



## MODELING GUIDE

In order to facilitate an understanding of the lines that make up our results and that serve as the basis for the Company's financial modeling, below are brief descriptions of each of the main lines:

- Revenue
- Deductions from Revenue
- Costs and Expenses
- EBITDA
- Financial Results
- Income and Social Contribution Taxes
- Investments
- Working Capital

### Revenue

The Company's gross revenue is composed of **toll revenue, construction revenue and other revenue**.

The main source (**toll revenue**) comes from charging the users of the highways managed by the concessionaires. The toll rate applicable at each concession is specified in the respective contract and is subject to an annual adjustment, based on the formulas established in the concession contracts and in the notices that provide for the correction of the toll rate based on the General Index of Market Prices (IGP-M), released by the Getúlio Vargas Foundation, for state concessionaires, and by the National consumer Price Index (IPCA), calculated and released by the Brazilian Institute of Geography and Statistics (IBGE), for the federal concessionaires.

The concessionaires are responsible for calculating the toll adjustment, which must then be submitted to the Granting Authority by the concessionaire for approval. July 1 of each year is pre-determined as the date for the annual adjustment provided for in the state concession contracts. The toll adjustments for the federal contracts take place on February to Litoral Sul and Fluminense and on December to Régis Bittencourt, Planalto Sul e Fernão Dias. The adjusted toll rate may only be charged following its approval by the Granting Authority.

In addition to the periodic adjustment mechanism, a review of the toll rate may be sought if there is an economic/financial imbalance in the concession contract.

**The key factors that influence toll revenue are the number and class of vehicles being tolled, as well as the toll rates charged and the growth of the GDP.**

$TOLL\ REVENUE = VOLUME\ OF\ VEHICLE\ EQUIVALENTS^{(1)} \times TOLL\ RATE$

Wherein:

THE VOLUME OF VEHICLES IS FUNCTION OF THE TOLL RATE AND IS NORMALLY PROJECTED TAKING INTO

## ACCOUNT AN ELASTICITY IN RELATION TO CHANGES IN THE GDP

<sup>(1)</sup>The vehicle-equivalent unit is used as the basis for the collection of tolls. A passenger car is considered a vehicle equivalent and a commercial vehicle (truck or bus) is calculated based on the number of axles, with each axle being counted as a passenger vehicle. A passenger vehicle is equal to one axle in a commercial vehicle.

The collection of tolls can be carried out through the cash-based manual collection system or through the electronic toll system (AVI), also known as Sem Parar, with compensation in up to 30 days, approximately.

With respect to **construction revenue**, when the Company contracts construction services, it must recognize revenue from the construction that has been carried out at fair value and the respective costs transformed into expenses relative to the contracted construction service. This revenue, which is merely an accounting revenue arising from the new IFRS guidelines, with no cash effect, is directly related to the Company's investment in its intangible asset, which is now concentrated in federal highways. The same amount registered as construction revenue is also registered as construction costs, annulling any impact on the Company's results. Therefore, for those who model this revenue (many do not because it does not have a cash effect), it should be related to the Company's investment forecasts.

Finally, in relation to **other revenue** (representing the smallest part of the total gross revenue), in accordance with the concession contracts, other sources of revenue may complement the revenue received from collecting tolls, this line includes ancillary revenue from the concessionaires, arising from the exploration/sale of services in the highways' right-of-way. The additional revenues are considered in the analysis of the economic and financial balance of the contracts.

### **Deductions from Revenue**

The deductions for services rendered essentially consist of taxes on the gross revenue from services, and are currently the following:

- Tax on Services (ISS), whose rate varies from one municipality to the next, up to the maximum limit of 5.0% of gross revenue from services;
- Social Integration Program (PIS), whose rate is equivalent to 0.65% of the sum of operating revenues; and
- Social Security Contribution (COFINS), whose rate is 3.0% of the total operating revenue.

There are no deductions from construction revenue, which is calculated solely for accounting purposes, with no cash effect.

### **Costs and Expenses**

The Company's costs and expenses can roughly be classified into two categories, those with a cash effect and those with no cash effect (accounted for without effects on the cash flow for the period), and they are the following:

## Cash Costs

The majority of the Company's cash costs have fixed-cost characteristics (the major exception being conservation costs, which are more variable by nature) In order of relevance, they are:

- Personnel costs. These include all of the costs related to the Company's in-house employees (the holding company and the concessionaires) responsible for the management and operation of the highways. The main factor influencing these costs is the number of employees, whose salaries are adjusted on an annual basis through labor agreements, which are generally based on inflation indices.
- Cost of outsourced services. These are related to the hiring of outsourced professionals to perform some of the functions of operating the highways, and also include the amounts paid for contracts for the provision of a variety of services to the Company. These costs may vary with the volume of professionals or services contracted and the annual adjustment of these contracts based on inflation.
- Conservation (not to be confused with investments in maintenance). These are the amounts targeted to specific highway improvement projects, such as pavement repair, sign replacement, the addition of metallic barriers, etc. Increases or decreases in the incidence of these interventions depends on events that impact the operation of the highway or its physical condition. Events such as rain, accidents, a higher volume of heavy vehicles along a particular stretch, among others, may impact this line.
- Oversight funds. These funds are paid exclusively by the federal highways to the granting authority (ANTT) and are adjusted on an annual basis based on the IPCA.
- Costs of the granting authority.
- The mandatory transfers are paid only by the state highways to the granting authority (ARTESP) and correspond to 1.5% of the gross toll revenue of each state concessionaire.
- Compensation for management. This includes salaries, payroll taxes and other benefits paid to our management and the management of our Concessionaires.
- Insurance and guarantees. These include the mandatory contractual policies and guarantees and other insurance policies to cover the operational risks and construction and may vary in accordance with the registered history of accidents.
- Civil, Labor and Tax Risks. Amounts registered based on the probable expected loss from the cases in which the Company or its subsidiaries are a party.
- Tax expenses. This line registers the expenses of the holding company and concessionaires related to taxes and fees, such as the IOF for the health and life insurance policies for the group's employees, fines and interest for late payments (ex. delay of a DARF payment, if it were to occur), among others.

### **Fixed Concession Charge**

(Although not part of the Company's costs, it is a monthly cash outflow).

In accordance with our concession contracts, the State Concessionaires must pay the Granting Authority a fixed amount in return for the granting of the concession. These contracts also establish that this amount must be paid in monthly installments over the length of the concession. We chose to record the value of the concession grant as an asset and the total debt to be paid to the granting authority through the fixed concession charge as a liability. The installments are adjusted annually and the contracts stipulate adjustments made based on the IGP-M for the monthly fixed concession charges, which are due after the twelfth month following each July 1, when the toll rate will also be adjusted based on the same index.

## Non-Cash Costs

- Construction costs. These costs are an accounting representation of the addition of intangible assets arising from the new IFRS rules. The recorded amount is always identical to that recorded as

construction revenue. This item varies according to the volume of investments and infrastructure projects carried out on the Company's highways.

- Maintenance provisions. These refer to the constitution of reserves related to future payments for periodic highway repaving projects, which take place on average every seven years. The accounting of the maintenance provision, highway repairs and substitutions is calculated based on the best estimate of expenses to meet the obligation at present value on the date of the close of the fiscal year, in contrast to the expense for the maintenance or restoration of the infrastructure to a specific level of operability. The liability at present value should be progressively registered and accumulated to cover the payments to be made during the execution of the construction projects.
- Depreciation and amortization. These costs are in line with the adoption of the IFRS rules that determine the complete amortization of intangible assets by the end of the concession period, weighted by the curve of traffic forecast for each highway. Thus, the increase in the intangible base due to the Company's investments and the constant increase in traffic could impact this item. In other words, the Company recognizes the effects of the amortization of the intangible assets arising from the Concession Contracts, limited to term of the respective concession. The calculation is carried out based on the pattern of consumption of the economic benefit being generated that normally occurs due to the traffic demand curve. Thus, the amortization rate is determined through periodic technical and economic studies that seek to reflect the projected increase in highway traffic and the generation of future economic benefits from the Concession Contract.

## EBITDA

Arteris believes that EBITDA reflects the Company's operational performance and allows for an understanding of its ability to meet payment obligations and obtain funding for capital expenditures and working capital. The Company reports its EBITDA because it is a performance metric that is frequently used by capital market analysts, investors and other parties interested in evaluating companies in the industry.

EBITDA stands for the Earnings Before Interest, Taxes, Depreciation and Amortization of the concession grant (accounted for as a fixed asset) and the amortization of the goodwill on investments.

*\* EBITDA is not a measure used in accounting practices and does not represent cash flow for the periods presented, and should not be considered an alternative to cash flow as an indicator of liquidity. EBITDA does not have a standardized meaning and therefore may not be comparable to the EBITDA of other companies.*

Arteris also reports its **Adjusted EBITDA**, reversing the accounting effect of the Highway Maintenance Provision. The adjustment is made due to the fact that the provision is for an expense that will occur in future years.

## EBITDA Margins

The EBITDA Margin presented by the Company refers to the EBITDA in relation to the net operating revenue, excluding construction revenue.

The Adjusted EBITDA Margin presented by the Company refers to the Adjusted EBITDA in relation to the net operating revenue, excluding construction revenue.

## Operational Leverage

Given that the Company's revenue varies with changes in inflation and the increase in tolled traffic in

relation to GDP performance and, on the other hand, total costs, for the most part, vary only with inflation, it is possible to observe a historical growth in the Company's margins due to this operating leverage.

### **Financial Results**

The Financial Results are composed of income earned from financial investments, usually in interbank certificates of deposit, which are carried out with our cash balance and the reserve accounts of our Concessionaires. The reserve accounts are required for some of the financing contracts of our Concessionaires and are designed to ensure the payment of the installments on this financing on the due dates in the event that there is a momentary lack of funds to make the payments.

Financial Expenses primarily reflect the payments on the debts obtained by the Concessionaires to fund their concession programs, almost entirely tied to floating rates, particularly the TJLP and, to a lesser degree, interbank certificates of deposit, with the fixed concession grant payments updated based on the IGP-M.

### **Income and Social Contribution Taxes**

In Brazil, the income and social contribution taxes are calculated as a percentage of net income before taxes and are currently charged at the rates of 25.0% and 9.0%, respectively. Brazilian law allows tax losses to be recorded during the subsequent fiscal year in order to be offset against future taxes.

Even though the income tax loss does not expire, annual compensation is limited to 30.0% of the adjusted taxable income for the year.

### **Investments**

The concessionaires controlled by the Company are subject to the ongoing investment obligations of their respective concession contracts. These investments can be classified in two different categories.

- Investments in infrastructure improvements: Related to highway infrastructure expansion, construction and addition projects. These investments are registered as the addition of intangible assets and must be amortized by the end of the concession period.
- Special conservation/Recovery/Maintenance: The investments in maintenance are intended to keep the Company's highways under concession in a perfect state of conservation, particularly the pavement. The investments (which do not add value to the intangible assets) are carried out in cycles, according to the useful life of the pavement and the amounts to be paid must be provisioned in advance (maintenance provision registered in the cost).

### **Working Capital**

The need for working capital reserves is practically irrelevant to the Company, given that most of the revenue earned is from full cash payments made at toll plazas by users. The electronic payments are guaranteed by Centro de Gestão de Meios de Pagamento S.A. (CGMP), which is responsible for the Sem Parar system, with transfers within 30 days to the concessionaires and without the need for the establishment of a Provision for Doubtful Accounts.

