, there was a decline of 1% in the quarter and an upturn of 3.8% in the full year of 2014. Note that the impact of the increase in advisory and consulting cost in the concessionaires is eliminated upon consolidation, given that the services in comparison[ph] are provided by EcoRodovias own service company.

In this specific case of the holding company, personnel costs increased due to the recognition of the incentive and retention plan for key executives, as well as third-party services arising from new business studies and Strategic Planning Advisory Services. This effect may be considered as non-recurrent and they are shown on exhibit five in our earnings release.

Comparable pro forma EBITDA totaled R\$325.9 million in the quarter with a margin of 15.8% and R\$1.3 billion in 2014, with an EBITDA margin of 52.7%.

As you can see on slide number seven, including the non-recurring items, EBITDA would be 341.5 million in the fourth quarter of 2014 with the 53.2% margin. The highway concession and service segments together reported an EBITDA growth of 20.9% for the quarter and 9.1% in 2014. It is important to highlight the ECO101 concessionaire achieved an EBITDA margin of 46% in the fourth quarter of 2014.

Now going to slide number eight, we show the net income, which was R\$53.9 million in Q4 and 471.9 million in the year of 2014. Excluding the STP sale and equity income, comparable net income in 2014 amounted to -- or would amount to R\$260.8 million impacted by the higher depreciation and amortization. The increase in net financial expenses due to the restatement of inflation indexed debt and also the higher interest rate in the period, as well as the increase in the maintenance provision. In 2014 EcoRodovias paid out R\$798.5 million in dividends and in interest on equity.

As you can see regarding investments on slide number nine, we maintained the company's commitment to invest in accordance to the concession contracts and the needs of the business. And I would like to highlight that the initial operations of a ECO101 constructions related to Ecovias dos Imigrantes contractual amendment, which were concluded in October 2014, and also construction in the inside lanes of the Ayrton Senna highway, estimated CapEx for 2014 proportional to EcoRodovias share is approximately R\$650 million.

On slide number 10, we show the evolution of the contractual CapEx to be realized in our highway concessions. At the end of 2013, we had R\$5 billion to be realized including ECO101. In 2014, we realized R\$846 million and the R\$271 million related to the price adjustments for inflation and including R\$243 million in contractual amendments signed,

which will be rebalanced by tariff triggers at Ecosul, Ecocataratas, and Ecovia Caminho do Mar.

Consequently we closed 2014 with a CapEx to be realized amounted to R\$4.7 billion of which EcoRodovias proportionary share was R\$3.6 billion. Of this total 1.4 billion refer to 58% interest in ECO101 and 312 million to a 90% stake and Ecosul. It is worth noting that our executives have target in regard to managing contractual CapEx, and we are committed to delivering and monitoring these commitments quarter-on-quarter.

Now moving to slide 11. Here you can see that the pro forma net debt, pro forma EBITDA ratio stood at 2.4 times in December 2014.

And on slide 12, we show a debt by index, 47% of our debt is specked[ph] to the IPCA, the consumer price index that is say the same index used to adjust tariffs of our main concessions. And finally, in addition to the result of the Rio-Niteroi bridge auction, we would like to talk briefly about our expectations for 2015.

We continued to study possible contractual amendments in our concessions in order to expand higher infrastructure -- highway infrastructure for our users, and also to maximize shareholder returns in an efficient and sustainable manner. Besides, we are also studying the four federal government public interest expressions, the PMI's as well as federal and state highway project. This concludes our presentation. And now we would like to open for the question-and-answer session.

Operator, we are ready to answer questions from analysts and investors. Thank you very much.

## Questions And Answers

### Operator

Thank you very much. We would like to start the Q&A session for investors and analysts. (Operator Instructions) Our first question comes from Mr. Rodrigo Fernandes from UBS Bank.

### Q - Rodrigo Fernandes {BIO 16366515 <GO>}

Good morning. I have two questions. The first has to do with yesterday's process. Could you give us more details regarding the growth that you expect coming from this project. Yesterday, you said 15% based on the lower tariff, and I would like to know if this growth matches the infrastructure capacity of the city in terms of receiving this additional traffic, because when we compare with the previous growth it is lower than the previous one. So what is the return that you expect from the project? This is my first question.

### A - Marcelino Rafart de Seras {BIO 16618338 <GO>}

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Rodrigo, good morning. This is Marcelino. Good morning, everyone. We are very happy with the result of yesterday's auction for the bridge, and we are very proud for having this presence in Rio de Janeiro, and this is one of the icons of the Brazilian engineering, this bridge, and it can be compared to the works done at the Anchieta and Imigrantes highway is that really postcard of the Brazilian engineering and their elegance. And it is also a great responsibility for us to replace CCR, and these endeavors CCR deserves our deepest respect as a company and as an operator of highway assets.

Having said that, in our bid we proposed a return rate for our shareholders around 10%, and with a reduction in CapEx and also a reduction in OpEx. And these reductions are clear as far as we are concerned, because we operate very similar systems in terms of complexity and saturation as well, during periods of the year that occur in the bridge and almost on a daily fashion.

On the other hand, we have executives that have worked with the bridge and they are executives of EcoRodovias, and they carried out the studies with us, and they will be taking on their functions in this new concessionaries. Investments proposed by CCR for some years and with repeated project for the better flow, both in the Metro region and the Rio de Janeiro region they are correct. And as they are concluded, they will bring about an improvement in the flow on the bridge and a clear perception on the part of the users will be achieved.

Then taking into account the growth in traffic that already exists today historically on the bridge. Of course, with these works and with this discount, there will be a traffic increase on the bridge. And many other operating efforts and increase in the toll plaza and the better access, many of that will also allow for an improvement. In the flow, there are two characteristics; one of them has to do with the urban side of Rio-Niteroi and Rio de Janeiro, and the bridge itself.

You have to be very quick in terms of something happening on the bridge, and this is where we are making our endeavors ever since moment that we want, and we want we want to reiterate to our investors and to the public in general that we are 100% sure that our bid was very fair and very correct. And for 30 years we have been doing this, and it will be originating a better margin that are already around 55% and 60% on the following year. So these were the studies that were made by the EcoRodovias Group, taking into account that at that time the federal government didn't want to renew the older concessions.

### **Q - Rodrigo Fernandes** {BIO 16366515 <GO>}

Thank you. My second question regarding investment and the growth in your portfolio. When we look at the estimated CapEx for 2015, we see that the Belo Horizonte beltway was not included. So could you give us an update about the status of the project, and what about signing the contract, because when -- in the case of the Belo Horizonte beltway, the contract was given to the consortium and we have a 20% stake in the consort. And the current administration of Minas Gerais announced in audit regarding the public accounts, regarding all the contract, and at the end of March and beginning of April.

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**A - Marcelino Rafart de Seras** {BIO 16618338 <GO>}

We will see what the position will be on the part of the Minas Gerais government. This project is mandatory, it's extremely important for the Belo Horizonte region, and the conditions put in the proposal in the PPP are quite reasonable and they are very good and they are very interesting as far as the state government is concerned. As the stretches are being delivered and the counterpart in the long run and we are going to wait for the decision on the part of the government of Minas Gerais and we are sure that the project will be approved. Thank you.

**Operator**

Rogério Araujo from Brasil Plural.

**Q - Rogério Araujo** {BIO 17308156 <GO>}

Good morning, everyone. I have two questions. The first one has to do with the result of Q4. You had expenses of 14 million in consultancy services. Could you please explain the reason why each one of the projects was carried out in this term. And I would like to know if this is part of the holding expenses, we usually say in 2014 the costs of about 2.5% of revenues and going up to 4% to 5%. So, what is the reason for that besides the consultancy services expenses. And I would like to know what we should place in our model from now on? This is my first question.

**A - Marcelino Rafart de Seras** {BIO 16618338 <GO>}

This is Marcelino. Good morning. We made a disclosure in the release, they are non-recurrent costs, we had these cost with strategic consultancy services this year and also related to the studies of the PMIs and studies of opportunities in the Belo Horizonte beltway and beside the bridge itself, which we won the auction. So it has to do with all the legal consultancies and related to the Ecoporto services. So this was out during 2014, they were tracked. They are not recurring and we could go back to the levels of the previous levels of the previous year's undoubtedly.

And we look with a little bit of concern in 2015 and we are carrying out a reduction in cost already. So you should not consider this kind of cost for your modeling for 2015.

**Q - Rogério Araujo** {BIO 17308156 <GO>}

Can you give us a guidance regarding which percentage of your revenues we should expect?

**A - Marcelino Rafart de Seras** {BIO 16618338 <GO>}

The same level of the previous years.

**Q - Rogério Araujo** {BIO 17308156 <GO>}

You talked about 2% and this should go back to these levels. My second question has to do with the bridge. First you talked about an OpEx reduction, and I think in order to get to

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a 55% margin you should slash it by half. So what do you intend to do in terms of OpEx reduction to reach this higher margin. Would that be due to an increase in traffic already in the first year. And how much do you expect in terms of traffic increase.

And still regarding the bridge, how much according to your calculations the number of vehicles equivalent should be reached in the last year of concession? 31 million should go to what figure in 30 year's time?

#### **A - Marcelino Rafart de Seras** {BIO 16618338 <GO>}

I'm going to answer some of these questions. But I would like to tell you that the process is still open, and we have to respect the terms and we still have to be ratified, and the company commits itself to at the end of this period being the winning bidder. The company will have a special conference call with all of you to give you all the details.

Operating cost, we believe there will be a reduction of one-third in operating costs and you see this in the bid notice. This is a very important factor. And we have many efficiencies in our service companies in the location of these costs, so the EBITDA growth -- but there is already saturation as you know. And this will be recurring as of the second year. And after the third, the fourth or the fifth year, we will have this also for the port region.

#### **Q - Rogerio Araujo** {BIO 17308156 <GO>}

Regarding the number of vehicles that you expect, do you have an estimate?

#### **A - Marcelino Rafart de Seras** {BIO 16618338 <GO>}

I would rather wait until we conclude the project -- the process, and then we can give you our estimate from the first until the last year of the concession.

#### **Q - Rogerio Araujo** {BIO 17308156 <GO>}

Thank you very much for the clarification. And have a good day.

#### **Operator**

Our next question comes from Mr. Rodrigo Levorio[ph] from Votorantim Brokerage House.

#### **Q - Unidentified Participant**

This is Sami Karlik. I have two questions, one has to do with the Ecoporto, we saw a very expensive reduction in cost, operating cost in this quarter. In the personnel area it was my attention. So do you still see some kind of reduction in your operating costs for the term? And the second question has to do with the bridge. You talked a lot about OpEx reduction. I would like to understand that the big notice, I think its 2019 that provides for a drop, is there a for this drop, I would like to understand this.

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## **A - Marcelino Rafart de Seras {BIO 16618338 <GO>}**

In the bid notice 2019 was placed as a beginning of operations of line three of the Niteroi subway. In the discussion about that is about whether it's going to be a BOT[ph], or whether it's going to be a subway, so there is still a discussion going on about that.

Rio de Janeiro was receiving quite a lot of investment because of the Olympic games, and maybe in next few years there could be some problem regarding new investments. And we took into account the fact that line three would need an additional of four years to be implemented, maybe not as a subway but as a BOT. And this brings about a reduction in this absorption. And there are also projects in Rio de Janeiro as you know. And with the improvement that is included in the contract that is to say in the bid notice would bring about these improvements.

Regarding the Ecoporto, Sami, this drop in movement is normal, but there is always a reduction in headcount, a permanent reduction that will continue. And this will continue also in 2015 and we will continue to have this reduction in personnel, not at the levels of 2014, because most of the reduction in fixed cost in this regard has already been captured. But we will see additional efficiencies to be captured in 2015, because a new operating system will start operating in Ecoporto, and so this will be an additional trigger for personnel reduction. It will continue and we will have an important guidance's in 2015 in terms of reduction in personnel at the Ecoporto as well.

## **Operator**

Our next question comes from Mr. (inaudible) from JP Morgan.

## **Q - Fernando Abdalla {BIO 15381888 <GO>}**

This is Fernando Abdalla. Marcelino, I would like to understand about the bridge with a reduction of one-third in the operating cost, it will be a more mature asset of course as everybody knows. So could you give us some details about where you will be achieving this reduction, what kind of efficiencies do you believe that EcoRodovias could add, and that CCR didn't have as an operator.

And in terms of leverage, how are you working with leverage, is it BNDES or you're going to go to the market too. We would like to know your financials a little bit better.

## **A - Marcelino Rafart de Seras {BIO 16618338 <GO>}**

We will be able to describe this better to all of you. Everything that will be adopted when we are ratified. It's only natural that when a company wins the operation of an asset of course you need more people, and you have the need for higher compensation because of the business itself. But together with many other conditions that replaced and the bid notice for instance, avoiding any surprises that could happen. And if some surprise happens, this will be rebalanced in the contract. So there are many issues that have been raised by analysts. And we know that the asset is very well conserved and very well operated by CCR. And we have technicians and consultants, both inside and outside this structure, and this leads us to the certainty that there will be no surprises, and if



reinforcements are needed and additional costs are needed the bid notice provides for a rebalancing of the contract.

**Q - Fernando Abdalla** {BIO 15381888 <GO>}

What about the funding for the project? What is the leverage that you're working with. Are you going to do this via the BNDES, and what is the amount?

**A - Marcelino Rafart de Seras** {BIO 16618338 <GO>}

We believe that the minimum R\$120 million per year for the yearly is enough for the initial 18 to 24 months added to the cash generation ever since day one. And some operations have already been designed for the next few years. And we intend to use market instrument with or without the support of the BNDES, and this will be discussed when the time comes. And the project is a very immature project, and we are sure that due to this reason we will be able to get better rate than the normal rate of the BNDES.

And (inaudible) has already been offered, but the characteristic is different. And on the first -- on day one you already start to generate cash. This is more or less what I can tell you, but more details I can give you after we get the results of our proposal by ANPP [ph].

**Q - Fernando Abdalla** {BIO 15381888 <GO>}

Thank you, Marcelino.

**Operator**

A question in English. Mr. Stephen from Citigroup.

**Q - Stephen Trent** {BIO 5581382 <GO>}

Hi, good morning. I guess everybody is talking about the Rio-Niteroi bridge. Now that 10% return to shareholders that you mentioned in your prepared comments or earlier in the call. Is that like a real IRR before the discussion?

**A - Marcelino Rafart de Seras** {BIO 16618338 <GO>}

The real rate. This is the real rate.

**Operator**

Gazebo Gregory[ph] from HSBC.

**Q - Unidentified Participant**

Good morning. My question has to do with the heavy traffic, with the weaker economy, what do you expect for 2015? And what about the impact on Ecoporto, on Ecoporto?

**A - Marcelino Rafart de Seras** {BIO 16618338 <GO>}

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Our study shows that in the first quarter in terms of total traffic, they show a slight decrease vis-a-vis last year, which was a very vigorous year. But we do not have final data, we have to wait for the first four months of the year. This year we had a non-recurrent event that was the strike on the part of truck drivers for 10 days almost. And they interrupted the main roads, or the main accesses to our highways and this had an impact. We believe that the first quarter will end with a slight drop in total vehicles, and we expect the first four months to finish, so that we have a more precise dimension of traffic growth.

We are working this year, since the beginning of the year with a lower GDP than expected, and in 2008 traffic -- in spite of the crisis, the traffic of EcoRodovias was positive. And we believe this year we'll be positive, and it will probably be similar to 2014, and we will have this kind of flow, and the dollar is more appreciated. And this will lead people to travel more inside the country than abroad, and this might offset and improve light vehicle traffic as well.

### Q - Unidentified Participant

Due to the weaker economy, do you think there will be some impact on Ecoporto as well in terms of further drop in volume or something along these lines?

### A - Marcelino Rafart de Seras {BIO 16618338 <GO>}

I believe that this drop also have been captured last year. In the last quarter of last year we saw a situation that repeat itself in the first quarter of this year. We do not expect any sudden changes vis-a-vis for instance the foreign trade last year there was a growth in container of 1%. And we believe that the margin of this year will be quite similar.

### Q - Unidentified Participant

Thank you.

### Operator

Rodrigo Levario, Votorantim Brokerage.

### Q - Unidentified Participant

Sami, again. Thank you for the opportunity. The issue of the non-collection of the lift axles in vendor trucks are empty. What about the negotiations?

### A - Marcelino Rafart de Seras {BIO 16618338 <GO>}

Well, the law is being regulated now, the regulators are establishing a law, both at the state level and the federal level. And the characteristic of the truck drivers law is different than the one that we had in the past. The lift axle will be charged, only for the empty trucks this will not be charged. So this is being studied by the federal and the state governments and how -- and the result will be rebalanced in the contract. So upon the maturity of each contract, so there will be a compensation because of the non-collection for the suspended or lift axles for the empty trucks.

## Q - Unidentified Participant

Thank you.

## Operator

As there are no more questions, we would like to give the floor to Andrea Fernandes for her final remarks.

## A - Andrea Fernandes {BIO 21294199 <GO>}

If you have any doubts, please feel free to contact our Investor Relations department or come to our website. Thank you very much. And we wish you all a good day.

## Operator

EcoRodovias conference call is closed. Thank you for participating. And we wish you a very good day. Thank you.

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