

Q2 2016 Earnings Call

Company Participants

- Jose Aurelio Drummond Jr, Chief Executive Officer
- Marcelo Costa, Executive Vice President, Investor Relations Officer

Other Participants

- Unidentified Participant

Presentation

Operator

Good afternoon. Thank you for standing by. And welcome to ENEVA's Conference Call to discuss the results relative to the second quarter 2016.

I would like to inform you that this event is being recorded and all participants will be connected in listen-only mode during the Company's remarks.

After that we'll start a Q&A session, when further instructions will be provided. (Operator Instructions) This event is also being simultaneously broadcast over the Internet via webcast and may be accessed at the following URL ir.eneva.com.br. There you also find the respective slide deck. Slide selection will be controlled by you gentlemen. Download will be available right after the closing of the event. Participants of the webcast might post their questions in advance, those will be addressed by the executives of the companies during the Q&A.

Before moving on I would like to state that forward-looking predictions made during this call concerning the Company's business outlook and also by the financial and operating forecasts are based on assumptions and beliefs of the Company's management and also on information currently available.

Forward-looking statements are no guarantee of performance. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not materialize. Investors should have in mind that general economic conditions, industry conditions and other operating factors might affect the Company's future performance and lead to results that will differ considerably from those expressed in these forward-looking statements.

Now I'll turn the conference over to Mr. Jose Drummond who will start the presentation. Please Mr. Drummond, you may carry on.

Jose Aurelio Drummond Jr {BIO 16095800 <GO>}

Good morning, everyone. Thank you for attending our call to discuss the results of Q2, 2016. Here with me today we have Marcelo Costa. I'd like also to acknowledge, you realized, we announced the election of new Board Members for the Company. Pedro, was elected Company's Board of Director along with Paulo Petrassi, Mr. Cancado, Laira and Alexandre Americano. Pedro is now also the Financial VP and also IRO that position was occupied by Marcelo until recently and he'll now be our Treasury and Management Director for the Capital Markets. I'd like to thank Marcello very much doing an exceptional job both in IRO and in Financial Management which allowed us to reach the position we have today.

This was fundamental for us to overcome all the challenges that were ahead of us in the past periods. You will see by the coming results, we will report today, we have very solid results, which really makes us optimistic about the future and makes us also very proud of the Company's accomplishment.

So I'd like to now go briefly over page two of our slide deck. I'll be covering this executive summary. The first item on the summary has to do with the judicial recovery, which was successfully concluded just recently, past the last June, and that also made us very proud that is the result of a joint effort from shareholders, associates, partners, a combined effort that allowed us to overcome the challenge before the anticipated deadline, and allowed us to position the Company to pursue growth.

Again, all the associates have good reason to be proud, and we are sure, we are now trading a successful trajectory. The second important point, we have concluded during our shareholders meeting last week, the contribution of PGN in ENEVA, which was approved by shareholders who are now going through a validation process, which should be completed by the end of September.

As you know, we announced that on March the 25th 2016, there was a series of conditions to be met, and we updated the market on a recurrent basis, on that transaction. And we are now at a very comfortable position, and we're really set - happy with the development of that process.

The third item on the summary, which also makes us very proud about the Parnaiba Complex, which is now available at maximum capacity starting on July 1st, both companies met very important obligations with respective regulatory agencies to be able to position the Company at a position to deliver full capacity.

Exceptional efforts conducted by PGN in trying to meet the increase and available capacity for gas and also for ENEVA to make its respective homework.

So, we're starting July 1st, we are up and running with Parnaiba Complex at maximum capacity, which shows our excellence in execution and our high level of efficiency.

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Another important highlight was a growth of 65% of our EBITDA year-on-year on the second quarter, reaching BRL191 million, a very impressive figure.

The highest, the Company has reached and which also makes us very confident that we're following on the right path. And that allows us to be confident in terms of the ramping up of new installations such as Parnaíba II. So, we are once again confident in our forward goal, in our progress going forward. Also our gas plants performance were very, very positive as you'll see when Marcelo takes over the presentation, and were more than enough to offset coal generation challenges.

Marcelo will go into detail about that. But especially for our Itaqui plant where we had -- where we lost and I'll say -- ICMS or tax credit which had a substantial impact on our operations.

And then the Pecem operation which contributed positively year-on-year and several other initiatives that the Company is conducting concerning Itaqui from legally disputing the loss of that incentive to working with all the (inaudible) and also, of course, focusing closely on the Company's internal efficiency, and Marcelo will also be addressing that later on.

But the final result was very positive and helped generate EBITDA and cash for the Company. We also had a very good performance in upstream PGN especially because of a higher dispatch as you will see in more detail later in the presentation.

We also had a cash generation of BRL72 million mostly coming from operations and already net of expected debt service which will materialize in the quarter -- in the amount of BRL125 million which assures us that we are on the right path in terms of improving our operating excellence and improving cash and meeting our financial obligations, and therefore continue to grow the Company.

And finally, we still continue to obtain efficiency gains in G&A, be it expenses concerning the holding or also stabilization of operations within purchase, which are part of our network, you'll see later on. In short, all performance indicators in terms of operation have been showing considerable progress. We have met our obligations as planned aiming at taking care of our debt service. We have been following all the schedules, which were pre-established and we are in line with our creditors.

And we have been showing very good capacity not only of executing such a complex operation, but also we have been able to continue working with the Company on a regular efficient basis, that looks very promising there going forward.

So, in summary, this was a very important quarter for the Company, a historical quarter which will be finding [ph] the future path of the Company, and we are very proud to be able to announce those numbers for you today.

Of course, there are challenges ahead and the Company will be able to deal and tackle those challenges very well, and we'll update you as we move along in those different fronts.

With this, I will give the floor over to Marcelo who will go into more detail about our numbers.

Marcelo Costa {BIO 19696616 <GO>}

Thank you. Good morning, everyone. Before starting, I'd like to thank, as Drummond was saying, I'd like to thank the efforts that led the Company to the current position. And I'm very proud to be part of such a successful team.

Our purpose here is to go over the Company's performance numbers in the quarter, and then we'll have a Q&A session.

So, moving on slide number three, picking up from the highlights explained by Drummond. On page three, we have the sharp improvement on EBITDA in the quarter. We have a breakdown by segment, where we can see a significant improvement in our cluster for Parnaíba making sure that what we have as a gas segment is what we call UTRs [ph] and gas supply is under upstream in this EBITDA bridge.

So, we see an improvement, a significant improvement in EBITDA, which came to BRL75.5 million and, of course, the release has an attachment breaking those numbers down in further detail, including companies which are not consolidated in our balance sheet.

And that is then to show you that the improvement we've seen in accounting terms, which is also a result of our consolidation is also a result from an improvement of each and every one of those assets.

When we look at the numbers in the blue columns, they are pro forma format. They are the same assets we're comparing. So, in other words, we are improving both pro forma and operationally speaking.

On slide number four, we have a breakdown for each one of the assets and each one of our units, coal and gas. First one on the left you see the performance, comparing the coal industries plants that work on coal. It's worth mentioning that we had some challenges ahead of us.

As Drummond mentioned, concerning Itaquí one of them is the tax the ICMS issue, but there was another important fact which happened last year. We had a non-recurring revenue relative to the re-accounting of this issue relative to the non-availability.

For Itaquí in 2015 that happened in several plants, but in the case of Itaquí this was acknowledged or recognized in the second quarter of 2015. This is well described on

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page seven of our earnings release and that has an effect of over BRL30 million, which is a positive impact on the EBITDA for Itaquí.

So, that's the main item, I'd like to call your attention to when we have this negative variation between EBITDA for Itaquí between quarters in 2015 and 2016 on top of the ICMS issue.

And for Pecem, we had a relatively slight positive increase, which is good, but there was also a provision for a coal inventory which resulted in a decrease of 7.5 million in EBITDA for Pecem II in the second quarter of 2016.

We could also say in the end -- the performance of the coal segment despite all the challenges show or shows an important advancement as well. As for the gas fleet on the right hand side of the slide, we see an excellent performance across the Parnaíba plant or the Parnaíba Complex as you can see on the chart where we have Parnaíba I and II.

We have grouped those two because of this EBITDA transition, because at the time we were replacing Parnaíba I by Parnaíba II. So, it's important to analyze those jointly. I mean, analyze both EBITDAs together up until that quarter, starting on the third quarter as Drummond has announced as of July 1st, 2016, there was the ramp up of Parnaíba II. So, as of the third quarter, we will see EBITDA and revenues coming separately in a normal conventional way. And for Parnaíba IV was a very good surprise we had in terms of EBITDA, very interesting because of the price dynamics among submarkets North and Southeast.

Moving on to page five or slide number five, we also have the progress of adjusted EBITDA for the Upstream segment. Then we have a higher demand from the plants, which led to a higher cash generation and higher EBITDA for the Upstream also for the PGN. It is important to highlight that we are talking about 27% of our stake at PGN.

So, it's not a 100% that we are including here in this presentation only 27%. And this potential drop in EBITDA it's not exactly that, which is on the slide, because last year PGN had a non-recurring effect and its respective EBITDA was higher due to PIS/COFINS credits that were accounted for, that happened in the second quarter of 2015.

That non-recurring effect has been compensated by our interest of 25% and sit at BRL20.5 million. From the standpoint of the Holding on the right hand side, we also see an improvement, Holding's EBITDA is usually negative, because it does not have a positive gross revenue, if you will, even though we grew the energy or the power sales. But it shows that in terms of EBITDA, there was a considerable increase of 60 million quarter-on-quarter, basically due to a decrease in administration expenses.

We have been working on it since we started announcing those figures by the end of 2015. We also allocated expenses throughout our portfolio. And some adjustments on our portfolio, which were conducted, which also helped generate important results for EBITDA, and which are recurrent, if you will, in terms of decreasing expenses moving

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forward also for the Holding. So, that accounted for an important reduction in the Holding's negative EBITDA.

On page six, we show that on top of EBITDA generation, the Company has also been generating cash -- cash generation in 2016 has been happening positively. And on slide six, we also see the main effect, it's coming from the higher EBITDA, higher operating cash generation, but we have a breakdown once again between what's consolidated and what is pro forma.

So, once again, we see improvement on both fronts. On the consolidated front and as a pro forma, we have 72 million in terms of cash generation in this quarter. That is the number we will be exploring or talking about on the next slide.

On the left, we basically see operating cash flow is (inaudible) EBITDA which accounts for over 80% of that cash generation figure. Operating cash, investments in the quarter are in line with the maintenance of business requirements BRL37.6 million which is normalized then it is used for maintenance of Itaquí.

And on the financial front, we are close to BRL125 million negative to pay or to amortize interest. So, we have to do with indebtedness [ph] we have for conducting our projects and which is completely in line with what is expected, which was planned by the Company.

With that, we have a final cash generation in the quarter as shown of BRL72 million which is quite robust. And which means a significant contribution coming from the operation.

Now, we'd like to close the presentation and we'll start the Q&A session. If you have any comments or remarks or doubts, and then after Q&A we'll have a final message from the CEO.

Questions And Answers

Operator

Thank you. We shall start now the Q&A session for investors and analysts. (Operator Instructions) Here we have a question.

Q - Unidentified Participant

Just to repeat to you Roberto is asking from the webcast. He is asking about how the additional EBITDA in the PGN?

A - Jose Aurelio Drummond Jr {BIO 16095800 <GO>}

The best way to answer this question is to consider EBITDA considering 100% of the PGN which is public, which is -- this was last year, it was 317 million and the other piece of information, which is also public information that can be checked in our website is from 2014 is based on the results of the Company. It was BRL404 billion in EBITDA. In the first

quarter, we have on page four, a pro forma calculation with 27% of PGN, and on the second quarter, which was in the quarter 20.5 million and this is on page five of our report and 27% of PGN.

This is the best way we can answer your question. And thank you Roberto for your question.

Operator

(Operator Instructions) Thank you. Since there are no further questions, I'd like to give the floor to Mr. Drummond for his final considerations.

A - Jose Aurelio Drummond Jr {BIO 16095800 <GO>}

Thank you very much. If you go to page eight of our presentation. The message I'd like to give you today is that we are going to continue to improve the operating performance in a total safety environment.

This is our major priority and having more efficiency in costs in our operations. In addition to this, we are trying already to implement our integration plan and our senior executive has been already elected and his function is already defined and he is working on the Company. Finally I'd like to tell you that we keep the commitment of building the only independent gas-to-wire company in the country with two different and complementary activities of power generation and where we were totally connected with the Parnaiba Basin with three different phases and with this vision, with this mindset that we are going to continue to work. And then we have -- this is what we promised to you on March 25th when we started this transaction and we want to report to you the progress of our company and the fact [ph] we are planning towards the future.

We are quite proud of being presenting to you this good results. Thank you very much for your attention. And we are available to anytime if you have any further questions. Thank you very much.

Operator

Thank you. The teleconference is closed. Thank you and enjoy your afternoon.

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