

## Q3 2014 Earnings Call

### Company Participants

- Fabio Bicudo, Chief Executive Officer and Investor Relations Officer
- Frank Possmeier, Executive Vice President
- Ricardo Levy, Chief Financial Officer

### Presentation

#### Operator

Good morning. Welcome to ENEVA conference call to discuss the Third Quarter Results and other matters. At this moment, all participants will be in a listen-only mode. Later on, we are going to start a question-and-answer session, when further instructions will be given. (Operator Instructions). I would like to remind you that this conference call is being recorded.

I would like now to give the floor to Mr. Fabio Bicudo, CEO of ENEVA. Mr. Fabio, you may proceed.

#### Fabio Bicudo {BIO 15000971 <GO>}

Good morning everyone. Thanks for being on the call. I'll walk you through quickly the presentation. Today I have here Ricardo Levy, CFO; and Frank Possmeier, Executive Vice President of ENEVA.

Very quickly on page two, this quarter we had a few important developments; one of them was a conclusion of the first steps of the stabilization plan, including the capital increase, which you all follow, and also the sale of Pecem II, 50% of Pecem II, both of these initial steps of the stabilization plan were concluded.

As we've disclosed to the market, there are several additional steps, which were in the process of working on and I'll talk about those towards the end of the presentation, but we continue with our efforts to stabilize ENEVA's situation especially on the capital structure front. We also had several important regulatory developments this quarter. One of them being the conclusion of the agreement with Aneel on the Parnaiba II plant.

That agreement I'll talk about in more detail in a minute. That was a very important agreement to allow the company to move forward. We also have some good news on that plant, as it's already being tested as the original schedule, we had as per the schedule we had disclosed.

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We also had important developments on the unavailability rules for our plants, we call that ADOMP, but we've also had judicial decisions and also an Aneel decision to adapt or change that methodology, which led to a recalculation of payment and to a reimbursement for Itaquí and Pecem I. We'll also talk about that in more detail on the coming page. Again, going forward, I think this change gives a lot more predictability for the plants and we hope to follow these new decisions going forward.

We continue to focus on cost reduction, as we've mentioned on past calls, we're working on reducing IT costs, we're working on reducing holding company costs and that's both head count and other costs, and of course our operational teams are focused on reducing costs at the power plant. So, there is a continuous effort.

Last on Pecem I, Unit 01, as you know, we had a stator burnout on August 25. Well, I can tell you there is that we remain on schedule as for past disclosure to the market to have that unit back in operation before the end of the year. Our engineering teams are working with those from the shareholder from EDP on-site to conclude this repair as soon as possible.

We remain on track as for the past disclosure. These are the main highlights of the quarter. I think again substantial regulatory development. Page three, very quickly, we've talked about the Parnaíba II agreement with Aneel several times. The background of that is, there was a delay in the construction of the plant. We believe this is a balanced negotiation with the regulator, where at the same time, we're able to preserve a PPA that is advantageous for the consumer. On the other hand, we were able to mitigate, what would have been a very high penalty for the delay, basically, we need to finish that plant by December 31 of this year. The PPAs start, the clock starts on the PPAs in July, 2015.

We have to pay a penalty from the project of BRL333 million, that will be paid in annual installment starting 2022. And of course again paid by the plant through a reduction in revenues. And we've also committed to close the cycle, there are four machines in Parnaíba I, and we have a five-year period to do that, of course, at certain conditions precedent [ph] need to be met. One of them being the sale of the energy has to be at the regulated market and also we need ENEVA to be able to find our long-term financing for this project.

Of course, we will move ahead with the closing of the cycle with an appropriate auction, mechanisms that provides also rates of return that are compatible with those we've acquired from all of our projects. So, this closing of the cycle, it could become an important growth available for the company, as long as these conditions are met.

The agreement also allows for optimization of the gas in the Parnaíba basin, between now and July 2016. Basically, it allows us to replace several machines of the Parnaíba Complex, that are less efficient in the use of gas with the Parnaíba II, combined cycle plant, which is much more efficient and therefore at the same time, as we delay the commercial operation of Parnaíba II, we actually use that machine to replace other less efficient machines and then optimize the gas consumption in that basin.

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Very quickly on unavailability and I don't be [ph] on page four, as we've talked to you on several calls on unavailability. I never had a different view on how the methodology should be applied to these plants. There were two injunction/lawsuits that we filed for different groups of plants. So the first injunction/lawsuit was for Itaqui and Pecem I. And then there's a second one that was filed later this year for the other three plants. Bottom line we've had favorable decisions from both lawsuits; we've also had Aneel decided to move forward on the first lawsuit and repay us a relevant amount in Itaqui and Pecem I. We've received on November 10, about BRL336 million, which is an important step to rebalance the financial feasibility of this plant.

And of course we will continue to pursue a favorable decision for the other plants, Pecem II, Parnaíba I and Parnaíba III, as we've already had a favorable judicial decision now, we will work with Aneel to have that decision as well hopefully implemented.

With that, I'll turn it over to Levy, who will walk you through the third quarter highlights, financial highlights. Please Ricardo.

### **Ricardo Levy** {BIO 16259732 <GO>}

Thank you, Fabio. On slide five a quick overview about the, third quarter financial highlights. Starting with the energy sales, we see energy sales flat during the third quarter, but when we see the nine months of the year, we have a relevant increase of 23% in generation of energy, resulting in operating revenues also with the relevant improvement of approximately 57%, when you compare with the previous year.

On costs, not only on operations, but also on holding, we will see retails in the following slide with Frank Possmeier. We see a relevant improvement is a focus of the current management to decrease costs and to really balance the company nowadays. So, we see in the year-to-year comparison, we see a decrease of 38% on operating expenses and on costs we see an increase of 14% that represents a much lower increase comparing to what we saw on revenue side.

As a result, we see the EBITDA starting to show relevant figures for ENEVA. In the quarter, we saw BRL117 million recorded and reaching 300 million year-to-date. About the net debt, we will see also in details in the end of the presentation, but we see a lower figure mainly due to the consolidation of the Pecem II, the assets that everyone is aware that we sold 50% for E.ON in the past quarter.

Moving to slide number six, a little more color about the EBITDA. First, as I mentioned, the Pecem II deconsolidation as of June 1, impacted revenues cost, as a consequence, EBITDA. But especially the improvements on revenues again, once again we'll see in the sales, in the following slides. Itaqui had a good performance, costs is something that we also have a good impact.

And as Fabio mentioned in the beginning, we had the benefit of the ADOMP, in one side through the receivement [ph] of the Itaqui and Pecem I, despite the fact that Pecem I, do not impact our EBITDA, because this comes through equity pick up, but at Itaqui level, it

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was a very positive impact to our EBITDA and also a adjustment on accounting basis for Parnaiba. And then explains how we came from 79 million in the second quarter of this year to 117 million, as I just mention.

So, talking about costs, I'll turn to Frank, and then I come back in a few minutes later about the debt and cash flow.

## **Frank Possmeier** {BIO 18083214 <GO>}

Thank you, Ricardo. Let me start with the operating cost development of our company, and it's important to highlight here that also these costs were affected by the one-time items that were already mentioned by Fabio and Ricardo. So, when you look at the operating costs, we are essentially down, on the accounting figures by 46%. But as I said that's only half the truth, because it's mainly impacted by BRL118.3 million of one-time effect of ADOMP reimbursement for Itaqui and Parnaiba I.

So, on a like-for-like basis compared to third quarter to second quarter, our operating costs are down by BRL62 million and that is due to the already mentioned Pecem II deconsolidation that took place as of June 1, 2014. The gas optimization in the Parnaiba Complex and readjustments in the gas delivery contract that we have with PGN for the Parnaiba Complex.

When I turn to the HoldCo expenses on page eight. It's important to mention that we were able to reduce compared to the start of the year, the holding headcount by 11 FTEs, when I take into consideration ENEVA is a, and also the ENEVA E.ON joint venture. So, reduction by 7%, but that led to an 11% reduction in payroll expenses due to laying of higher management level.

Nevertheless, when we look at the operating expenses, we had an increase of approximately BRL5 million compared to the last quarter. This increase is due to one-time effect, on the one hand it's accounting readjustment for services that were rendered last year, but we're not properly accounted for last year. So it's an adjustment of approximately 5.6 million, and then we had one-time IT discontinuation [ph] payment. So, we are able now to reduce significantly in the future, our IT costs, but this comes at today of course of one-time items for discontinuing [ph] our services with our current provider.

Now, after the general overview of operating expenses and the holding, let me turn to our operational businesses, and I will start with our fully consolidated businesses of Itaqui and Parnaiba I. In Itaqui, the EBITDA is up by BRL92 million, which is mainly due to a one-time effect of the ADOMP reimbursement of BRL100 million minus higher outsourced services for cash disposal of approximately BRL6 million.

It's important to mention, when we look at the performance of Itaqui, that we had a very good operational quarter with the highest availability throughout the whole lifetime of 18.7% [ph] and also closed the quarter with a very positive availability in September with 95%. That increase in availability led to a significant decrease of operating cost per megawatt hour, as you can see on the adjusted figures for the third quarter.

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Turning to page 10, which shows the operational performance of Parnaiba I, there we have an reduced EBITDA of approximately BRL30 million, which is due to the lower dispatch, as a result of the gas optimization in the overall Parnaiba Complex and that negative effect is partially compensated by one-time accounting effect and reversal of a provision for the ADOMP by approximately BRL18 million.

Let me then turn to our joint venture that we have together with EDP, E.ON and -- included in the JV. I'll start with Pecem I, on page 11. Also here a very, very positive EBITDA development to BRL244 million, but that is mainly due to a one-time effect of BRL233 million reimbursement of ADOMP and the Pecem I Complex. Like-for-like, we have a reduced EBITDA compared to the last quarter, which is due to the damage of the Unit 01 generator that Fabio mentioned already resulting only in an availability of 50% of the first unit in the last quarter. When we compare that with a second unit, we really have a very positive development there of the availability averaging now 86% for the last quarter, which is the best quarter ever for the second unit and we have a pickup availability at the end of September all-time high of 97.1%, and it continues to be very stable and outperforming historic months in the last months that we've had [ph].

Turning to Pecem II, here we have an improved EBITDA of BRL12.3 million compared to the last quarter, which is mainly influenced again by the one-time accounting adjustments on ADOMP of BRL31.1 million and then negatively impacted by BRL40 million of reduced revenues as per lower dispatch as of the repair of 10 days in September in (inaudible) and Id Fan [ph] Repair that we conducted and a negative effect of higher unavailability cost accounted for that we were only partially compensated by lower fuel consumption.

On Parnaiba III, it continues to report a negative EBITDA of around BRL8 million to BRL9 million in the last quarter, which is the result of the gas optimization in the Parnaiba Complex that I already mentioned. That leads to an availability of only 82% in Parnaiba III. The compensation of higher unavailability cost by the one-time effect, (inaudible) of BRL18.7 million again, where, due to the ADOMP recalculation.

Now turning back to Levy on the consolidated cash position of our company.

**Ricardo Levy** {BIO 16259732 <GO>}

Thank you, Frank.

So, moving on to page 14, talking about cash, as you know, liquidity is very important, while we are discussing currently with creditors that plan for a long-term sustainable plan for ENEVA. So, we came from 88 million in the end of last quarter, as you also are aware and we well-informed the market. We had a capital increase consider here at a BRL463 million. Very important to emphasize that 120 million coming from E.ON was already accounted in the second quarter of '14. So, this was part of the stabilization plan that we are in.

Also, we had the existing plan to CapEx that we continue to invest to improve the operations. Also I'd like to highlight that debt service was lower than used to be, as you

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know we also have a current agreement with banks in order to find this long-term plan with them. So, that's why we have lower payments than expected. And as a consequence, we ended last quarter with a more stable cash balance of higher than BRL100 million.

Moving on to slide number 15, about our consolidated debt. First comment is that our debt is being showed here as lower in 18%. It's not because we paid this amount, but once again especially because we had the deconsolidation of Pecem II. As you can see in the left side of the slide, we continue with a relevant stake of our debt in a short term almost 60%, when we see what is holding, what is project, we also have a relevant part that is the holding, that is the object of the current discussions with the creditors.

So, our focus right now is to really have this plan implemented during the following weeks, in order to have a much more sustainable situation and balanced situation for ENEVA, not only at holding, but also at project level. And also after that we really need to come back to some short term debt, some bridge loans that we've got for our projects and extend that for long-term.

As an example, the Parnaiba II that are still under bridge, now we have the plant already built, and nothing different from asking market to postpone. It was the original plan and now it's time to really focus for long-term debt.

So with that I turn back to Fabio for the main takeaways of ENEVA.

### **Fabio Bicudo** {BIO 15000971 <GO>}

Thank you, Levy. We had, as I keep saying on almost all of our calls, we've had unprecedented hydrological events in Brazil, which have led to a lot of stress in the system. ENEVA is glad to be delivering competitive thermal energy in key markets such as the Northeast in the north of Brazil. We are also, again had important regulatory developments this quarter both with the Parnaiba II agreement and also with the unavailability of the ADOMP rulings and decisions.

We continue to focus on cost reduction at the company as Frank highlighted.

And last, Levy mentioned this, but we will continue to work on the remaining steps of the stabilization plan that was announced back in May, and we'll work with our main stakeholders to advance on that front. We've had an important quarter for the company. I think the Parnaiba II plant not only the agreement with Aneel, but more importantly the conclusion of the plant and the fact that we're now in a position, that I think is very relevant for the company and that's pretty much for this quarter.

So, thank you all for being on the call. With that, we'll turn it over to the IR team for questions.

## **Questions And Answers**

## Operator

Ladies and gentlemen, we are starting now the Q&A session. (Operator Instructions).

### A - Fabio Bicudo {BIO 15000971 <GO>}

I think, we have a question from an investor on the Holding company debt. I think the question is in the ENEVA Investor Day presentation, the company mentioned a potential 600 million to 700 million HoldCo debt reduction by dropping down debt to subsidiaries. The question is, when would you expect to achieve it? We continue our discussions with the main stakeholders to advance on the original stabilization plan that was discussed with investors. As time has passed different elements of the stabilization plans were implemented, other elements of the stabilization plan will require adjustments.

So, at this point in time we won't get into details on the amount of debt that will be dropped down and on timing as this is one of the variables that is being discussed with our stakeholders and unfortunate at this point in time we won't get into more detail on that debt drop down. So, that's the answer here from management, that is something that's been discussed, but no further information to be given out right now.

## Operator

(Operator Instructions). This concludes our Q&A session. We would like to call Mr. Fabio Bicudo for his closing remarks. You may proceed, sir.

### A - Fabio Bicudo {BIO 15000971 <GO>}

Thank you to all the investors for being on the call. We've had a number of relevant developments this quarter and we still have quite a bit of work ahead of us. So, with that we'll get back to work and focus on what we need to. To conclude, we'll keep the market informed of any developments that we have. Thank you very much.

## Operator

This concludes ENEVA conference call for today. Thank you all for joining us and have a great day.

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