

## Q2 2016 Earnings Call

### Company Participants

- Andrea Fernandes, Investor Relations Manager
- Marcelino Seras, Chief Executive Officer
- Marcello Guidotti, Chief Financial Officer and IRO
- Unidentified Speaker

### Other Participants

- Bernardo Carneiro, Analyst
- Marcio Prado, Analyst
- Rogerio Araujo, Analyst
- Unidentified Participant
- Victor Mizusaki, Analyst

### Presentation

#### Operator

Good morning, and welcome to EcoRodovias Second Quarter of 2016 Earnings Conference Call. With us today, we have Mr. Marcelino Seras, the company's CEO; Marcello Guidotti, CFO and Investor Relations Officer; Andrea Fernandes, Investor Relations Manager; and the Investor Relations team.

We would like to inform you that this presentation is being recorded and all participants will be in listen-only mode during the company's presentation. Afterwards, we will begin the 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/investorrelations](http://www.ecorodovias.com.br/investorrelations), where you will find a presentation for download from the webcast platform in the Investor Relations section.

Before proceeding, we would like to clarify that forward-looking statements that may be made during this call related to EcoRodovias' business prospects, projections operational and financial targets are based on the management's beliefs and assumptions as well as on currently available information.

Forward-looking statements involve risks, uncertainties and assumptions as they refer to future events and therefore depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and

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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.

We will now turn the floor over to Ms. Andrea Fernandes, Investor Relations, who will discuss the second quarter of 2016 results. Ms. Fernandes, you may proceed.

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

Good morning, and welcome to another Grupo EcoRodovias conference call today about the second quarter of 2016 results. We thank you for your interest and participation. We would like to mention some highlights of the quarter on slide number two. The conclusion of the Primav operation with Grupo Gaviv in May, the long-term financing contract signed between ECO101 and the BNDES, the purchase and sale agreement executed for the divestment of 100% of Elog Sul assets for BRL115 million. As a consequence of this expected sale, all Elog assets have been classified as assets liabilities and results from discontinued operations or held for sale and the impairment in Ecoporto.

For comparison purposes, the non-recurring and non-cash items referring to Elog and Ecoporto were excluded from our analysis. More details may be found in the release and in the financial statements. In accordance to our strategy, the second quarter of 2016 was marked by operational management discipline, which led on a comparable basis to a 10.6% reduction in cash cost. The Group also obtained a 9.8% increase in the average tariff of highway concessions and improvement in the services and holding company's result.

On slide three, we can see that the consolidated comparable traffic of equivalent paying vehicles in the second quarter of 2016 dropped by 7.8%. This was driven mainly by the lower commercial vehicle traffic in the EcoRodovias, Ecopistas, ECO101 concessionaires, impacted by the economic slowdown and industrial production slump. This was partially offset by grain export in the Ecovia Caminho do Mar, Ecocataratas and Ecosul concessionaires.

Passenger vehicle traffic in the Ecovias dos Imigrantes, Ecopistas, Ecovia Caminho do Mar, Ecosul and Ecocataratas concessionaires was impacted by the low temperature, which inhibited tourists from heading for Sao Paulo, Paranagua and Rio Grande do Sul beaches and the Foz do Iguacu tourism area as well as the sluggish economy.

In relation to the consolidated performance of the Group on slide four, in a pro-forma basis, net revenue reached BRL569 million in the second quarter of '16 growing by 3.8%. Revenues were positively impacted by contract adjustments of the tariffs of highway concessions and the beginning of operations also of Ecoponte. Nevertheless, they were negatively impacted by the reduction of Ecoporto Santos handling operations run by traffic performance in highway concessions. The comparable pro-forma net revenue of highway concessions grew by 11.6% proving this segment's resilience.

Going to slide five, the comparable pro-forma cash cost in the quarter dropped by 10.6%, in spite of an 8.8% inflation in the period, meaning savings of BRL24 million with a following highlight, a BRL7.2 million reduction in highway construction cost excluding Ecoporte, savings of BRL6.5 million in the services and holding company related to the third-party services and headcount adjustment and BRL12.5 million savings in Ecoporto due to the lower level of operations and also headcount adjustment.

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Besides the cost reduction delivered in the quarter, the company will continue its endeavor to identify productivity improvement and efficiency gains. The comparable performance EBITDA, net of the non-cash effect of the Ecoporto impairment and the Elog's results in the quarter was BRL354 million with a 12% growth and a 62% margin, as you can see on slide six. In spite of adverse market conditions, our highway concession show the impact of the cost management discipline on our results with a BRL44 million increase in EBITDA and a 70% margin.

On slide seven, we show the net income performance. The comparable net income, net of non-recurrent and non-cash items referring to the Elog effect and also the impairment effects as well as the effect of the Ecoporto deferred tax write-off was BRL45 million in Q2 '16, a 67.9% increase year-on-year. This was positively impacted by the BRL39 million hike in EBITDA. On the other hand, there was a negative impact from the higher financial expense and the higher depreciation and amortization due to the higher asset base.

As regard investments on slide eight, we maintain the company's commitment to invest according to the contracts and the needs of our businesses with special mention to the initial works of ECO101 and Ecoporte. The estimated CapEx for 2016 was revised due to delays in obtaining licenses and also savings from project efficiency and technical solutions, evidencing our financial discipline. The CapEx proportional to EcoRodovias' stake is approximately BRL680 million in 2016.

On slide number nine, we show our debt per instrument being 80% in debentures. You can also see our debt per index, where the IPCA and the CDI are the main ones. The comparable pro-forma net debt/EBITDA ratio was 2.7 times at the end of the quarter, the deduction in this indicator is evidence of our flexibility in capital allocation prioritizing our deleveraging.

On slide number 10, we closed the quarter with BRL795 million in cash and a longer debt profile reiterating our financial strength. Of the total commitments for 2016, we have BRL120 million from a promissory note that we intend to refinance at the end of the year and BRL260 million to be amortized with our own funds or cash. As you can see in our financial statements in 2Q '16, we classified Elog investments as current assets and liabilities held for sale due to the expectations of materializing the sale in up to 12 months and also the recognition of the impairment provision in our results as a result of write-off of the deferred tax referring to Ecoporto due to the economic slowdown and also serious competition, which led to a steep drop in operating volumes and service prices as well.

As of this quarter, our economic results will be positively impacted by the lower future goodwill amortization from the Ecoporto acquisition due to the impairment of (inaudible)

The establishment of fiscal credits from possible future economic losses in Ecoporto, and the absence of impact from the result from discontinued operations should the value expected for the sale of Elog SA and Ecopatio Cubatao be maintained. We are supported by a strong cash generation and performance coming from the highway concession segment and committed to the possibility of maintaining our dividend payout always aligned to our strategy to maximize value to our shareholders.

Thus, we have convened an Extraordinary General Assembly to be held on September 11, 2016 during which we will decide among other matters the reduction of our capital stock to absorb accumulated losses. It is important to stress that these accounting measures shall not affect our future capacity to participate in highway concession auctions of the infrastructure programs be then from the federal government or the state government always with capital discipline considering our financial capacity and the return from each one of the projects.

With this, we conclude our presentation and we would like now to open for questions from the audience. Operator, we are ready to receive questions from our analysts and investors. Thank you very much.

## Questions And Answers

### Operator

Thank you. Now, we will start our Q&A session for investors and analysts. (Operator Instructions) Our first question comes from Mr. Bernardo Carneiro from Brasil Plural. Mr. Carneiro, you may proceed.

#### Q - Bernardo Carneiro {BIO 4037872 <GO>}

Good morning, everyone. My question is about traffic during the quarter. You published the table showing the evolution of traffic both for passenger vehicles and commercial vehicles with a drop of 13% in Ecopistas and ECO101. Of course, the country is going through a recession, however, this shows an elasticity higher than two in the GDP, so why is traffic dropping so much, two digits, and what could we expect both in ECO101 and Ecopistas for the second half of this year? Thank you.

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

Bernardo, this is Marcelino. The behavior of some assets in some areas that we manage are somewhat different in general. The few highway assets are being impacted by industrial activities are dropped. So going through some difficulties and in the case of equities, there is reduction activity in the value to Paraíba. We do not believe this is going to further deteriorate, and of course today, everybody has a more favorable expectation vis-a-vis the Brazilian economy due to political and institutional decisions that will bring about an impact in the second half of the year.

#### Q - Bernardo Carneiro {BIO 4037872 <GO>}

Industrial GDP is the one that is really dragging things down differently from Parana and that's the concession in which we're more exposed to agricultural activities, is that correct or could you please correct me if I am wrong?

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

Yes. This is exactly what happened as you can see the situation is different from these two activities. Once again, we believe that today we are going to the situation in term of our concessionaries and we believe in an improvement in the performance in this near future.

**Q - Bernardo Carneiro** {BIO 4037872 <GO>}

Thank you very much.

**Operator**

(inaudible). Please proceed.

**Q - Unidentified Participant**

Good morning. I would now like to understand the CapEx revision that you made for 2016 was 100 million. Could you please quantify how much came from efficiency and how much was carried over to 2017? And the other question has to do with the cash cost with the positive evolution and I would like to know if for the next quarters, we could expect a continuation of this drop or do you believe this has already reached a level that will not be changed or altered?

**A - Marcello Guidotti** {BIO 16618352 <GO>}

Good morning. This is Marcello. About the CapEx I would say that the revision of our estimate is about 80% due to some delays, one-off delays that are being adjusted and more or less 20% from savings having to do with improved efficiencies. Regarding the costs, we continue to make progress endeavors always seeking to obtain cost reductions. Of course, this is a permanent challenge that we face, but we're happy with the revisions, so we continue to be focused on cost reductions this is a challenge (inaudible).

**Q - Unidentified Participant**

Still talking about the CapEx, there was a small part of that in the first half and so you have some more being left for the second half. So could you compare this with the evolution of the net debt/EBITDA ratio? There was a slight improvement in the first half, so could we expect this evolution to continue or due to the higher CapEx this could go up?

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

This is Marcelino. It's important to understand that this part of investments does not follow and it has to do with the year of the highway concession. The company will continue to -- well this happens in different periods could be May, June, July, so this slight delay -- they are not necessary a breach of contract quite the opposite. It's an adaptation to that and

we have just received news of the liberation of another license, which is a very important one for ECO101. This happened yesterday and there was a delay because this -- vis-a-vis the initial time schedules. So we expect to conclude this in May next year according to our contract.

And we estimate that the CapEx savings will be increasing and these projects are to be liberated with technical improvement. And we will go to the market seeking the best possible price. So we have a favorable expectation that the CapEx that we mentioned to you may be translated into savings for the remaining of the year. About the indebtedness, the third and the fourth quarters have a better performance so the expectation regarding the level of leverage will improve in the next few quarters. So we intend to maintain this in the next few quarters.

### **Q - Unidentified Participant**

Thank you very much.

### **Operator**

Victor Mizusaki, Bradesco BBI. You may proceed.

### **Q - Victor Mizusaki {BIO 4087162 <GO>}**

Good morning. I have two questions. One has to do with Elog. First thing Elog has assets held for sale, could we consider that Ecorodovias already has some offer or some offer for these assets? And looking at the press release, Ecorodovias attributed 160 million for Elog SA and Ecopatio. So could you please explain this a little bit more?

Give us some color about this value and Andrea during the presentation talked about the interest on the part of the Ecorodovias in investing in new concessions both federal and state concessions in the state of Sao Paulo. So could you update us regarding the negotiation for new assets?

### **A - Marcello Guidotti {BIO 16618352 <GO>}**

This is Marcello. About Elog, as we said we had the need to post Elog as an asset held for sale. The company is committed with this objective. So this is the reason why we have posted this as part of this asset that has already been sold and we are waiting the conclusion phase and the other parts the company is committed with. And we had an estimate that was made based on multiples, in order to mark this on the balance sheet avoiding any future surprises. So, this is what we can tell you about that. And this is a very clear evidence that the company is committed to this event and we will try to conclude this in a timeframe of 12 months.

### **Q - Victor Mizusaki {BIO 4087162 <GO>}**

Just a follow-up Marcello. Could we expect the same thing to happen regarding Ecoporto?

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**A - Marcello Guidotti** {BIO 16618352 <GO>}

Ecoporto is different in terms of accounting. This is an asset that is wonderful for me. And we have the impairment in this asset, but we cannot say that this is the same case. We already have this impact on the balance sheet because I think the message is different between these two assets. Ecoporto will take longer and we are committed with a solution for Ecoporto in trying to recover clients and lowering our costs and reducing as much as we can the exposure of Ecoporto.

**Q - Victor Mizusaki** {BIO 4087162 <GO>}

What about the amendments?

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

This is Marcelino. The contract amendments are developing in a very positive fashion with the granting agency. That we expect some of those to be concluded in an aligned fashion, aligned with our contracts and with our capital discipline. And especially regarding the premises that were established in these amendments about the company's condition for the next period. Regarding new concessions, there is a forecast for drop in interest rates and inflation rate for the coming months and this strengthens the company in terms of its indebtedness together with an operating performance that we are having and will continue to have in a very efficient manner. This will allow us as of 2017 to be aligned seeking, looking for new market opportunities.

**Q - Victor Mizusaki** {BIO 4087162 <GO>}

Thank you.

**Operator**

Our next question comes from Mr. Marcio Prado from Goldman Sachs. You may proceed.

**Q - Marcio Prado** {BIO 15398968 <GO>}

Good morning, everyone. Thank you for the call. I would like to ask two questions. I would like to know about your revenue performance in spite of the situation, you were able to get a positive result and a year-on-year comparison. So could you please -- over the second half of the year, could you please mention from the traffic dynamics viewpoint and also regarding the tariff increases?

Well, there have been significant toll revenue increases because of the truck drivers law and other factors, so what is your expectation for the second half of the year regarding increases in toll collection for the total (inaudible). It'll be very different from what you had? And could you please talk about your expectations for a bottom? Do you believe that in the third quarter and maybe the second half, do you believe you have already reached the bottom in terms of economic activity for Ecorodovias?

**A - Unidentified Speaker**

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In terms of traffic and tariffs in the second half at the beginning of December, we had this in Ecorodovias and Ecocataratas. So, in the first, there are some adjustments to be made in each one of the concessionaries and take into account the inflation rate and this is in line with our strategy. Traffic suffered more, but we already see a return of confidence in economic activities due to decisions made in the institutional arena and the economy of Brazil, and that will also bear fruit in the next few months. So we believe that will have a positive impact immediately on our traffic bringing about a rebound.

**Q - Marcio Prado** {BIO 15398968 <GO>}

Thank you very much.

## Operator

Mr. Rogerio Araujo from UBS. You may proceed.

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

Good morning, everybody. And I would like to congratulate you regarding your transparency regarding the asset transactions. I have two questions. One having to do with new investments, I would like to know if you feel that you are prepared in terms of balance sheet to participate in the new auctions of highway concession that should happen next year and may be Sao Paulo even before the end of the current year?

And the second question has to do with Ecoporto, we saw that there was BRL1 billion proceeds of the restated value. I would like to know which are the assumptions for this cash flow that you have mentioned of BRL1 billion of EV, and are you factoring in the possible delay in the end of the concession or the termination of the concession and strategy for this asset for the -- are you going to wait for the rebalancing of the contract to sell afterwards or do you intend to wait to increase the capacity of Ecoporto Santos so that prices may be better. So could you please talk about what you mean by longer term for Ecoporto, what is your strategy?

**A - Marcello Guidotti** {BIO 16618352 <GO>}

It is the company's obligation to have transparency regarding our daily operations, regarding our decisions, bringing benefits to the investor base always. So transparency is a must. It has to be totaled, so that investors and analysts may fully understand what is going on with the company. In terms of the auctions, we expect them to occur only in 2017. This year, the company will continue to be focused on more efficiency and more profitability coming from its assets and also the putting in place of these amendments, contract amendments and as of 2017 and after some institutional and economic decisions that will happen in Brasilia, we will see what are the assets and the opportunities that might arise and undoubtedly EcoRodovias will be participating.

Now turning to Ecoporto, your other question. The asset is being managed by us and we try to increase or improve its efficiency and cost reduction and looking for new clients in order to maintain the business more profitable. And at the same time some initiatives are being discussed regarding the recognition of the investments, finding a solution for the



imbalances that we have and afterwards then we will look for the best solution. One of them could be to extend the contract. We have 450 million in our balance sheet in the value of Ecoporto and the -- this is the objective of the company as described by Marcelino.

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

Could you talk about the change in the Brazilian administration, ever since it happened? We see that the people in the Ministry is just starting to tackle the port issue, but do you feel that the new government tends more to accept the rebalancing of contract ever since the change in government have you felt changes in the regulator?

**A - Unidentified Speaker**

Well we have very high expectations, everything that happened as far as regulation is concerned in Brasilia in this last period, encourages us and in reality, private initiatives will be participating in a more effective manner in the economic growth of the company -- of the country, and it will be more short term solutions that are necessary as that involves the contracts that are in phase. So we have high praises for the new administration and they all speak the same language that is to say we see that the base of the government is very well aligned, all the economics team and all the other ministries and all the regulators are working hand-in-hand with the same objective and the same intention.

There are some important events that have to be overcome, but we have a very good expectation, a very positive expectation that in the last quarter of this year, we will see measures being implemented and policies being put in place and that will lead to a slow rebound of these assets, or the slow return of these assets to the market.

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

So the financial rebalances that you are claiming for, have nothing to do with new investments is this what you mean?

**A - Unidentified Speaker**

We have started this initiative almost one year ago without the technical areas involved. We recognize the circumstances in which the assets performed or behaved during this period.

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

So thank you very much and once again congratulations for the transparency.

**A - Unidentified Speaker**

Thank you.

**Operator**

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(Operator Instructions) Our next question comes from Mr. Siden Ron [ph] from CV [ph]. Mr. Siden, you may proceed.

### Q - Unidentified Participant

Good morning, Marcello and Andrea, and thank you for taking my question. Most of my mine has all been answered, but just one quick follow-up. I appreciate your comments and auction opportunities for next year and I am guessing that you will not be looking at any opportunities in the secondary market this year. There is some speculation out there that one of your competitors is looking to buy one or more assets from all of that. And I am guessing given what you mentioned about using some of your internal cash flow to pay down short-term debt in the second half, that you are not really interested in the secondary market opportunity, but if I could get your color on that, that will be great. Thank you.

### A - Marcello Guidotti {BIO 16618352 <GO>}

Good morning, Ricardo [ph]. That intention to deleverage the company is in a short-term horizon and we are maintaining the direction. We expect this to continue in the next few quarters. Regarding the secondary market, we know for many different reasons that there are many assets that are being offered to the market from the private initiatives and the company is paying keen attention to all the opportunities in our radar screen. But our priority today is to deleverage the company and good assets in the secondary market are not really available yet, I mean the good assets. So we will continue to be focused on our deleveraging and we will continue to maintain our capital discipline, but we pay attention to all the opportunities and we are preparing ourselves for these opportunities.

### Q - Unidentified Participant

Very helpful, thank you very much, and I will let someone else ask a question. Thanks, Marcello.

### Operator

As there are no more questions, we would like to turn the floor over to Ms. Fernandes for her closing remarks.

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

In case you still have questions, please contact our Investor Relations department. Thank you very much, and we wish you all a very good day.

### Operator

EcoRodovias' conference call is closed. We thank you very much for participating and wish you all a very good day.

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