

## Q1 2017 Earnings Call

### Company Participants

- Pedro Zinner, Chief Executive Officer and Investor Relations Officer

### Other Participants

- Unidentified Participant

### Presentation

#### Operator

Welcome to the Conference Call for ENEVA to release Results for the First Quarter 2017. We have with us today Mr. Pedro Zinner, the CEO and the CIR. We would like to inform you that this event is being recorded and that all participants will be in listen-only mode during the Company presentation. Ensuing this, we will go on to the question-and-answer session when further instructions will be given. (Operator Instructions)

This event is also being broadcast simultaneously through Internet via webcast and can be accessed at the address [ri.eneva.com.br](http://ri.eneva.com.br) and also on the Engage-X platform, where the presentation is also available. Once again, you can control the slide selection. The replay of this event will be available soon after its end. We would like to remind you that participants in the website can record their questions that can be answered during the question-and-answer session.

Before continuing, we would like to clarify that forward-looking statements that may be made during this conference call regarding the business outlook of the Company as well as operational and financial forecasts depend on the Company's management as well as information currently available. They are no guarantee of performance as they involve risks and uncertainties and they refer to future events and depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors could affect the future performance of ENEVA and lead to results that differ materially from those expressed in such forward-looking statements.

We would now like to give the floor to Pedro Zinner, who will begin the presentation. Mr. Zinner, you may proceed.

Thank you, and good afternoon, everyone, and good afternoon to everybody. I would like to thank you for taking part in the conference call for ENEVA for the first quarter 2017. We have with us my team and the Director of Operations.

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The Company presented another quarter with good results, reaching EBITDA of BRL257 million in the first quarter of 2017, thus showing a growth of 26% vis-a-vis the first quarter of 2016. The EBITDA margin increased 11 percentage points in the first three months of the year, reaching 58%. The good result can be explained, thanks to the fixed revenues of Parnaíba II, the readjustment of inflation on the fixed revenues in our contract and thanks to the reduction of operating costs.

The Company also presented in the first quarter of '17 an operating cash flow before expenses with taxes of BRL247 million, once again showing the soundness of our assets and the importance of seeking ever more efficient operations. The consolidated cash position for the Company at the end of the first quarter '17 was at BRL620 million. The generation of ENEVA in the first quarter was of 593 megawatts, a reduction of 50% vis-a-vis the first quarter of 2016. And we also had a reduction in dispatch, as we will see in detail in the future slides.

Before we refer to the details of the Company's operating performance, I would like to remark on the North Subsystem, where we have more than 80% of our installed generation capacity. The levels of dispatch in the Parnaíba Complex and Tucuruí were low for the first quarter of the year. This can be explained by three factors. First of all, the high levels of the Tucuruí reservoir. Secondly, an increase in the Belo Monte generation capacity. And third of all, the limited transmission capacity, resulting from the North Subsystem and going to the other system.

As you can observe in the graph in slide number four, the first quarter of the year is marked by an increase in the level of the Tucuruí reservoir, which is the most important in the North. During 2016, we adopted a conservative energy policy with the aim of storing energy in the Tucuruí plant. As a result, the year 2017 began with reservoir level that were above those of 2016. The level of the reservoir increased rapidly, reaching a 100%, approximately on the 10th week of the year, one month before the historical average, thus reducing the need for dispatch in the North system.

As we will see in detail in the following slide, the expansion of the transmission system for the -- from the North Subsystem to the other regions of the country is lagging behind. The Belo Monte plant is already operating with 3 megawatts as an average capacity, generating a surplus of energy in the North Subsystem. As a result, the marginal cost of operation has been very low since mid-February and the Parnaíba Complex and Tucuruí that are allocated in the North System have been disconnected since that time.

As we mentioned previously, the Belo Monte plant reached an installed capacity of approximately 3 gigawatts in the first quarter of 2017. This generation was not available during the same period in 2016. Now, we consider limitations in our capacities for power transmission between the North Subsystem and other subsystems because of a delay in the connections North, Northeast and Southeast, and we will observe an impact in the outflow of hydroelectric power from the North region to the other regions. These effects will take place in the coming year, thus reducing the predictability of thermoelectric dispatch from the Northern region and consequently from the Parnaíba Complex.

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Before we go on to the operating highlights for the quarter, I would like to update you on the situation of Parnaíba II as I have done in all the conference calls, and the drought situation. As you are aware in September of last year, the government issued a decree for the period of September 2016 to August 2017, adding the historical tax and an additional cost that is equivalent to 3 times what was being collected.

Since that period, the Company has been negotiating with all the parties involved. Last Friday on May 5th, ENEVA, at the Federal Regional Court obtained the authorization to pass on this amount through our tariffs. This decision also states that the Company cannot be penalized in the case of a reduction or interruption of power due to the lack of stability in the supply of water.

We will now go on to slide number six to speak about our operational performance. In the first quarter of the year, average generation decreased 49% vis-a-vis the same period last year to 593 megawatts. The result as mentioned previously can be explained by the drop in dispatch. To continue, the average generation was 50% lower if compared with the previous period in 2016. In the coal segment, the drop was 48%. The Pecem II plant as it is connected to the North Subsystem was the only one that maintained a high dispatch in the first quarter of 2017, reaching 87% in line with what had been observed the previous year. Alone, it contributed with 482 average megawatts or 45% of the total Company generation for the quarter.

In the operation area, we'll now go on to slide number seven, we would like to highlight the efficiency and the availability of the gas thermal plants, even with Parnaíba IV not operating. Parnaíba IV is the only plant with a contract for the supply of energy to the free market and will remain disconnected during 2017. ENEVA has purchased the necessary power to honor the commitments that are part of the contract, ensuring the availability to commercialize power. The availability of this complex, excluding the Parnaíba IV was at 70 -- 97% compared to 92% for the first quarter.

In the coal plants, availability increased 1% in the first quarter compared to the first three months of 2016. Besides the increase in availability, the Itaqui plant had another significant result, a reduction of its operational cost of 43% vis-a-vis the first quarter of 2016, and this is due not only to the low dispatch, but also to an optimization of cost with the reduction of maintenance cost, enhancing operational roles and also a reduction in the cost of material.

If we look at the financial performance on slide number eight, the net revenue for the Company had an increase of 2% in the first quarter to BRL445 million, 2% growth vis-a-vis the first quarter of 2016. Adjusted recurring EBITDA reached 257 million for the period, an increase of 26% vis-a-vis the first quarter of 2016. Cash generation was positively impacted by the readjustment over the revenues in our contracts that we had already mentioned, the fixed revenues of Parnaíba II and the reduction -- or an increase in operating costs, EBITDA margin was at 257 million for the quarter, representing an increase of 26% vis-a-vis the same period in 2016.

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If we analyze the growth of EBITDA by business segment on slide number nine, we can observe a contribution of BRL27 million for the coal segment, which can be explained by a lower dispatch in Itaqui and an enhancement or improvement in costs. The Parnaíba Complex contributed with BRL32 million. The holding had a negative contribution towards EBITDA. This impacted by the new allocation of operating costs and due to the integration between Parnaíba Natural Gas and ENEVA.

In slide number 10, it is possible to have an overview of the Parnaíba Complex. The drop in dispatch in the first quarter negatively impacted the production of natural gas in the period, which dropped by 53.1% to 0.15 billion cubic meters. On the other hand, the smaller production had a positive impact on the reserves of natural gas. The remaining certified reservoir -- reserves of 2P on March 31, 2017 were at a level of 17.56 billion cubic meters. Even with the drop in production, our EBITDA margin remained stable with an increase of 2 points -- percentage points to 65% in the first quarter of 2017 when compared to the first quarter of 2016.

If we look at the performance of our coal assets on slide 11, the Itaqui plant was positively impacted by a lower dispatch level in the first quarter of 2017. As mentioned before, the plant also reduced operating cost by 43%. As a result, Itaqui's EBITDA grew 27% in the first quarter to BRL56 million, and Pecem II, EBITDA grew by 1% to BRL30 million.

Moving to our investment front on slide number 12, we saw a drop of 51% in the first quarter this year when compared to the first year -- the first quarter of last year. Investments totaled BRL44.7 million in the first three months of the year. It included improvement of the water intake from Mearim River and the gas production management, which added more producers for Parnaíba and the acquisition of the remaining participation interest in two R13 exploratory blocks in the Parnaíba Basin. So out of the total invested in the first quarter, 88% were for production and 12% for generation activities.

I'd like to highlight the importance of investing in maintenance with natural gas production system in the Parnaíba Complex. We are right now investing in maintaining those certified reserves to the producing system. For 2017, we expect an investment of up to BRL120 million and also begin operating improvements at Itaqui and Pecem II.

The Company will still invest approximately BRL300 million towards the maintenance of the natural gas production system at Parnaíba as mentioned before, which included the development of two new fields, Gaviao Azul and Roncador, and also investment in the recovery sector at Gaviao Real. It's also worth mentioning that in the first quarter, ENEVA concluded successfully the drilling campaign at (inaudible) Caboclo and expects to connect that field throughout the next quarters.

Our operating cash flow in the first quarter of the year reached the level of BRL246 million, an increase of 61% when compared to the numbers posted in the first quarter of last year. This result, as explained before, was positively impacted by a readjustment for inflation on the fiscal revenues by an increase of the fiscal revenues coming from Parnaíba II and by reductions in operating costs across the Company, an increase in our cash

position by 41% in the first quarter to BRL620 million also reflects the effects of the generation of operating cash and also reflect a better performance by the Company as a whole.

On slide 14, on March 31, 2017, we posted a net debt of BRL0.46 billion with the average maturity of 5.2 years and a nominal cost of 13% a year. The net debt EBITDA ratio for the last 12 months reached a level of 3.76.

Lastly, we're looking for continuously improving the Company's capital structure. On slide 15, we can see the change in the schedule of that amortization after the rollout of the bridge loans for Parnaíba II at BRL734 million in January 2017 and the amortization of Parnaíba Gas Natural debt at a BRL165 million, which was settled in February of this year.

Well, I'd like now to close our call. I'm very happy, very proud of all the work we have been doing at ENEVA, and I'm also proud to be able to show you quarter-on-quarter concrete results that the Company remains committed to operating excellence, also always searching for a better CapEx structure and also focused on continually improving our efficiency and the profitability of our assets. We remain working to develop and operate business in the energy sector with an eye at generating value for the shareholders, for society and for our associates as well.

Thank you all, and we remain now available for questions.

## Questions And Answers

### Operator

Thank you. We'll now start the Q&A session. (Operator Instructions) Mr. (inaudible) from Santander would like to pose a question.

### Q - Unidentified Participant

Good afternoon, everyone. I have one question about Itaqui plant. On slide 11, you show a variable EBITDA of 17 million negative. I'd like to have some more color. So is it negative when you have a dispatch? That's what I understood. Am I correct in my understanding??

### A - Pedro Zinner {BIO 17260844 <GO>}

Yes, you are correct. That's exactly it. What we have been doing is we have been trying to find alternatives to increase efficiency and avoid dispatches. This quarter was quite positive in that respect considering all the cost reduction that we implemented and as I mentioned before. So the focus, as I said, is towards reducing dispatch levels at Itaqui.

### Q - Unidentified Participant

Okay. Thank you.

## Operator

(Operator Instructions) Thank you. Since there are no more questions, I'd like to turn the floor back over to the Company's management for their final remarks.

## A - Pedro Zinner {BIO 17260844 <GO>}

I'd like to thank you all for participating in our call, and I hope to see you again next quarter. Thank you. Have a nice day.

## Operator

Thank you. ENEVA's conference call is now over. You may now disconnect your lines, and have a nice day. Thank you.

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