



**Local Conference Call
Arteris S/A
Third Quarter Earnings Results
November 7, 2014**

Operator

Good morning ladies and gentlemen. At this time we would like to welcome everyone to Arteris's conference call to discuss its 3Q14 earnings results. We would like to inform you that the presentation is available for download at the Company's website www.arteris.com.br/ir

We would like to inform that all participants will only be able to listen to the conference during the Company's presentation. After the Company's remarks, there will be a Q&A period. At that time further instructions will be given. Should any participant need assistance during this conference please press *0 for an operator.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Arteris's management, and on information currently available to the Company. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties, and assumptions because they relate to future events and therefore 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 could also affect the future results of Arteris and could cause results to differ materially from those expressed in such forward-looking statements.

Now I'll turn the conference over to Mr. Alessandro Scotoni Levy, Investor Relations Officer. Mr. Levy, you may begin your conference.



Alessandro Levy

Good afternoon everyone and welcome to Arteris earnings conference call for the third quarter of 2014. I want to remind you that the presentation for this conference call is available on our investor relations website.

Today I want to share with you, briefly...

1. our operating and financial performance in the quarter,
2. and once again highlight our strategy.

Before closing we will have time for a Q&A session.

So let's start reviewing the tolled traffic, which you can see in the [slide 4](#). This quarter we registered a growth of 2.3% in relation to the third quarter of 2013 and a growth of 0.8% in the year-to-date comparison. On a comparable basis, excluding the effects of opening and closing toll plazas, there was a decrease of 0.2% in the quarterly comparison and a growth of 2.2% in the year-to-date comparison.

Among the factors contributing to these results, we highlight:

- 1- a 4.1% increase in federal concessions tolled traffic, driven by the good performance in Litoral Sul concession (which grew 21.4%, with the opening of Palhoça's new toll plaza, after moving its location in response of a request from the Granting Authority) and in Planalto Sul concession (which grew 14.9%, because it received vehicles from adjacent roads that were blocked due to heavy rains in the region).
- 2- Decrease of 1.9% in State Concessions tolled traffic on this quarter. These concessions, which were presenting, since July 2013, further growth of tolled traffic, due to the charging of suspended axles, this quarter, now on a same-comparison basis, has lost steam. A large part of this result is attributed to the decrease in the volume of heavy traffic, which was impacted by the beginning of the suspended axle collection and by the drop in GDP and industrial production.



With respect to toll tariffs, the highlight of the quarter was the average increase of 5.6% on State Concessions Tariffs, which came below inflation. The State Government authorized tariff adjustments in July of this year. However, the amounts were below the inflation rate, given that ARTESP, the State Agency, unilaterally, carried out adjustments for each concessionaire, based on what it judged to be the benefit to each in terms of the increase in traffic brought by the charging of suspended axle. We disagree with this methodology, and even though the impacts of this measure might not be so material for the Company, we will look for the necessary compensation through court proceedings.

In this quarter, federal toll tariffs had an average variation of 4.7%, in line with the contractual tariff reajustments in the months of December 2013 and February 2014. The consolidated average tariff stood at 3 reais and 41 cents, growing 3.4% in the period.

Moving-on now to [slide 5](#), Arteris' gross revenue grew 20.3% in relation to 3Q13 and 19.6% in the year-to-date comparison. Since the beginning of the year through September, revenue totaled R\$3.1 billion

Toll revenue represented 55% of the total, up 5.7% in quarterly comparison, basically due to the traffic increase on the federal highways and the higher tolls tariffs at the state concessions. In the year-to-date comparison, consolidated growth was also 5.7%.

Construction revenue increased 40.9% from 3Q13 and 46.2% in the year-to-date comparison. Although it does not represent cash flow for the Company, it is accounted as investments in improving the infrastructure of federal highways.

I also want to highlight the growth of R\$ 17 million in other revenue due to chargeback, since 2008, the use of the right of way of Fernão Dias by telecommunications companies.

We have talked about traffic, tariffs, and revenue. Let's now move to the [next slide](#) and analyze the costs and expenses of the company in this quarter. Let's focus the analysis on the cash costs and their relation to net revenue, excluding construction revenue.



Overall, this quarter, the cash costs did not show a significant increase. They grew only 2.5% and remained below the inflation rate for the period. This result improved the cash costs / net income ratio, which rose from 30.9% in 3Q13 to 29% in this Quarter, directly and positively impacting margins of the Company.

This quarter we could restrain the growth in total cash costs below inflation and below the growth of toll revenues (5.7%), mainly because we had a good operational performance in the group's construction companies. This quarter the group's construction companies registered a non-recurring effect, which was a mismatch between revenues and costs, affecting positively the operating margins of these construction companies.

Year-to-date, the cash costs increased 8.5%. It is important to mention that we are having increases in the costs, mainly in personnel, third parties and other, due to the increase in the operational scope of federal concessions. Now we are managing a larger fleet of winches, operating new scales for trucks inspection and radar for speed control. This increase in the operational scope of federal concessions will be offset with a tariff increase, according to the rebalance contractual clause, but only in the next tariff readjustment.

The 2.5% growth in cash costs, combined with the 5.7% growth in toll revenue, boosted the adjusted EBITDA of the Company, which closed the quarter reaching R\$428 million, with an increase of 12.3% compared to 3Q13, as seen in the [slide 7](#). With this, the adjusted EBITDA margin increased almost 2 p.p., from 69.1% in the 3Q13 to 71% in this quarter.

This quarter the Company posted a net profit of R\$ 146.5 million, up 13.5% compared to the 3rd quarter of last year, as seen in the [slide 8](#). Besides the operational growth of 12.3%, measured by adjusted EBITDA, profit was also impacted by a 16.3% increase in depreciation and amortization and by the interest income, which grew 21.2% due to higher debt level in the quarter.



We ended the quarter with a gross debt of R\$5.1 billion, up 3.1% in relation to 2Q14, as seen in the [slide 9](#). The increase is mainly related to the R\$185 million BNDES disbursements to finance Arteris' construction plan on the federal highways.

Our cash and cash equivalents position remains robust, with a total of R\$1 billion, which leaves us with a net debt of R\$3.9 billion, representing 2.8x Adjusted EBITDA less the payment of the fixed concession charge in the last 12 months.

The debt profile has remained stable, with most of it in long term and pegged to the TJLP due to the financing from BNDES, which will continue to be the main source of funding for the Company's construction plans.

We also highlight that in October 2014, the holding company has successfully accomplished the issuance of debentures in the amount of R\$ 300 million, strengthening the cash position to face the financing of investments in federal concessions.

Before I wrap up this presentation and move on to the question and answer session, I want to once again highlight our strategy, which is supported by three main pillars:

- Meeting the commitments of sustainable investments from an economic, social and environmental perspective;
- A focus on efficient operations and a commitment to offer quality service to our users, providing comfort and safety;
- And strengthening our institutional image, alongside social and corporate responsibility actions.

With respect to investments, as you can see in [slide 11](#), we had another quarter with an intense rate of construction jobs on the federal highways, which, added to the



maintenance of the state highways, totaled a Capex of almost **half billion reais** in 3Q14.

Of our planned Capex, which provides R\$1.8 billion for the year, we have already accomplished R\$1.3 billion year-to-date in important projects that will improve the infrastructure of our highways, add traffic and solve important logistic bottlenecks in Brazil, as well as, bring safety and comfort to our users.

Among the main investments of the Company, we highlight the construction work for the duplication of the BR 101 road, in the State of Rio de Janeiro, in Autopista Fluminense, in which 33km were concluded and delivered this year and 84km are ongoing. The total project foresees a doubling of 176kms.

Another work that is in full speed is the duplication of the Sierra Cafezal in Régis Bittencourt. This quarter we built 3 interchanges and 1 bridge widening.

In Litoral Sul, I highlight the beginning of the construction work of the Florianópolis beltway in a 14km stretch and accomplishment of 7km of side roads.

We cannot forget to mention the amendment in Autovias signed with the State of São Paulo for the duplication of 14km stretch at SP 318 road. This investment has an estimated value of R\$ 91 million and was rebalanced with 6 months extension in the concession term, according to the methodology of the marginal cash flow.

By the end of all of the concession periods, we estimate investments of R\$6.7 billion, with the majority coming in the next 2 years.

In relation to the efficiency plan, our goal is to reduce R\$60 million of our cash costs at the end of the implementation of all initiatives of the plan, which should be completed by the end next year, strengthening our operating margins.

This brings us to the end of my presentation. We can now begin the question and answer session. Thank you very much!