

## Q3 2016 Earnings Call

### Company Participants

- Jose Aurelio Drummond Jr., Chief Executive Officer
- Pedro Zinner, Executive Vice President and Investor Relations Officer

### Presentation

#### Operator

Good afternoon, and thank you for standing by. Welcome to ENEVA's Audio Conference to discuss the results pertaining to the Third Quarter of 2016.

Today with us, we have Mr. Jose Aurelio Drummond Jr., the CEO; and Pedro Zinner, Executive Vice President and IRO. We'd like to inform you that this event is being recorded and all participants are connected in listen-only mode during the company's remarks. After that, we will start a Q&A session when further instructions will be given.

(Operator Instructions) This event is also being broadcast simultaneously over the Internet via webcast and may be accessed at [ri.eneva.com.br](http://ri.eneva.com.br), where the respective slide deck can also be found. Slide selection can be controlled by you.

The replay of this event will be available right after its closing. Once again, participants of the webcast might send their questions on the website and it will be addressed at the Q&A session.

Before moving on, we'd like to state that -- forward-looking statements made during the call concerning the company's business forecasts, financial and operating targets are based on beliefs and assumptions of the company's management and also on information currently available.

Forward-looking statements are no guarantee of performance because they involve risks, uncertainties and assumptions as they refer to future events and depend therefore on circumstances that may or may not materialize.

Investors should have in mind that economic -- general economic conditions, industry conditions and other operating factors might affect the future performance of the company and then lead to results that will differ materially from those expressed in these forward-looking statements.

I'd like to turn the floor over now to Mr. Drummond, who will start the presentation. Please Mr. Drummond, you have the floor.

## Jose Aurelio Drummond Jr. {BIO 16095800 <GO>}

Good afternoon. Thank you, everyone. Welcome to our third quarter 2016 earnings call. This is a very important call -- quarter for our company. You had a chance to see several material facts that we announced in March. On top of other accomplishments that we will be covering during the call.

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First of all, I'd like to follow me to slide number five. As part of our integration program, which we announced last March, and we concluded last October evolving ENEVA [ph] and PGN, we have worked together with both companies to build the new company's mission, values and vision. Mission, values and vision are now the founding pillars of our pathway towards the future. I'm not going to dwell too long on this, but just to make -- acknowledge that this is part of the integration process of both companies. And those pillars will guide us in our growth in the future and also our attitude and our behavior across the board, across the company.

Moving on to page six, you also saw our material facts published in October and saw the validation of this transaction. And with that, the company's shareholding structure cannot be seen on slide number six.

It is an integrated company, the reservoir-to-wire with three important pillars. Production, generation and reservoir-to-wire, where we are present at the Parnaiba Basin, as you know very well. And the share structure has no single controlling body now, it's quite diversified with shareholders who have been with us for a long time, they're very driven, very motivated towards the future.

Moving on to page number seven, I'd like to go into a bit more detail. This was a very important quarter for us in terms of accomplishment. The first one is that today we are totally operational, fully operational, we have no asset in construction right now, they are all fully operational and they are generating 2.2 gigawatts of installed capacity. 1.4 of those gigawatts in the Parnaiba Complex and the remaining in our coal plants and other assets that we have around Brazil.

We have also reached in the third quarter the production of 8.4 million cubic meters of gas, which allows us to operate Parnaiba at full steam, which was a commitment we established before and we kept our word within deadline, it was a very, very hard work with our whole of our team put into this. We are still conducting operating improvements in several areas of the company, we have a very broad plan to integrate several work-fronts, which has allowed us to continue to operate according to international benchmarks in our plants with very high levels of availability, as you'll see forward in this presentation when we talk about our results.

We have established internal targets for HSE, which are more rigorous than the legislation requires us to, and we have been operating within those limits. We have established in this third quarter a record of cash generation, a record of EBITDA in the company's history, which places us in a very -- comfortable position for us to face the upcoming

challenges both in terms of our financial, our financing challenges and our growth challenges as well.

And with an increase in capital which we implemented on October 1st, 1.1 billion -- 1.16 billion to be exact, plus 14 million [ph] in cash and has concluded this transaction, which we announced in March, and that's a landmark in the company's history, a landmark in Brazil's energy sector, today we are a company, which is fully operational.

As I said we are integrated reservoir-to-wire, the only company in the industry with that condition in Brazil, we are able now to meet all our contractual commitments both with our partners and regulating agencies and we are performing at international levels in terms of availability and operating results.

And we do believe this is a very important step for the company. In other words, to be able to follow our growth path and expanding our operation, our management is characterized by a high level of responsibility in managing our everyday operation across our front operation including HSE.

With that I'd like to turn the floor over to Pedro Zinner, who will be going into our figures for the third quarter. And at the end, I'll be back for Q&A or comments or doubts you may have. Thank you.

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

Thank you, Drummond. Good afternoon, everyone. And welcome those who were here with us in the third quarter -- in the second quarter announcement.

On page nine, we'll be talking about the ramp up of Parnaíba II. As Drummond said just now, the quarter was marked by the initial of Parnaíba II, which added 519 megawatts in our installed capacity to the Parnaíba Complex, representing an increase of approximately 60%. In total, investments totaled BRL1.3 billion, which added BRL425 million in the company's revenues. In this third quarter Parnaíba does reach alone an average production of 490 megawatts, whereas the Parnaíba Complex had a record generation of 1.1 gigawatts, reaching almost full installed capacity which is 1.4 giga.

On page 10, also very important was the expansion of the gas production by 71%. Another very important landmark in the third quarter, the increase of our production capacity from 4.1 million cubic meters a day to 8.4 million cubic meters per day of natural gas production capacity. And that was possible because we managed to integrate Parque dos Gavioes and with Gaviao Branco and Gaviao Branco Sudeste.

Totally 95 kilometers of pipeline and 23 new producing wells were added. During the third quarter, the company received a new certification report from Gaffney Cline [ph] Solutions. And according to that report, the company increased its reservoir volumes which are certified to 18.5 billion [ph] cubic meters of natural gas, an increase of 2.1 billion cubic meters, when compared to the second quarter of 2015 [ph], representing a growth 3% in the period.

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On page 11, we'll be talking about the highlights of the third quarter. As for power generation the main highlights as we mentioned before, with the exception of the program shut out for maintenance of Parnaiba I, Parnaiba III and Parnaiba IV. They were shut down for a period of 13 days.

Our coal generating assets suffered a negative impact, because of the stoppage at Itaqui. Itaqui had to stop twice for maintenance, one to repair its auxiliary, which is a rating [ph] system, and another one want to repair the boiler.

The plant also had to stop because of an injunction which limited the emission of sulphur, but that has already been solved. The companies closely following the Pecem II plant, which has been impacted by hydrology in the state of Ceara as it was mentioned before. It's worth mentioning that the plant continues to operate normally as we work to overcome the problem of the emergency water situation, without hindering the plant's financial performance. ENEVA is trying to find a solution that will cater to everyone or everybody's demand, without interrupting the energy supply for the state of Ceara and for the Northeastern region as a whole. The Pecem Complex accounts for 60% of the energy consumption in the state of Ceara and 10% [ph] of the energy consumed in the Northeastern region of Brazil.

The oil and gas E&P represented by (inaudible) Parnaiba and BP&MB, we had an increase on average of daily production of 4 million cubics per day -- from 4 million cubic meters to 6.3 million cubic meters, and a our growth of 57% when compared year-on-year. That was driven mainly by Parnaiba II entering into operation and to a higher level of dispatches in the second half of 2016.

Moving on to Energy Trading, ENEVA commercialized 556 million megawatt hours, our lignite exposure remained low with approximately 280,000 megawatt hours of purchased energy as opposed to 276,000 sold. The company opted to purchase balance due to the maintenance schedule of that plant.

Lastly it's worth mentioning our financial discipline and our cost control discipline. We have reached a record pro forma EBITDA of 350 million in the third quarter of 2016. The result was positively impacted by the growth of 26% in revenues as opposed to a cost increase of 4%. With the cash flow of 260 [ph] million in the period and a free cash flow of 200 million in the quarter we closed the quarter with a consolidated cash position of BRL500 million.

On page 12, we'll be talking about our operating performance. The company's average output grew 224 [ph] megawatts, a 17% increase when compared to the third quarter of 2015. And within stock operation in Parnaiba II, we added a capacity of 495 megawatts average, thus reaching a record average generation of 1.5 giga in the quarter. Our level of average dispatch for the third quarter for gas thermal plants set at 77% as for the coal run thermal plants, we reached 59%. Those levels can be compared to an average dispatch in the third quarter of 2015 at 73% [ph] for the thermal plants in the Parnaiba Complex and 87% [ph] for the thermal plants that run on coal.

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Availability of the thermal plants run on natural gas was lower than that of the third quarter of 2015, as we can see on the chart on the right. The drop was due to a program shutdown of three days in Parnaíba I, Parnaíba III and Parnaíba IV plants in September of 2016.

In the third quarter of 2015, the program shutdown took only five days. If we are just -- the availability for the third quarter of 2016 to the effect of the program shutdown, we would reach a level of 87%, which is in line with the availability level find [ph] in the second quarter of 2016.

Our coal availability was better in this quarter. They are starting to show an availability of 99% with an average generation of 236 megawatts, whereas the availability for Itaipu was 76% -- 77%, impacted by the shutdown for maintenance, which have already been mentioned.

On page -- the next page you saw some of our operating performance. And within this context, the third quarter was an important landmark in terms of operating performance. Because now as Drummond mentioned, we can say that our assets are fully operational, have been tested at close to 100% of the capacity have reached a record level of generation of 1.1 gigawatt average in the Parnaíba Complex with the start of Parnaíba II, and we increased our natural gas production by 57% in the third quarter of this year. Even considering the seasonal effect from the regions hydrology, we reached record level of generation. We are now the second producer of natural gas in Brazil and we account for 5% of the thermal generation in the country.

In page 14, let's talk about the financial performance of this quarter. Okay. So we can observe that the net income of the company in the third quarter has increased by 26%, BRL661 million. The result was positively influenced by Parnaíba II's operations in the annual adjustment of the fixed income of Parnaíba II and Parnaíba III. The coal TPPs had a reduction of 2% in their net income because of the lower generation in the period and maintenance shutdowns. Despite that reduction, there was an increase in the fixed income because of the annual adjustment as forecast previously.

The EBITDA also had a substantial growth of 55% against the third quarter of 2015, reaching the record level of BRL350 million. The EBITDA margin end of this quarter has reached 52% and the company had an accrued EBITDA of BRL52 million with an increase of 10% of points.

On page 15, before mentioning in detail the variables of the EBITDA, it's important to show the reconciliation between the pro forma values and the actual values. The pro forma values aims to show the managerial number considering all the risks that stem from an increase in capital from 2015-'16, so there we can compare the results of the period, we can have a macro vision of the business from now on. So after adjusting the share of the years 2015 and '16, we had a pro forma EBITDA of 350 million in the third quarter, which means the growth of 55% vis-a-vis the same period of last year.

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On page 16, let's talk about some variations of pro forma EBITDA and the main factors that impacted the growth in this variation. I believe the first factor is the coal TPPs and a reduction of 7 million in the EBITDA can be put down to a drop in the net income as previously mentioned and it surpassed the reduction of operating costs and it can also be explained by lower consumption of inputs. And it's important to highlight the negative impact on costs with labor and also because of our scheduled maintenance plan. These initiative resulted in an increase in our operations in the mid and long run. The second point is regarding the gas TPPs, an increase of 77 million in the EBITDA was a relevant point. 60 million of which was because of the start-up operations of Parnaiba II and the operating expenses of the gas TPPs were affected because of shared services between our holding and others. And it's also important to mention an increase of 54 million in the EBITDA associated with the production of natural gas and a reduction of 27% in our operating expenses.

In the third quarter of 2016, the operating cost had an increase of 11% against the third quarter of last year because of a higher production of gas. It's also worth mentioning that although we had an increase in operation costs, we had a reduction in terms of costs per cubic meter, because we are considering new exploratory fields. So we had an increase of a 125 million in the EBITDA of this third quarter and an improvement of 10 PPs

On page 17, let's talk about our free cash flow. Although the net income and the strong EBITDA, the results of the third quarter were negatively affected. So we had a net loss of BRL10 million and a substantial improvement against the same period of 2015 of BRL116 million. So if you compare the EBITDA and the free cash flow, we had a substantial increase, now we have a conversion level of 6%, 7% against 50% in the third quarter of last year. And the free cash flow had a substantial growth in the third quarter with BRL50 million, which enabled us to increase the consolidated free cash flow. In the first nine months, the free cash flow grew by 19% against the same period with BRL103 million.

On slide 18, let's talk about the investments of the company in the third quarter. As we have mentioned previously as of the third quarter, we started having a fully operational portfolio. And with the end of our expansion projects, we can see the investments in the quarter was 52 million, much lower than the 327 million that we had in the third quarter of 2015, when the company invested in Parnaiba II and in Parque dos Gavioes in Parnaiba.

On page 19, before I conclude, I would like to talk about the debt profile. The growth debt profile is steady at 5.7, and the net debt had a reduction of -- from 4.9 to 4.3 in the third quarter of 2016. Now we are going to renew our lines of credit aiming to increase the capital of the company. So diversifying our accesses to capital especially by having multi-lateral agencies and other instruments for liability management, they are part of our long-term strategy.

And with that we now conclude the presentation, and I would like to open for questions now.

## Questions And Answers

## Operator

Thank you. The floor is now open for questions. (Operator Instructions) Thank you. Since there are no questions, I'll turn over to the company for closing remarks.

Thank you very much for your attention. And we hope to see you again in the beginning of next year to talk about 2016. Thank you very much.

## Operator

Thank you. This concludes today's ENEVA's earnings conference call. You may disconnect your lines at this time. Thank you.

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