

## Q2 2019 Earnings Call

### Company Participants

- Flavia Heller, 'Investor Relations Manager'
- Marcelo Campos Habibe, 'Chief Financial Officer'
- Marcelo Habibe, 'CFO Member of Executive Board'

### Other Participants

- Guillermo Diego
- Gustavo Miele

### Presentation

#### Operator

Good morning, and thank you for waiting. Welcome to ENEVA earnings call for the second quarter of 2019. We have here with us today, Mr. Pedro Zinner, CEO; Mr. Marcelo Habibe, CFO; and Investor Relations Officer -- other members of the Board of Directors and Flavia Heller, Investor Relations Manager. We would like to inform you that this call is being recorded.

We will then have a Q&A session and further instructions will be provided. (Operator Instructions) This call is being simultaneously transmitted on the internet via webcast and can be accessed at [ri.eneva.com.br](http://ri.eneva.com.br) and also on the MZiQ platform where the corresponding presentation is available.

Slide selection will be controlled by listeners. The conference call replay will be available soon after closure. Webcast participants may submit questions beforehand, which will be answered during the Q&A session. Before we proceed, we would like to clarify that any statements made during this call regarding ENEVA's business prospects, projections and operational and financial goals reflect beliefs and premises of the company's Board of Directors as well as currently available information.

Future considerations are not performance guarantees. They involve risks, uncertainties and assumptions as they are related to future events and, therefore, depend on circumstances that may or may not occur. Investors must understand that the general economic outlook, industry conditions and other operational factors may affect ENEVA's future performance and lead to results that differ considerably from those expressed in forward-looking statements. We would like now to hand this call over to Mr. Marcelo Habibe who will begin the presentation.

Mr. Habibe, you may proceed.

## Marcelo Campos Habibe {BIO 20367888 <GO>}

Good morning, and thank you for participating in ENEVA's earnings call for the second quarter of '19. Before we begin, I would like to check the disclaimer on slide 2. On slide 3.

In the second quarter, we had a great operational efficiency in the company. Regarding adjusted EBITDA, BRL299.3 million, which is in line with the same period in previous year but with a difference of 52% less and 65% less in gas to reach these results. In Parnaíba Complex, the efficiency of the company was attributed to gas sales compared to the first -- second quarter of 2018. We've had growth in adjusted EBITDA-gas production in the quarter of BRL2.7 per cubic meter compared to BRL1.1 cubic meters in the same period the previous year.

Coal generation EBITDA rose which was an improvement of fixed margins and also with the position of positioning too. Operational cash flow in the company was at BRL306.8 million, a growth of 29.7% compared to the same quarter the previous year. And this was impacted by the growth capital in the period. With a cash of BRL1.6 billion compared to in the same period of previous year and net debt by EBITDA was 2.7x.

Other highlights were the success in the auction for supply in Boa Vista and connected locations, ensure that annual fixed revenue of BRL429 million and -- a fixed annual revenue of BRL429 million. We would like to highlight raised BRL 2 billion on debentures. From this, BRL1.5 billion was due to the position of EBITDA in our recoveries after that, and revenue of vis-a-vis to Parnaíba V and the deployment of this plant, with a value of BRL843 million. With this, the company will have that -- ensure the investments for Parnaíba V.

On the next slide, slide 4. We finished later this year or the second quarter which was lower compared to the same period the previous year. Parnaíba I, III and IV were not dispatched in this quarter, and Parnaíba II dispatched only in June. In coal generation we had less participation in the quarter with 43%.

And gas generation plants had an average dispatch of 12% compared to 29% in the previous year. And the dispatch of coal generation plants was 21% compared to 36% of the previous year. The potential impact of this the is reduction was due to consumption of gas. We have gone some 0.07 of our -- and we had net revenue -- consolidated net revenue of BRL556 million.

In the next slide, we can compare adjusted EBITDA per quarter. We had adjusted EBITDA slightly lower than on the previous quarter of BRL8 million. And the lower dispatch had an impact of BRL39 million which was compared to last year. But improved performance in the second half was due -- led us to partially compensate the dispatch-related issues.

In BRL299 million of improved performance, part of it was due to the performance of Parnaíba Complex; part to the fixed margin of coal; BRL10 million to lower expenses in gas generation compared to the first quarter -- or the second quarter of 2018 and then we also had significant improvement of the variable margin in coal generation with an

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absolute impact in the quarter compared to the previous quarter and due to several factors. On slide 6, in the second quarter of 2019, we had BRL306 million, a growth of 29.7% compared to the same quarter in 2018, and this was due to the max -- less means of cash flow investment of BRL44.1 billion. And for fuel cost for our controller parent company, we have invested BRL190 million in projects, being consolidated in Azulao Jaguatirica, and we had BRL75.5 million and BRL53.7 million in the quarter. The cash flow on the activities included the capture of BRL2 billion in debentures and the prepayment of the remaining tax of our recovery.

So we have accumulated in the past 12 months 16.7% representing six percentage points above the same period last year. And we closed the second quarter 2019 with a consolidated cash position of BRL1.3 billion. Now slide number 7. We closed quarter two 2019 with a net debt of BRL3.9 billion equivalent to a ratio of 2.7x.

As we said before, at the start of this presentation, we have just BRL2 billion in debentures in 3 series. The first BRL715 million CDI plus 0.95% in -- maturation in May 2024. The second series was also non-incentivated CDI plus 1.45%, maturation May 2027. And the remaining value with a CDI point -- plus 1.2%.

And the cost was CDI plus 2.80% for the judicial recovery. The third series, the incentivized debentures, CDI plus 5% and May 2029 is the maturation. These were for Parnaiba V, and together with the loan from Banco do Nordeste, we ensured funding for 100% of the investments of Parnaiba V That maturation is 17 years and the cost is IPCA plus 2%. Now the chart on slide 7 show that we don't have any debt maturing in the short term, at least not significant amount.

And this comfort in our cash flow allows us to balance our debt, which reinforces our commitment to release as much cash as possible for future projects. Slide number 8, the total investments in the period, BRL190 million, highlights to Parnaiba V and Azulao, which were responsible for 68% of this CapEx. In Parnaiba V, we will have the first payment and we will start manufacturing the critical equipment of the plant. We also have installation of independent accesses to the plant and topography of the existing installations.

In Azulao Jaguatirica, we did the first payment to Galileo and we had allowed the start and installation of the cryogenic equipment, and we still have the steps of the project related with engineering and constructing of companies that will provide services related with the wells. We have round 13 and the wells that will be built. The next slide, slide number 8. In the past 12 months, 1.1 billion cubic meters of our reserve was consumed, and we incorporated 7.5 billion cubic meters.

The growth in the volume is due to Gaviao Tesoura, reevaluation of Gaviao Preto. And that the performance of our field. In respect to explorations in this quarter, in addition to this well that I mentioned, we also target reviewing our development plan which will attach the Angical. We also constructed a company to start measuring as of November this year and it will take about 12 months.

Now the next slide, we had some pictures of Parnaíba V. From the right to left, we have the execution of boiler 32, installation of the operational area, the PPA, the soil scanning activities. So the works are ongoing right now and progressing well according to the schedule. Next slide. Here we have a picture of Azulão Jaguatirica.

We have started the work and everything is progressing well. Environmental licensing started according to schedule. This concludes our presentation and we will now open for questions. Thank you.

(Question And Answer)

## Operator

Thank you. We'll now have Q&A session for investors and analysts. (Operator Instructions) Our first question is from Gustavo Miele from Itaú BBA. It's over there. You may proceed.

### Gustavo Miele {BIO 21077665 <GO>}

Good morning. Myself Flavia [ph]. Thank you for your presentation and I have two questions. The first is related to the idea of coal in the 10Q. We have noticed an improved margin, strong margin improvement as Marcelo has alluded to during the presentation.

And this was something that caught our attention as a positive point. And I would like to understand a bit better when you said in the release that there is a positive impact due to whether the composition is the same. But as for cost, is that something that should be commented on? Do you have a program for logistics improvement in coal transportation? Is this going to be maintained? Up to where -- up to how much can we keep on improving this margin over the rest of the month? And I would like to say a few words about this. And the second question, I think that can wait, you just answer to the first question.

### Flavia Heller {BIO 20420964 <GO>}

I'm Flavia. Thank you for your questions. I believe that the major highlight that -- mentioned was the RRO. But overall we managed to have our shareholders the fixed revenue. So are expanding our fixed margin and this is a tendency that we see.

We have been saying this over the last few quarters. So we have a very strict policy for cost control trying to capture more profit and -- regarding our dispatch related with coal generation and the variable and fixed margins. And also I think we should report the results in cost improvement, but that was due to the improvement of logistics is in coal specification. And I think we are now going to have more improvements compared to what we had in the past.

So we will have more marginal improvements. But of course we keep on trying to optimize our process.

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**Gustavo Miele** {BIO 21077665 <GO>}

Perfect. Thank you.

It was very clear. And just a quick question, if you would allow me. I would like to understand a little bit more about the dispatch of -- from Parnaiba. Not now but in some -- so Parnaiba, what I'd like to understand is was the results due to the larger effect in the second quarter? Or if there are other factors related to this? Especially, it was a bit higher in power plants.

Was this something related to climate that may have affected dispatch over the quarter?

**Marcelo Habibe** {BIO 20367888 <GO>}

No Gustavo. This was only due to the climate. Parnaiba I, III and IV did not dispatch. Parnaiba II dispatched only in June.

So we had a lower dispatch. And the expectation is that, this it's natural. We may have a fluctuation in dispatch, but on average these will be too different from what we have been seeing. And due the delay in the dry season, I think we may expect a higher dispatch through the end of the year.

This is our expectation, and then we will compensate for the lower dispatch in both -- in this quarter with average over the year.

**Gustavo Miele** {BIO 21077665 <GO>}

Thank you.

**Operator**

Our next question is from Guillermo Diego from Santander. You may proceed.

**Guillermo Diego** {BIO 19147652 <GO>}

Good morning. Thank you. I have two questions. The first is regarding results.

We see an increase in fixed cost in Parnaiba Complex, 29.5% increase. And I would like to know what was the reason for this. If we should consider this something that will recur. And then a second question, I'd like to know a bit more about what you see when it comes to opportunities.

**Marcelo Habibe** {BIO 20367888 <GO>}

Thank you for your question, Guillermo. We had really an increase in this quarter and what we did was to make use of this longer numbers in the period for maintenance in

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anticipation of some implementation in Itaqui and Parnaíba Complex. So just as an example, in Itaqui, we had a maintenance that was not on schedule in logistics, in the belts that are used to transport coal. And in Parnaíba, we also had tested some maintenance strategy that was not on schedule.

And this was due to this longer -- longer stretch period. So this is not something that we should see consistently over, the next quarter. And this may have resulted in a difference between quarters, but this is not a long-term trend so to speak. As for your second question, if you may repeat, please.

**Guillermo Diego** {BIO 19147652 <GO>}

Regarding to the auction of INB, do you have an interest in participating? What sort of opportunities can you foresee?

**Marcelo Habibe** {BIO 20367888 <GO>}

Yes. We have enrolled. We are interested especially in the Parnaíba region, but we don't have much information to provide you with right now. So we have registered for the auction and we are now waiting.

Thank you.

**Operator**

(Operator Instructions) If there are no further questions, I would like to hand it over to the company for final remarks.

**Marcelo Habibe** {BIO 20367888 <GO>}

Thank you all for participating in this call. I wish you have a great day.

Thank you for participating. Thank you.

**Operator**

This conference is now closed. Please disconnect and have a great day.

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