

Q3 2014 Earnings Call

Company Participants

- Cristiano Correa de Barros, Finance and Investor Relations Superintendent Officer
- Jose Aloise Ragone Filho, Chief Executive Officer, Member of the Executive Board
- Rafaela Gunzburger, Investor Relations

Other Participants

- Carolina Carneiro, Analyst
- Unidentified Participant

Presentation

Operator

Good afternoon, ladies and gentlemen. Welcome to the third quarter of 2014 results of Taesa. We would like to inform to all participants that the presentation that will be made is available for download at www.taesa.com.br/ir. We would like to inform you that participants will be in listen-only mode during the company's presentation. Afterwards, we will have the question-and-answer 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 related to the business perspectives of the company, projections, operating and financial targets or 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, 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 lead to results that differ materially from those expressed in such forward-looking statements.

Now, I would like to give the floor to Rafaela Gunzburger, Investor Relations Coordinator. Please, Rafaela, you may proceed.

Rafaela Gunzburger

Good afternoon, everyone. Thank you for participating in our call. We have Ragone, our CEO here; Cristiano, our CFO; Ana Claudia, our Controller; (inaudible) also work for Investor Relations.

FINAL

So let's go to page number 3 and talk about the highlights of the nine months that we are reporting today, as well as the subsequent events. What happened in the first half of the year is very well known. The startup of Sao Gotardo, pre-payment of the promissory note, with the consequent issue of loan, also the exchange results of the company, and the signing of the Mariana construction contract. We paid 413 million in dividends based on the 2013 results. And in July, we also prepaid -- the second issue of debenture is in 270 million, and they were made with the cash of the company.

In October we paid 400 million as interim dividend, referring to the results up to July 31, 2014. And also in October, we had the renewal of FIP for up to 720 days, and also the exit of Santander from the shareholders agreement.

Now, let's go to page number 4, where we have the main financial indicators. Here we can see that the results of Q4 2014 was impacted by inflation, the inflationary adjustments, as usually happens, and also the change in the estimate of our future cash cost. And now we will start to recognize this on a monthly basis, as of now.

So we consider only Taesa here with BRL428 million and 11% higher on a year-on-year basis. EBITDA non-IFRS was 357 million with an EBITDA margin of 92.6%. Net income was almost 500 million, 4% higher than Q3 '13. Considering Taesa and all the controlled companies or related companies, we had a 10% increase in our RAP reaching BRL540 million. The regulatory EBITDA went to 415 million, 12% higher than the one delivered in Q3 '13. And net income was almost 500 million, 4% higher than the net income of Q3 '13.

On page number 5 we show you the net revenues and what was the impact on our accounting estimates. Net revenue went up 2%. And as the IGPM was negative from June to August, the change in the accounting estimate generated this negative results of 38 million. And what caused an increase lower than the inflation in the period in the managerial net revenue, we had almost 2% increase considering all the concessions with an accounting estimate reducing this about 30 million.

On page number 6 we show you the regulatory EBITDA, net of the IFRS -- non-IFRS, the same grew 12%, the management or managerial one, with an EBITDA margin of 92.6%. The growth in the EBITDA margin show the efficient management of the company and the reduction in costs, which is something that we can -- have been doing consistently over the years. So the consolidated growth was almost 13%, and the managerial 12, reaching the regulatory EBITDA of almost 450 million.

On page number 6 we show the growth of the non-IFRS EBITDA margin and the non-IFRS EBITDA. The fact that the company reduced cost and increased EBITDA margin, you can see this very clearly on this chart, going from almost 88% two years ago and reaching almost 93% now. So you can see that the cost reduction is very effective, and mainly due to the focus on the assets that we have been acquiring over the years.

On page number 8, the net income IFRS increased 4%, impacted by the annual inflation adjustment and also the change in the future cash flow accounting estimate. And you can

see that the result was very much in line with what we expected and with our estimate and everybody else's estimates.

And on page 9, this is what Cristiano loves [ph]. We have the company's cash flow where we show what we do with the money that gets into the company. So, this year BRL1.2 billion was the operating cash flow of the company. We paid 414 million in dividends and the 400 million paid in October are not shown here yet, because this is up to September. Besides, we paid in P&A [ph] the loan and the debentures payment, the IDP payment with cash as well. And in spite of all these payments, the company still shows a higher cash position than we had last year. So together with the efficient financial management and the robust cash flow, we are growing at great strides, as you can see.

And on page number 10 we talk about our debt, the debt profile of Taesa. The gross debt considering all the concessions is BRL4.8 billion, net debt approximately BRL4 billion [ph]. The debt profile for the company is 57% CDI, 39% IPCA, 2% pre-fix and 2% long-term interest rate, due to the three debentures issue that we had. And the debtor continues to be the same as the last quarter, 82% short-term -- 18% short-term, 82% long-term and our capital structure has 54% equity and 46% net debt.

So this was an overview that I gave you about Taesa. Now the main figures and the highlights for this period. But now I would like to open for questions. And we are available to answer any questions that you might have. Thank you very much.

Questions And Answers

Operator

Now we would like to start the Q&A session for investors and analysts.(Operator Instructions) Our first question comes from Carolina Carneiro from Santander. You may proceed.

Q - Carolina Carneiro

What about the extension of the tax benefit for some of the lines that you have? I would like to know if you have any news about that. And if you don't have anything new to tell us, do you have a deadline to inform us about that, about the extent?

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

Good afternoon, Carolina. This is Cristiano. The update of the tax benefit of that, SABENI, this is what you referred to. And we are growing very positively in this process. We already have some reports approved by SABENI and others. So it depends on a final analysis or the part of SABENI and SUBEM. But we do expect to have all the necessary reports approved by the end of this year. And then we need the approval from the Brazilian IRS to ratify this, so that we may have access to the benefits. Thank you very much.

Operator

Our next question come from (inaudible), Goldman Sachs.

Q - Unidentified Participant

Good morning, Ragone, Cristiano. Looking ahead, and we initialized, we have a new administration and also we see the exit of Santander from the shareholders agreement and, of course, an agreement involving CPFIP and SEMIGI [ph], is very good for Taesa's management. So we see there is no change in control with the exit of Santander from the shareholders agreement. My question has to do with the senior management of Taesa, which are the specific conditions of consensus, so that there may be a change in the top management of the company and there is a new government in Minas Gerais FIPCP glance. It have a veto power regarding any kind of appointment made by Minas government?

A - Jose Aloise Ragone Filho {BIO 20590608 <GO>}

Thank you very much. This is Ragone. Okay, so now let's go to the fact, let's limit ourselves to the fact. Regarding the change in the administration of the state, the new government. So far it has been -- there has been no change in the management of SEMIGI. which is the one that guides more or less the -- guides the management of Taesa. So anything that happens will happen in the future. This has not happened yet.

And answering your question, the appointment of the company's management is made by SEMIGI, however, CPFIP has veto power. So any new appointment or any new change has to be approved by FIP.

So essentially, SEMIGI appointment -- appoints, however, this is a joint agreement or it has to be approved by FIP. So you mean that FIP might not agree with some appointments and may redo it, yes. I repeat myself. So far, there has been nothing, no news in the front. If there is any change or even the ratification of the current structure of the company's management, it has to be voted and it has to be appreciated and then allowed by FIP.

Q - Unidentified Participant

Thank you very much, Ragone.

Operator

(inaudible) from Credit Suisse.

Q - Unidentified Participant

Good afternoon. Regarding the expansion of the Group. Looking ahead to the next few auctions 2014-'15, is there a specific class that you're interested in, what is your frame of mind regarding the next auctions? And the last round that you had with that now, did you see any benevolence in the sense of the cap or the CapEx or RAP? Do you see any advancements in your discussions with the regulators?

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

FINAL

Well, there will be an auction on the 18th, the next auction will be next week. And 007 will probably happen on December 19th. Regarding the first part of your question, our stand is the following. Be it M&A or greenfield or mainly greenfield, we always have this on our reader screen, however, we will only participate in the project that will bring benefit to the company and continue to provide the results that Taesa has been delivering.

So, there is no change, whatsoever, in our position vis-a-vis the next auctions. Of course, we have already evaluated the next auction that will happen next week and our studies have already been finalized. We have already made a selection of what could be interested -- could be interesting to Taesa, always based on adding value synergy and then increasing our presence, our footprint in this area in the country. So we will participate providing the return can be assured to the company.

Now, to the next part of your question; if we see any difference in attitude on the part of the regulator. Unfortunately, the answer is no. There has been no expressive change in what regards the terms or VAT or even CapEx.

Q - Unidentified Participant

Still talking about the reinforcement, is there a new claim about the significant reinforcement?

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

Reinforcement is an ongoing issue because we have a presence and we have an excellent relationship with a two entities that one way or another generate these reinforcements, or yeah, because of safety or optimal safety. And the other word is that considers this issue in terms of planning and a better configuration of the system. We have a direct constant channel with these two entities and we hold meetings with both of them and we are always bringing them suggestions regarding reinforcements. That might bring about the better operation for the system itself. And we are very well aware of the need to extend an increase transmission and the exchange of energy between the north and the northeast and the south and we have recently submitted a study to increase the capacity of the north-south interconnection. And we expect this to be authorized for Taesa.

Novatrans our concession, with a specific analysis and the maintenance of this understanding of this relationship that we have our technical competency recognized by everyone. And this gives us the necessary credentials to submit these request. So this is something that our technical team does on a regular basis. Thank you.

Operator

Our next questions comes from Mr. Michael from (Technical Difficulty). Mr. Michael, you may proceed.

Q - Unidentified Participant

Bloomberg Transcript

FINAL

Thank you. I have two questions if I may. The first one is, so what the issue about Santander? Whether you have any insight on the interventions in the short or the medium term and whether if they were to send a 7% stake, whether you would be willing to (Technical Difficulty) some of your strength in the balance sheet to buy back one of the shares you then were to sell them?

The second question is, your cash flow have been stronger than expected and we have to call inflation which could be higher than what you had in your business plan a year or two ago. So should we expect you to increase or accelerate the dividend payment? Thank you.

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

Good afternoon, Michael. This is Cristiano answering your questions. Regarding Santander, the Santander shares that exit at the control block are available for sale in the market. And the sale of the shares, a decision made by Santander itself. The company has no plan whatsoever in terms of buying back the shares. Due to the quality of the cash flow that could even happen, however, today, this is not for priority on our part, our priority is to preserve our cash flow for growth. So, regarding Santander, the placement or not of the shares in the market is -- as a free float is a decision to be made by Santander as a shareholder.

Regarding the company's cash flow with the new methodology of updating our financial assets, this accounting estimate or the new accounting estimate or the new cash flow estimate by the company is adopted based on the experience that we have had in the last few years regarding inflation, because inflation is fully applied in July to the company's revenues. So, the company decided to start accepting the monthly impact thus avoiding a very big increase on the company's revenues in July in order to estimate the financial asset; or in other words, what we are doing now is recognized on a monthly basis the restatement over the company's RAP, the annual allowable revenue and bringing this cash flow -- the future cash flow to the present value coming from this inflationary impact.

And so, we are updating the financial assets of the company on the monthly basis. And in the first three months of this new tariff cycle, June, July and August, that impact the result of September.

The three first months had as a main indicator of the RAP of Taesa's RAP negative -- that is this negative indicator generated also a negative impact on the company's revenues, because we have a lower remuneration, then the one that we had previously.

So this has to do with the overall situation, and due to the -- what will be occurring in September, October and November, we will have the effect of this change of account in the accounting estimate, having this kind of impact on the final result of the company.

I don't know whether this was exactly the question that you asked. Anyway, we are available here if you wish to ask more questions or more clarification.

Q - Unidentified Participant

Okay, thank you, Ragone.

Operator

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

A - Jose Aloise Ragone Filho {BIO 20590608 <GO>}

First of all, I would like to thank everybody for your interest in Taesa, for participating in this meeting, during which we have shown you the results of our company in the third quarter of 2014. I would like to highlight an important point here in our financial statement. And that ratifies one of the points that has to do with expansion in the efforts last year, September last year. We subscribed a company for the operations of four of our concessions and we are always seeking operating efficiency.

We are always seeking the best possible solution, technical, financial solution for the company's management. And this was made evident in our results that we have just presented for the third quarter when we delivered close to 93% margin.

And just to end our remarks; debt reduction, the elimination of the foreign exchange risk, these efforts place Taesa very well prepared to a new growth cycle for the next few years. Thank you very much for your attention. Have a very good afternoon.

Operator

Thank you. Taesa's conference call about the third quarter of 2014 results of Taesa is closed. Please disconnect your lines.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.