

Q2 2015 Earnings Call

Company Participants

- Cristiano Correa de Barros, Chief Financial Officer
- Jose Aloise Ragone Filho, Chief Executive Officer
- Rafaela Gunzburger, Investor Relations

Other Participants

- Carolina Carneiro, Analyst
- Unidentified Participant

Presentation

Operator

Good afternoon, ladies and gentlemen. Welcome to Taesa's Second Quarter 2015 Earnings Conference Call. We would like to inform, for the presentation that will be made now is available for download at the company's website at www.taesa.com.br/ri. We also inform that participants will be on listen-only mode during the company's presentation. And later, there will be a question-and-answer session only for investors and analysts, when further instructions will be provided. (Operator Instructions).

Before proceeding, let me mention that statements that might be made during this conference call related to the company's business outlook, operating and financial perspectives in the call, are based on beliefs and assumptions of Taesa's management, and on information currently available to the company.

Forward-looking statements are not a guarantee of performance; they involve risks, uncertainties and assumptions. And so, they depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors can affect the future results of Taesa and to cause results to differ materially from those expressed in such forward-looking statements.

I would now turn the floor to Ms. Rafaela Gunzburger, who will begin the presentation. Ms. Gunzburger, please go ahead.

Rafaela Gunzburger

Hello and good afternoon to all. Thank you for participating in this conference call. With me we have Ragone, Cristiano and our Investor Relations team and our technical director,

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(inaudible). And we would like to tell you a little bit of what happened in the company in the second quarter.

We'll start on page 3. Here, we can see the highlights; and you can see that the focus of Taesa was to reduce the cost effect, optimizing cash management and generating return to shareholders, maintaining our policy of dividend payout. In March, the tax subsidy for a concession once renewed for another 10 years, ETSE is now 100% operational. It is one of the concessions that the TBG Group, in April we paid the first tranche of this, supported by law 4,131 with a slab for 102% of CDI amounting to R\$136 million. In April, we paid dividend of R\$254.7 referring to the results of 2014.

In June, we paid almost R\$40 [ph] million of interest to holders of the second series of debentures. In July, we settled the first issuance of debentures with payment of interest and amortization of R\$257.5 million. Finally, in July, on July 1st, there was a tariff review, a new cycle of what became effective with adjustment for inflation and tariff reviews and the new tariff cycle 2015, '16, with high GPM and IPCA inflation adjustment.

On page 4, we have the main highlights for the quarter. The second quarter was solid and consistent according to our expectations. EBITDA margin of almost 90% proved the company's capacity to manage operating cost. In addition, the company also seeks to maintain a balanced capital structure, as we showed in the figures for the year, the full year, but that is the focus of the company.

In the quarterly comparison of both RAP and regulatory EBITDA grew in line with the annual adjustment for inflation, but the IFRS result was impacted by change in the accounting estimate. And that started -- we started readjusting for inflation monthly, as of the third quarter of 2014.

On slide 5, we can see our net income, net revenue. And as explained in the prior slide, IFRS results were adversely impacted by an accounting change. In the second quarter of 2015 alone the impact on the net revenue was approximately R\$141 million at Taesa, and R\$55 million in (inaudible). This was the biggest differential in this quarter.

On slide 6, talking about regulatory EBITDA, we had a 7% growth in managerial and 6% in the consolidated. Managerial showed an EBITDA margin of 89.9, quite increasing with our expectation to maintain EBITDA margin at around 90%.

Talking a little bit more about the EBITDA margin on page 7, we can see the historical series of EBITDA margin on a quarterly basis. Since the third quarter of 2012, we can sense one of the acquisition of 100% of UNISA concession. Here it is possible to verify that EBITDA margin dropped to 88.21%, the company has been trying to optimize cost and to carry out maintenance and operation with our own people and that's led the EBITDA margin to increase again close to 90%.

On page 8, we see our net income and we can see the changes in the second -- from the second quarter '14 compared to the second quarter of '15. And we can see that the accounting adjustments have the biggest impact in addition to tax incentives which we did

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not have in 2014 and which we now have in 2015. It was a benefit amounting to R\$23 million in the result of the company.

And speaking a little bit about that, our consolidated net debt was R\$3.8 billion with a long-term profile, with a balanced capital structure and no foreign exchange risk, which is quite important to Taesa.

On the chart, you can see that our debt expense until 2024, there was a very balanced profile in terms of CDI and IPCA. Three quarters of the debt is long-term, one quarter of the debt is short-term and capital structure 53%, equity 47%, net debt.

We would now like to open the floor to questions. If you have any questions, we are here with Cristiano and Ragone to answer any questions you might have.

Questions And Answers

Operator

Thank you. We will now begin the question-and-answer session for investors and analysts only. (Operator Instructions) Our first question comes from Carolina Carneiro with Santander.

Q - Carolina Carneiro

Good afternoon to all. I have two questions. I'd like you to comment, if the company is interested in participating in the 001 and in the 05 auction. I think one is going to be on the 26th of August and the other one on October 16th, if I'm not mistaken. If the company interested specifically in any of the lots that are being offered for bid?

And my second question is regarding getting a renewal of tax incentives. Do you have any expectations in terms of when you are going to tell us whether you were able to renew the tax incentives? Thank you.

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

Carolina, this is Ragone speaking. Thank you for your question. In the first place, I will answer your first question and then Cristiano is going to answer your second question. Carolina, Taesa participation considers all of the opportunities that arise in terms of acquisition, M&A and auction. So, we did in all our auction, we have started to prepare for 001 auction, particularly because this auction offers us such an old lot that were not auctioned before. In the 005 auction is being formatted now. It is going to be prepared for October and we intend to bid as well.

Now, the last step we're going to bid for (inaudible). Most of the lots initially in principle makes sense to Taesa, because at Taesa the fact that we have concessions in 17 states, plus the federal district that provides Taesa a competitive strategic differentiator, which is quite interesting, which makes in a lot or most of the lots to have an opportunity to have a

synergy with our existing assets. We will be selective. Environmental issues that are becoming more and more critical will be considered.

Now, the lots that we're going to bid for, which one, well, it will really depend on the conditions and on the technical analysis that we are conducting, and the same applies to auction 005. So in a nutshell, we will participate, but again, always in a very disciplined way focused on getting results exclusively. I always repeat the same thing when we asked, why is that Taesa doesn't provide, say, a winning bid, well, and we say, it's not that we provide a losing bid, but we will maintain our positioning in this auction and in all coming auctions.

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

Carolina, this is Cristiano, talking about the tax incentives. As Rafaela mentioned, in March of 2015, we were able to renew forward concessions which will actively -- to 2014. And today we are discussing the purpose of renewal for another two concessions. Now this is not a simple process. It comes from a number of documents and a number of methods. Things that we need to show to Sudan and Sudene, but we believe that in PATESA we should be able to review the tax incentive by year-end.

What I can tell you is that we have two concessions that are being discussed in terms of extending the tax incentives, but nothing is defined yet.

Q - Carolina Carneiro

Thank you very much.

Operator

Our next question comes from Mr. (inaudible) you may proceed.

Q - Unidentified Participant

Good afternoon. I have two questions. One has to do with M&A. I would like you to elaborate in terms of the M&A environment, if there is more competition for assets and now with some lines are getting ready, what are the Spanish assets are going to market if they are being discussed?

And again, regarding JCP, I'd like to understand what's happening with the Brazilian IRS if you expect anything specific to happen? And what you could do to compensate the loss that you could sustain with the end of JCP?

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

As for M&A, Marcello, I think you were quite clear in your comments. As the Spanish become professional end with the expectation of new transmission auctions, we believe that all of that will generate more motivation and I guess that is ready, assets will be offered in the market. They have had quite a firm position in these big new transmission concessions.

We've chance to win the second auction in Belo Monte. So regardless of the competition, M&A is always a preferential possibility in our strategy of growth. We will again look into all opportunities that arise. But always, we will be focused on those that will bring a return to the company. Under no circumstances will we set a predatory process that can hurt the company. In other words, we will work into all of the alternatives, always seeking to get those assets that can bring the returns to our shareholders.

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

Marcello, this is Cristiano. With regards to JCP, JCP is a strategy that the company has been adopting since 2013. It does add value, significant value to the shareholders of the company. We have been following these discussions with the IRS, JCP interest on equity and (inaudible) the IRS is going to make a decision, we are at a moment when we want to attract investors to the country, and I think JCP interest on equity, the JCP is a differentiated tool for Brazilian companies.

And with this in a moment when we want to attract investors, bring investors close to companies, I don't think that it is an interesting moment to eliminate interest on equity of JCP. So, in all of our projections we always project the company with this tax gain effect. We cannot say whether this is going to be adopted or not, given the budgetary difficulties that the government is going through, but I guess that what really matters is that this is a positive attractiveness for foreign investors. This is all that I can say.

Q - Unidentified Participant

If I may ask a follow-on question. For example, is there a possibility in case you spend some time, in case you don't find assets to acquire or if you don't find the auctions attractive, would you reduce your capital to pay more dividends or is this not in your radar?

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

We do not see possibility of the standard reduction, because a capital reduction is an instrument that needs to be approved by Enel [ph], the regulatory agency and Enel doesn't really see with good eyes this capital reduction instrument. But in principle, it might be a tool to be used in the future if we have cash and if we don't have results.

In other words, if it can -- if you don't have results and if you have cash as to this review, yes, one of the alternatives is to reach its capital. But it is important to highlight that every capital reduction has to be approved by the regulatory agency.

Q - Unidentified Participant

Thank you very much.

Operator

(Operator Instructions) Thank you. If there are no more questions, I would like to turn the floor over to Mr. Jose Ragone for his final remarks. Mr. Ragone, please go ahead.

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

Well, on behalf of our Investor Relations team, Rafaela, Mischel, Natalya; and on behalf of all Taesa employees, we would like to thank you for your interest and for your participation in this conference call. I would like to stress that Taesa is strategically prepared to continue in our growth cycle. Thank you very much and I'll see you next time.

Operator

Thank you. This concludes Taesa's Second Quarter 2015 Earnings Conference Call. Please disconnect your lines and have a good day.

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