

Operator:

Good afternoon, ladies and gentlemen. Welcome to the conference call of Alupar to announce the results of the 4Q19.

The audio and the slide deck of this conference call are being simultaneously transmitted on the Internet at the Company's Investor Relations website, www.alupar.com.br/ri. The presentation will also be available for download.

All participants will be connected in listen-only mode during the Company's presentation. Then we are going to start the questions-and-answer session, when further instructions will be provided. Should any of you need any assistance during this conference call, please request the help of an operator by pressing * 0.

Forward-looking statements are subject to risks and uncertainties, which may lead such expectations not to materialize, that is, they will be different from expected. Forward-looking statements express the opinion on the date they are made, and the Company is not obliged to update them.

Today, in the conference call, we have Mr. José Luiz de Godoy Pereira, CFO and IRO of Alupar; and Mr. Luiz Coimbra, Investor Relations manager.

Now I would like to turn the conference over to Mr. Godoy who's going to start the presentation. Please, Mr. José Luiz, you may start.

José Luiz de Godoy Pereira:

Thank you for your attendance. Good afternoon to everybody. We are going to present the Company's results, but first, we are going to go through the period highlights, then Luiz will be talking about the numbers, and then we are going to open for Q&A.

Starting on the relevant events for the year of 2019 and subsequent events, too, we just had on January 20, another one of our projects started up, which is part of our package of seven projects that we have, which is EDTE. It started commercial operations on January 20, 2020, inside of the ANEELs' deadline. And it was an achievement for us, because we could do everything in 12 months.

We had the reaffirmation of our rating. Fitch conducted the annual review, they confirmed AAA in Brazilian domestic scale and BB international scale in beginning of 2020. And this is a shield for management, liquidity and our solidity as a Company.

On page seven, we talk about the three projects that have already start-up operations. And now we will be talking about the other six projects that are still in progress. Actually, as there was one at Colombia, and the rest in Brazil.

So we have the status of civil works of ETB, 64%. It is going to start-up operation this year yet. TPE, also 64%, going to start-up operation operations this year. TCC, which is more of a transmission line project, a continuation of the TPE project at Espírito Santo and Minas Gerais has 40% of completion. And then we have two projects, one in the state of Sao Paulo and the other one in Minas Gerais and Espírito Santo, ESTE and TSM, and they already have their licenses.

One is the most recent project that we have won. It already has its environmental license. It has been issued, and we are starting the execution. We will be starting civil works next month. And the other project, we are still waiting, because we need a substation of CTEEP, and this substation is kind of late in terms of its schedule. We do not see any advantage in advancing it rather to the opposite. It would be worse because we would advance revenue without the advance, and we are ready to start the construction, but we are waiting a little bit so that we have a more concrete vision on when this substation is finally going to go live, or to start operations.

Following, related of the dividends, we have approved in the Board the recommendation for the payout of dividends of R\$ 0.69 per unit. We are going to send this to the shareholders' meeting, both and the extraordinary shareholders meeting for them to approve the numbers and to approve the payout of dividends, and we will be paying until June 15, 2020.

These are the most relevant points, the highlights. And I am going to give the floor to Luiz to talk more about the numbers, and then we open for questions and answers.

Luiz Coimbra:

Good afternoon, everyone, and thank you very much for attending our conference call. I am going to start my presentation on slide 13 when we show the variation in net revenue in IFRS and Regulatory.

So corporate net revenues totaled R\$1.369 billion in contrast, R\$403 million we had last year, basically by the two factors. Number one, the R\$53 million increase in generation revenue, especially because of our seasonalization strategy and also because we have more spot prices that was higher this year than we had in the fourth quarter of 2018.

And the main impact was on transmission revenue. We had an increase of R\$ 880 million in infrastructure revenue, and this is a result of investments we made in our ongoing projects.

Looking at the chart below, regulatory numbers, net revenue totaled R\$462 million this quarter, compared to R\$389 million in 4Q18.

In addition to the same variation of R\$53 million in generation, we also had R\$25 million revenue from the energy transmission segment. This was result of an increase of R\$ 21 million by the commercial start-up of operations of ETAP and ETC transmitters. We had an increase of R\$9.9 million in reason the beginning of consolidation on TME, as of this quarter. And in contrast, we had a reduction of R\$11 million in ERTE and ENTE transmitters, due to the decrease of 50% in the annual permitted revenue.

Advancing to slide 14, we present the variations in EBITDA in IFRS figures. The EBITDA in 4Q19 reached R\$664 million, against R\$169 million in 4Q18.

The main impacts are the growth of R\$966.4 million in revenue as I explained previously. We had an increase of R\$500 million in infrastructure costs, due the investments that we made in ongoing projects. And we present a R\$51.8 million reduction in other revenues and other expenses, especially in other revenues in Alupar,

R\$39.8 million, and also APAETE Holding, of R\$8.7 million. And this is a result of the gain recorded due the acquisition of the TME and AETE transmission companies.

On slide number 15, you can see the variation in regulatory EBITDA, which totaled R\$327.9 million in 4Q19, 25.7% higher than R\$ 265 million recorded in 4Q18.

There was an increase in revenue of R\$72.9 million, as I have just explained. And another number, which we must explain is equity pickup. We had a R\$6 million reduction in this account and as a result of the beginning of the consolidation of transmission companies, TME and ETB.

On the next slide, 16, you can see the variations, both in regulatory and IFRS net income. So the corporate net income totaled R\$166.3 million, against to R\$30 million in 4Q18. We had R\$495.4 million increase in EBITDA that I have just explained. We also had a significant growth in income tax and social contribution, R\$205 million, especially in deferred taxes. We had an increase of R\$195 million in deferred income tax and social contribution as a result of investments we are making in construction projects. So as we make investments in projects, we need to book revenue for them.

And the Company registered an increase of R\$ 146 million in the % minorities line. Mainly due the investments that we made in ongoing projects and also by the consolidation of TME transmitter, as of this quarter.

On the chart below, you can see the variation in regulatory net income information, which totaled R\$86 million in this quarter, compared to R\$40 million in 4Q18. There was a result of R\$62 million increase in EBITDA.

We had a R\$24 million increase in taxes; being R\$7.3 million due the commercial start-up operations of ETAP transmitter and another R\$10 million increase related to EATE transmitter because of higher tax profit this quarter.

And we presented a decrease in % minorities account, being the main impact the reduction of R\$ 7.1 million in ERTE and ENTE transmitter, in reason the cliff of 50% in its revenue.

Now, moving to slide 17, you can see the Alupar Holding indebtedness. Net debt reached R\$964 million, and in 4Q18, we had R\$680 million. Cash totaled R\$1 billion this quarter in contrast with R\$745 million that we had in 4Q18.

To explain both variations in cash and gross debt, we had the seventh issuance of debentures, in amount of R\$648 million at the cost of CDI + 1.40%. In contrast, we had the early optional redemption of debenture, which represented R\$415 million its total balance, and it has a higher cost of IPCA + 7.8%.

The short-term debt here, below, you can see the debt profile totaled, was 17% this quarter. This increase, of 4% that we had in 4Q18 to the 17% in 4Q19 regards the maturity of the first installment of sixty issuance of debentures, and we will pay a half of this debt in April this year.

Moving to the next slide, you can see our consolidated debt. We closed 4Q19 with a debt of R\$8.5 billion, and cash position of R\$3.9 billion. In 4Q19, totaling a R\$ 4.5 billion net debt.

We didn't have change at debt index. IPCA almost 57%. Basically, all projects that we are implementing, we raised funds through infrastructure debentures, and this is the most significant part of our debt, followed by CDI 19%. After we had 13% in TJLP and 9.3% in foreign currency. These 9.3% refers to debt that we have in projects outside the country. So we still have our policy of not being exposed to exchange risk.

On next slide, you can see our debt amortization schedule. Also doesn't have significant variations, and our debt profile keep very long, being 46% of the maturities, almost R\$3.9 billion after 2025. At the bridges loans, we are working to fund of the long term debt for TCE transmitter, in Colombia, and we believe that it finish on next months, so it will composed the long term schedule.

Moving to slide 21, you can see the performance of our shares as compared to IEE and IBOVESPA. In the whole industry, we have been suffering in the past few days. We have been performing well until the crisis strike by coronavirus and the oil war. So yesterday, we closed with 9.8% downside, compared to a variation in contrast to the IBOVESPA of 26.3% downside, and IEE down by 10.3%.

We keep always working to be try a better liquidity. Looking the below table, we had an average liquidity in 4Q19 of R\$20.2 billion. And this is significant to us in our track.

In this manner, I end my presentation. And now we are open for questions-and-answers.

Pedro Manfredini:

Good afternoon. We had the Investor Day and a whole discussion of changing and having a swap, as you have mentioned, IPCA plus CDI + 1.4%. But the process must be going on. You are still doing it. So I would like to hear from you, and I know this is very recent. Have you been working with this movement in such a difficult market? And then you said something about not doing it at some point in time. What is the process?

José Luiz de Godoy Pereira:

We have been going over this exchange process, and we did it late last year, we anticipated it. We paid the debt late last year. It was a more expensive debt. And then we have changed it for a cheaper debt for the next two years.

So this is not the right time. All projects that we have, we have already issued for all of them. We already have the debt. The debt has been issued. The money is in cash. And in the case of the holding, we have paid, and the money is in our cash.

I think that we are okay and confident in terms of debt until the market is calmer, and we are going then to work with the debt.

Pedro Manfredini:

So in terms of this fear, we do not know how long this is going to go. You are going to put the finalization of the process on hold. You are going to hold the projects.

I would just like to hear your initial thoughts about the market as it is. We will probably have two auctions this year. Do you think this is going to have an impact on investment strategies? Are people going to review their strategy?

José Luiz de Godoy Pereira:

If we are going to have the auction next month, definitely, but it is hard to tell what is going to happen more towards the end of the year. What we have been seeing is that the impact of coronavirus, which is the most pressing thing in the market today, is a seasonal effect. It will last for four months or something, according to some analysis, like a seasonal flu.

We need to assess that to see what it is going to be like at the end of the cycle. It seems that international interest rate is going to go down, and the local is still very much unknown. We did not see the international scenario. It is still too early for us to make any forecast. It might have some impact, but we do not know for sure. In six months' time, I think that the impact could be mitigated.

Pedro Manfredini:

If you allow me to ask another question. I started the call when you had already started. I would like to hear this year's strategy for allocation and purchase of energy. Are you going to do anything different this year, considering that we started this year with very intense rains? Is there anything you would like to focus attention on?

José Luiz de Godoy Pereira:

We have an allocation strategy of physical guarantees, trying to minimize GSF impact. Our impact for this year will be lower than last year. There are few companies that get the impact of GSF, considering allocation. Where GSF can impact is the insurance cost that we have where we do not have any insurance.

So this is within our forecast, according to our plans in terms of our allocation of physical guarantees. There is nothing very different from that.

Pedro Manfredini:

Thank you very much.

Guilherme Lima, Santander:

Good afternoon. Could you tell us about the ELTE? They have postponed the decision to review the economic feasibility of the project. So how are you addressing or managing the results of these discussions?

José Luiz de Godoy Pereira:

In ELTE, there are two projects, transmission lines and substations, two of each. So we won an auction in 2014 and we have been managing this project. However, one of the lines, in the part that was environmental, it had a nonfeasibility because of interference in Santos airspace. There is a restriction of the aeronautics, of the Air Force.

We wanted to bring the line to one side of the command of air traffic, so we could not have the lines in that, and if we had to displace our towers to the other side, it would be an environmental reserve of the Atlantic Forest. And then it became impossible and the license was denied by the environmental authority.

We were denied the environmental license, and last year, we sent to ANEEL a request. We said, "well, we do not know, because it seems that there is a huge impact in the region on the coast", especially on the coast close to Santos. They have a bottleneck in terms of their system. It is really pressing. There is an urgent, a pressing need for this line. So we submitted a request to ANEEL. They accepted our request considering that one of the lines was considered bad in terms of the environmental license.

We did not get the environmental license, so CETESB denied our license considering the environmental issues, but the other one, as we already have a preliminary license for the other one, so there is an Indian reserve there on coast close to Santos; and it is not a reserve, it is a request for an Indian reserve by some people that are self-proclaiming they are Indian, but it is controversial.

So we would build a line in São Vicente, a substation in São Vicente, and we would cancel the other line, taking out from the scope, and then we would settle an amount that was calculated by ANEEL and was approved, and was submitted to the Board of Directors.

The Board of Directors, and it is about 1 year that it has been with the Board of Directors, and recently, the directors have pronounced themselves. And what happened recently is that the rule for the airport in Santos, the air traffic rules have changed, and with that change, maybe we could get a license for the other part of the line.

Because we were going to terminate part of the contract for which we have the environmental license reviewed, only the feasible, or the licensed, we would keep only this one. So let us wait for 90 days to see if the air traffic authority and the environmental authorities give us a green light for us to move forward. We are waiting for the 90 days. We did not have any contact about the solution. They talked directly to them without involving the Company. So now we are waiting.

We have filed an appeal for this decision, because we think that this change for the air base requires a full environmental study, which is going to delay the other part that we can start over the next 90 days, and we could start as soon as we get a license.

And in our opinion, this would be worse, because then it might generate a bottleneck on the coast of the state of São Paulo. And I do not know how long they are going to take, both CETESB and the Atlantic Forest Environmental Reserve and the base in Santos, with the Air Traffic Command that is part of the discussion.

So, let us move forward with this line, because if we want to do the two lines, we will not build the one which is essential for the system. And maybe as of last year, the system will be overloaded and might have bottlenecks in the coast of the state of São Paulo, because this project will not have been executed.

Guilherme Lima:

It is clear. Thank you very much.

Operator:

As there are no questions, the question-and-answer session has ended. We would like to give the floor to Mr. José Luiz for his closing remarks.

José Luiz de Godoy Pereira:

So thank you all very much for your participation. It's an honor to have you here especially when the market is so tense and nervous. And thank you very much. And we are available, everyone, in anything that might be necessary.

Thank you all very much, and see you next time.

Operator:

The conference call of Alupar has now ended. We thank you all for attendance, and have a good afternoon.

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