

## Q1 2019 Earnings Call

### Company Participants

- Lino Lopes Cancado, VP E&P Division
- Marcelo Habibe, CFO & Member of Executive Board
- Pedro Zinner, CEO, Chief IR Officer & Member of the Executive Board
- Unidentified Speaker, Unknown

### Other Participants

- Gustavo Miele, Analyst
- Unidentified Participant, Analyst

### Presentation

#### Operator

Good morning. And thank you for waiting. Welcome to ENEVA's earnings call to disclose results for the First Quarter of 2018 (sic) (2019) Mr. Pedro Zinner, CEO and Investor Relations Officer and other directors of the company are here with us today. We would like to inform you that this call is being recorded. (Operator Instructions) This call is being transmitted simultaneously 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. 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 general economic outlook, industry conditions and other operational factors may affect ENEVA's future performance and lead to a result that differs considerably from those expressed in forward-looking statements. Now we would like to hand this call over to Mr. Pedro Zinner who will begin the presentation. Please, Mr. Zinner, you may proceed.

#### **Pedro Zinner** {BIO 17260844 <GO>}

Thank you. Good morning, everyone. Thank you for attending this earnings call for the First Quarter of 2019. Before we begin, I would like you to check the disclaimer on Slide 2.

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We will now go to Slide 3. In the First Quarter of 2019, EBITDA reached BRL 322 million with a 6% growth compared to the First Quarter of 2018 in spite of the slower dispatch in the period. This reflects continued (inaudible) (costs) for fixed costs that grew at (least) below (our indexes) of contracts and due also to variable margins, producing an efficiency increase in availability of coal. The low dispatch has impacted gas production that was 0.05 billion cubic meters, equivalent to 0.25 billion cubic meters of the production in the First Quarter of 2018. We have certified gas volume disclosed in January this year and the consumption over the quarter, remaining gas reserves was in the Parnaíba V were stable in 21.3 Bcm. In Pecém II, we would like to emphasize that the (dispatched for recovery) of operating reserves, the RRO. The plant dispatched an RRO over approximately 42 days with a variable revenue equivalent to 130% of CVU of the plant and a variable margin of approximately BRL 1.

As regard to growth, we anticipated beginning of the implementation of Parnaíba V to February of this year. And this allowed deployment work to occur during the dry season, accelerating the execution of the project, reducing risks and potentially generating more value. We have maintained our financial (validity) that closed the quarter with consolidated cash of BRL 1.4 billion and net debt-EBITDA relationship of 2.5x, the -- improving our (inaudible) and the reclassification by agencies. S&P and Fitch have attributed to the company a national long-term credit AAA and AA+, respectively, with prospects to remain stable. Improvement in our credit risk has (1 class). And this enabled us to have asset management a bit more active. We have announced with a public offer a distribution with a limited effort of simple debentures around a value of BRL 2 billion. And we have (as finance) part of the company's that ENEVA's partial amount of Parnaíba's (scope) -- Parnaíba V, I'm sorry.

And finally, we have concluded in April a secondary offer of shares totaling BRL 1.2 billion. And this has enabled the distributions of our shareholders by (inaudible). This contributed to our net revenue. And over the last 30 days, we had approximately BRL 29 million. We had a very good trimester, a quarter with better operational margins, consolidation of credit risk of the company and the beginning of the growth phase with the deployment of Parnaíba V. I will now hand it over Lino to talk about operational performance.

### **Lino Lopes Cancado** {BIO 20167891 <GO>}

Good morning. We are now on Slide 4. And we are going to talk about the company's operating performance.

The graph on the left shows the average net power generation over the quarter, which was (65%) (sic) (56%) lower compared to the same period in 2018. This reflects rainy season. That's closer to the historical average, improving the company's dispatch day rates. On the first and Second Quarters are expected to generate a low dispatch. And the graph below, it shows the consolidated average dispatch of the thermal power of the company in the First Quarter. We had 18% of the generated capacity compared to 35% in the First Quarter of '18. In this period, in the Parnaíba Complex, only Parnaíba II dispatched and (reached) 23% of generation capacity of the quarter. Remaining plants remain up. And coal generation, as Pedro has just alluded to during the opening remarks, they dispatched to an operational reserve reaching 42.5 days, generating approximately

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253 gigawatts (sic) (235 gigawatts) per hour in this modality with a 30% (sic) (130%) premium -- a premium of 30% (sic) 130% of the CVU of the gas plant. This is a relevant dispatch. And the Itaqui had -- to be (overloaded) during the Carnival period. And this is to guarantee the supply energy towards São Luís during this period.

In the next slide, I can see the Upstream highlights. Remaining reserves at Parnaíba Complex at the end of March is 21.3 Bcm. It's is (15%) higher than the 18 Bcm reported in the same period in 2018. The lower dispatch of thermal plants was 0.05 Bcm. So 75% lower compared to the First Quarter of 2018. And this reduces the risk of Itaqui assets even more and improved (perspective) for these same assets. And the gas treatment units, the total capacity in the First Quarter was only (6%).

I will now hand it over to Marcelo Habibe. And he will talk about the company's financial performance during this quarter.

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

Good morning, everyone. You'll now see the highlights of our financial performance on Slide 6. Net revenue dropped 10% compared to the same period of the previous years with BRL 611 million in decrease due to the lower dispatch in the thermal plants in this period. Despite the lower revenue, we had a 6% growth of EBITDA compared to the same period in the previous year with BRL 322 million. This improvement of EBITDA is explained by the lower fixed cost of OEM and the lower expenses because we didn't have geophysical campaign in this quarter and broaden up the margin in coal generation. The variable margin in Pecém II went from BRL 1 per megawatt hour in the First Quarter to 9 hours (sic) (BRL 9) per megawatt hour in the First Quarter in 2019. And this was due to the RRO generation.

In Itaqui, we had minus BRL 65 a megawatt to BRL 38 in the First Quarter of 2019. And we would like to emphasize that this impact in the negative variable margin negative (inaudible) only (inaudible) very limited. And the volume of energy generated over the quarter was very low.

On 23rd January this year, we had recoveries of -- related to PIS/COFINS. And the results were favorable to the company. And we now have the right (to) fee compensation of the amount paid over the last five years. And this led us -- an asset that we have to receive (inaudible) BRL 42.2 million. And we have other results and other revenues corresponding to BRL 33.7 million and then BRL 8.5 million, which is related to amount before taxes. We had a positive growth of 270% on the hedge. And this is a good financial results with more cash generation in company compared to the First Quarter of the previous year. And also this is now a very good now hedge position related to the performance of Parnaíba V.

Slide #7, we see the adjusted EBITDA by segment. For the Upstream, the low dispatch, 26% lower in the First Quarter of '18 to 6% in the First Quarter '19 had a negative impact on the EBITDA. Also in 2018, we had accounted for the retroactive adjustment for the generation (difference) and BRL 2.2 million, which didn't occur in '19. And this has an impact on the business unit when we look at the numbers individually for each segment.

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In gas generation, there was an increase in the EBITDA because of the annual correction of the fixed income and (expression) of the margin. Also in year-over-year, there was an impact of the retroactive adjustment that I just mentioned.

In coal generation, the improvement was BRL 18 million due to the growth of the fixed and variable margin in both our plants. The improvement initiative continued to produce results in this quarter. The highlight is the same too with a positive effect of generation due to the RRO like Pedro mentioned, nearly 43 days in the quarter with a variable margin of 130% of its CVU.

Slide #8, total investments of the company in the quarter BRL 89.7 million with 42.6% (sic) (BRL 42.6 million) allocated to the implementation of Parnaíba V; BRL 22 million (sic) (BRL 27.9 million), Upstream; BRL 19 million for the generation plants (and) the holding.

In Parnaíba V, the main investments were the down payment to GE and the beginning of the EPC's mobilization. In Upstream, we had a completion of the drilling activity for 2 wells in Gavião Preto, the completion of another well in Gavião Preto and beginning of the drilling of a well in the PN-T-103 block. For generation, investments concentrated and made in Parnaíba I was due to the payment due to the HGP maintenance in 2018.

Slide #9. In the First Quarter '19, operating cash flow was BRL 219 million. The reduction compared to the previous year is due to the increasing need of working capital because in December '18, we had a low dispatch level, which resulted in a not enough volume to be paid now in the First Quarter '19. Also the account receivable increased due to the Pecém II generation, the RRO; and the payment of the 30% additional to the CVU of the plant is forecast for the second half of this year; also the reduction in the volume of tax paid from one year to the other even with the higher income tax. Part of this a tax efficiency is explained by the restructuring that we did in the end of last year, incorporating Parnaíba III and IV, Parnaíba II and the Upstream business being incorporated into the holding. This allowed us to accelerate the use of our tax benefits, reducing the payment of taxes for the group. And this was an important value leverage for the company.

Cash flow of investing activities was negative in BRL 89.8 million, as I mentioned, maybe due to the beginning of the construction of Parnaíba V in February this year. We closed the First Quarter '19 with a consolidated cash position of BRL 1.4 billion not including the deposits linked to the financing contracts of the company.

Slide #10. We have a screenshot of our investments, the relevant movements in the quarter. The average cost was in line with the previous 9.7% per year, with a term of 4.3 years, an average term. The net debt was BRL 3.8 billion. And the net debt was 2.5x. As Pedro said, in the end of April, we had a public offering totaling BRL 2 billion. 3/4 of this offering were used for the repayment of more expensive debt.

Slide #11. This is our debt maturity schedule in the end of March 2019. As a result of the completion of the first restructuring plan in the end of last year, the company today has a debt profile, which is compatible with the new growth phase that we are expecting for

this year, minimizing the risk to need to refinance these debts in future. As I said in the last call, this nondependence on refinancing of the debt creates opportunity to access the market, the financing market, when we find pertinent, we will have a reduction of our average cost, reducing interest, releasing freely our cash flow. And this is what we see today with the issuance of the debentures that we are (structuring) now. We want to complete the submission until the end of May. Well these are the main points. Now I'd like to pass the floor again to Pedro for his final comments.

## **Pedro Zinner** {BIO 17260844 <GO>}

Thank you, Marcelo. Well on Slide 12. In the last call, we presented the goals for 2019, aiming to prepare the company for its new growth phase. In this context, it's important to update you on the evolution of our work.

Our goal for the Upstream segment is to reach a reserve replacement ratio of at least 5% per year and continue to extend our opportunities to replicate the R2W in the Parna ba Basin. In the First Quarter '19, we drilled 3 wells: 2 development wells and 1 exploratory well. For the next (quarters), we expect to drill another development well and 11 exploratory wells: 1 in the Tianguar discovery plan and 10 in the 13 round blocks. We are confident that we will be able to reach these goals for the year. We also started the implementation of Parna ba V in February this year, six months before expected in the initial schedule. And we are assessing the financing structure of the project that have been planned and approved by the (inaudible) (resulted in) the financing of (100%) of the project. (BRL 500 million) will be for infrastructure as previously alluded to and approximately (BRL 300 million) coming from the bank of (Norway). Our second project, Azul o, is in Roraima's auction due to take place in the 30th of May this year. This is a unique opportunity to (have) our model and start a new basin. And this will stand along the LNG chain and associated gas position in the First Quarter of '19. We may also have an opportunity to monetize this project. And it's also an opportunity to advance in the generation chain through projects. We are also advancing -- we have repositioning plans for our trading -- energy trading. And we have a new (inaudible) and we have advanced the company's plans. And I hope to be able to share with you our strategy in the near future and talk more about the goals for 2019.

Our innovation agenda is more and more active. We have project for operational improvements such as application of machine learning. And in a few months, we will be deploying 2 solar plants with specific generation in the State of Maranh o (and) in Cear . And development of these initiatives are being financed almost exclusively with our own resources. And we have the support of our (start-up) acceleration that should be launched over the next few months. We can now conclude our presentation. And I would like to open for questions. Thank you.

## **Questions And Answers**

### **Operator**

(Operator Instructions)

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## A - Unidentified Speaker

We received a question through our webcast platform. (It's about assets) also because of the acquisition of the (basin) for PecÃ©m II. As we have emphasized, the company's growth portfolio is more focused on gas. But I believe we will never stop thinking about projects with a good return. And I think the acquisition of 60% of (participation) -- and this has proven an excellent project and acquired -- participation generating 2018, only this year, a cash flow of approximately BRL 62 million. If we consider that we have paid BRL 50 million to acquire the asset, then we have been paid back in less than a year. This is a good business. The business is part of our decision-making process. We were already operating with this asset. We knew a lot about it. And we are comfortable that this is a good option for our portfolio.

## Operator

Mr. Gustavo Miele from ItaÃ© BBA has a question.

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

Pedro, Lino and Marcelo, I have a question related to the BRL 42 million revenue that is the (fruit of) the acquisition of ICMS in the PIS/COFINS calculation base. Does this focus on distributors at least in the recent past? And I'd like to understand a bit better your view about the discussion as a whole. Is there anything else that the company can retain in the future? Do you see any risks of modulation related to the -- whether you're pursuing processes that have been already completed that can generate even more than this BRL 42 million that you have alluded to?

## A - Marcelo Habibe {BIO 20367888 <GO>}

Gustavo, thank you for your question. This quarter, this semester, we had the sales of gas to thermal plants. We didn't have this -- sale of the final product of energy to (generate) small volume that we had over the last five years. We expect to recover this. We have been working on materials over the last 3, four months. And we are not really concerned about it. And I don't think this will bring huge (inaudible) in the near future. Well we are in a comfortable position regarding our final decision. And we are not really worried in our related to this topic.

## Operator

Mr. (inaudible) from (inaudible) has a question.

## Q - Unidentified Participant

I would like to know if you can comment a little bit more on the auction that's going to take place in Roraima. And what's your position given this auction scenario? We had -4 (sic) (A-4), -6 (sic) (A-6). How do you see this with regards to growth? And what's the dispatch expectancy for this year?

## A - Lino Lopes Cancado {BIO 20167891 <GO>}

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Lino. Regarding the Roraima auction, we have this, of the project. We have registered a project that was really widely disclosed. And this is related to the liquefaction of Azulão gas that's transported by road to Roraima. The project that we have made is ready to be operated. We are going to be participating in this auction on the 31st of this month.

Regarding are there any other auctions, we have been working actively and we have opportunities to participate at -6 at Azulão, which is in the (inaudible) (Roraima). We also have an opportunity at A-6. We have different projects, which is a thermal plant on this field in the field of Azulão. Just to complement, I must mention, I believe the company is always paying attention to (frequency) of growth. And I believe that if this is quicker for the company, I think we should consider potential movements. (For completion.)

## Operator

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

## A - Unidentified Speaker

Thank you, all. I hope to see you again in the next earnings call. Have a good day.

## Operator

This conference call is closed. Please disconnect your lines and have a good day.

(Statements in English on this transcript were spoken by an interpreter present on the live call.)

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