

## Q3 2020 Earnings Call

### Company Participants

- Lino Cancado, Chief Operating Officer
- Marcelo Habibe, Chief Financial Officer
- Pedro Zinner, Chief Executive Officer

### Other Participants

- Unidentified Participant

### Presentation

#### Operator

Good morning, and thank you for waiting. Welcome to the Eneva Earnings Release call to discuss our results in the Third Quarter of 2020. Today, with us, we have Mr. Pedro Zinner, our CEO; Mr. Marcelo Habibe, our CFO; and Mr. Lino Cancado, our COO. This event is being recorded. And all attendees will be on listen-only mode during the presentation delivered by the Company. Then we'll have a questions-and-answer session, when further instructions will be provided. (Operator Instructions)

This call is being broadcast over the Internet via a webcast. You may access it at [www.ri.eneva.com.br](http://www.ri.eneva.com.br), where you will also find today's presentation. You will be controlling the slide deck. You will be able to hear this event again after its conclusion. All attendees can send us questions in writing and in advance over our website for the questions-and-answer session.

Before proceeding, we'd like to highlight that any forward-looking statements that may be done during this earnings release presentation concerning our business prospects or any operating and financial forecasts and targets are based on beliefs and assumptions by Eneva's Board, as well as on all the information available at the moment. These forward-looking statements are not a guarantee of performance as they concern future events and therefore depend on things that may or may not happen. They entail risks and uncertainty.

Investors must understand that the overall economic scenario, changes to our industry and other operating factors may have an impact on Eneva's future performance, leading to outcomes that may be significantly different from the forecasts contained in such forward-looking statements.

Now I would like to hand it over to Mr. Pedro Zinner, who will start the presentation. Mr. Zinner, you may begin.

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

Thank you. Good morning. Once again, thank you for attending our Q3 earnings call. Before we start, please pay attention to the disclaimer on Slide 2 and then we move on to Slide 3. The quarter highlights. First, let me point out that results were according to our expectations. They also include the effects of the pandemic, less contracts or fewer contracts in energy and a drop in dispatch, a decrease of 13% of our adjusted EBITDA when compared to last year numbers. We managed our liabilities, paying the short-term debt and those that were more expensive were covered by new credits.

Our net cash is BRL2.6 billion. We had BRL1.5 billion in Q3 of 2019. Towards the quarter's end, our leverage was 1.3 times EBITDA. Our CapEx was over BRL400 million, the construction sites of Azulao-Jaguatirica and Parnaiba V, despite the slowdown caused by the pandemic. The highlights of the quarter include an important landmark for the Company. That was back in September, we launched our first sustainability report. This is yet another important step towards a long-term sustainable management activities. And we are going to be a key player in the energy transition for the country.

A few highlights of ESG, on to Slide 4 now. We are contributing to a cleaner energy mix in the country. We would like to point out four recent initiatives. We invested over BRL35 million in preventive maintenance in our generation plants. We are constantly committed to managing our assets. We closed the cycle of Parnaiba I plant. We invested over BRL79 million implementing our power plant, our TPP, Parnaiba V. We made progress in Parnaiba V, investing over BRL255 million, replacing diesel oil in standalone systems. In terms of innovation, we have just concluded pilot projects of solar energy in the states of Maranhao and Ceara, 3.5 megawatt of installed capacity.

We are going to have a distributed generation and also for our own use in our plants. We have a second round of selecting start-ups, consolidating our positioning as a company that can provide energy for the future. In the social realm, we play a key role in the development of local communities that are more vulnerable. I would like to point out two initiatives. We are addressing the issues of the Parnaiba community. We delivered the land and the houses for these families that have been removed, and we also requalified operators for the Azulao field. We concluded the second phase of the training program. 16 of the 31 people that were trained will be hired by the company. All participants live in the city, in the area of Azulao, and they'll be receiving that technical training. This is proof of our commitment to help develop skilled labor in the region.

And finally, as governance goes, we have joined the company pact for integrity and against corruption. It's a voluntary commitment to promote a more upright and ethical market.

I'll turn over to my colleague to address the financial performance.

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

Thank you, Pedro. Good morning.

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Moving on to Slide number 5, in market data, we see a recovery in the consumption of power as of the third quarter. This load is growing up compared to the same quarter in the last year. And for Parnaíba, we also see more recovery, including the North region. In demand, economic indicators show recovery of the economy. We have temperatures above averages at the end of the third quarter, so we are adjusting our expectations for consumption in the short term.

In supply, we have a market that has been impacted by hydrological conditions below expectations, which affects storage, pricing and dispatch. So we see a positive market dynamic for thermoelectric dispatch in the future compared to the previous quarter. All our plants resumed dispatching at the beginning of the third quarter according to seasonality. With the CVU of Parnaíba I, we have historical levels, over 200 megawatts of energy that are at settlement prices, very close to the cap.

On Slide number 6, we see our performance in the third quarter. We saw a reduction in net performance year-over-year. We had atypical changes in this quarter because many of our plants were turned off. Parnaíba II had dispatched from July to September to make sure we complied with contractual terms. Parnaíba IV started only in the last week of September. Parnaíba I dispatched only for a few days after we had a period of unavailability at UT Parnaíba V. Because of less dispatch, we had a reduction in variable expenses during this period, which created impact in the consolidated net revenue with minus 35%, BRL562 million in the third quarter of 2020.

On Slide 7, we see the adjusted EBITDA. We saw a 13.7% retraction in the annual comparison. This happened because of the revenues that we didn't have because of less dispatch. In the Upstream segment with the Parnaíba Complex, we had the biggest player that was responsible for the reduction in the EBITDA. Now in coal generation, we saw BRL127 million as EBITDA in this quarter, a 47.9% increase year-over-year, even though we didn't have dispatch during this quarter. Our average is 82% in the third quarter of 2019.

Now this positive result in coal EBITDA was the result of the increase in the fixed margin, which is positively impacted by the gross contractual regulated revenue. It was also impacted by costs of operation and maintenance because of the initiatives that we had to reduce costs in plants. We also had an improvement in our margin compared to last year because last year, we had a deterioration of the variable margin because of the average cost of coal inventory and the CVU of plants when they were starting to dispatch again in the third quarter of 2019.

We also saw an improvement in the margin for trading because of our strategy of allocation based on an expectation to reduce prices in the third quarter of 2020 and because of some labor provisions throughout this quarter. So we got to BRL29 million.

On Slide number 8, we see cash flow. We have BRL271 million. This is a conversion of almost 94% of EBITDA for this quarter in cash flow. As Pedro said, we invested BRL407 million in this quarter and from raising and others, we had a positive BRL359 million. Our cash flow is extremely robust right now with BRL2.6 billion.

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On Slide 9, we see that in the third quarter we reinforce our liquidity. We had funding to a total of BRL1.2 billion, BRL948 million coming from simple debentures and BRL273 million from disbursements from the Amazon [ph] Bank from the Azulao-Jaguatirica project. With the BASA, we have the disbursements related to the contract that we entered into in January of this year for the construction of this project.

Now, if we think about the disbursements that we are going to have through the funding with the Northeastern Bank and the Amazon Bank. And if we think about our current cash flow and if we exclude the debt that we have including the BNDES and Northeastern Bank approval that we got to be paid next week, we got to a BRL3.3 billion cash position and we are not thinking about future cash generation. This is very comfortable and very robust for us to work with the BRL1.75 billion obligations we have for investments in Parnaiba V and Azulao-Jaguatirica. This cash position makes us really comfortable to work at this company in the short and medium term for the projects under construction, and we'll begin operations at the beginning of next year for these projects.

On Slide number 10, we talk about capital structure. As a result of continuous efforts with liability management, we are improving our capital structure and debt profile. In Q3, our debt profile is similar to the previous quarter. We had a BRL4.8 billion debt in comparison to BRL4.5 billion in the previous quarter. The leveraging with net debt-to-EBITDA ratio was different because we had 3.2 times last quarter.

Now if we think about the Bank of China, in addition to the issuing of debentures for Eneva, we reduced from 2.6% per year to another number, if we compare this result year-over-year. We had a long duration, so only 9% of these debts are going to be due at the end of 2021 or by the end of 2021.

Now, I hand it over to Lino who is going to give us details about investments in this quarter.

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

Good morning, everyone. Since we are picking up on the construction work after that low activity period at the end of second quarter, consolidated investments amounted to BRL407 million in the third quarter, a 3.1% increase when compared to Q3 2019. 82% of this total was allocated to an integrated project, Azulao-Jaguatirica project and Parnaiba V. These are the major investment projects for the company. In Azulao, we have already started the metallic assembly and we made progress in the area for the trucks. And these are the tanks that will store the LGM [ph] and they are already being installed. 67 cryogenic trailers have been assembled; 10 are in Manaus and the remaining 57 are at the plant, they are about to be sent to Manaus. The remaining semitrailers, 110, will be delivered by March 2021.

In self-generation, we are doing the concrete work, and we have received all seven gen sets that will be installed in the final quarter of this year. Back in Jaguatirica, we are installed -- we have installed the equipment. The thermal and the steam turbines have been installed and the ex -- auxiliary structures are in place. We have finalized a pipe heck

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(Sic - pipe rack) structure, receiving the pipes that will connect the boilers to the steam turbines. The boilers have been assembled and the air condenser are in the final stages of assembly.

For Parnaiba V, we have made progress in assembly of the water treatment plant and the cooling water piping and the demineralized water pipes. We have installed number 32 Diverter Damper for the slow availability purity, and we have started installing Diverter Damper 31. All of them have now been installed. As to the gas power plants, we have booked remaining values referring HGP maintenance work, maintenance work conducted this year that hadn't been recognized. We have already booked advance payments made to the AGP for the two turbines in Parnaiba II because we had to repair kits for the parts that will be used in these interventions in 2021.

As to the coal plants in Itaqui, we conducted preventive maintenance in the water pumps, and in replacing valves that control the minimum flow for these pumps. In Pecem, we have booked BRL7.8 million in advance payments to suppliers, referring to the same overhaul activity conducted back in 2019. In terms of exploration, we conducted the drilling of wells, 1-ENV-13 for the Block-68A and the 103 block and 1-ENV-15 in the PMP Block-102A. PN-T-102A is for the permanent offer, these blocks were acquired in 2019. We are beginning to prepare the drilling activities for the Tianguar and 3-11 well in the same Tianguar farm.

As to the development activities, we have finalized drilling 7-GVTE-1-MA, that's the Gaviao Tesoura field. It's a development well, but it was also drilled to check the levels of Gaviao 18. We are starting drilling Gaviao Branco II to bring production of those wells still in 2020 -- the well drilled in 2020.

Slide 12 now. This is an overview of the different stages, our projects and what has already been concluded. We have moved -- or we have made progress in all of them when compared to what we said in August. In Azulao, we have resumed the workforce, even hiring more people when we had before the pandemic. The hot commissioning will take place in December 2020. We're going to run gas for the first time, and we'll keep on this auto generation unity once we have the loading equipment. The time frame is April 2021. We'll be loading the cryogenic semitrailers, they'll be delivering that too in May 2021.

As to Jaguatirica II, we have replenished the workforce in numbers, pre-pandemic. The completion level is above 65%. The power units are positioned and hot commissioning activity is expected to take place in May 2021 when we get the first shipping of LNG for the plant. The integrated system is expected to run in October 2021 for commercial operations. And as we said in the previous earnings call back in August, the company asked the authorities to extend the time frame for 120 days. That request is still pending, and we haven't had any decision on their part yet.

On to Parnaiba V now. I would like to point out that most of the main equipment has already been delivered or it's either delivered or on their way. They're pending some logistics arrangements. The main transformer is already there at the base, it's positioned already. The generator is a 380-megawatt generator with a heavy load, 880 tons. It has

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been delivered at the Itaqui port, and we're just waiting for the authorization for the transportation. The high-pressure and medium pressure turbine manufactured in the U.S., they have already been shipped, they are at the construction site in Santo Antonio.

The rotor for the steam turbine is expected for November 2021. The LP Hood, that's the low-pressure stage manufactured in China, it's been shipped already and we're expecting that in January '21. And the final piece of equipment, a large piece of equipment, it's our condenser, manufactured in Indonesia. It's expected to be here in March 2021. Once these pieces of equipment are delivered, we minimize the risks of delays because of the manufacturing of these large pieces of equipment. The commercial operation is expected to start in February 2022.

Okay. Moving on, Slide number 14. These are pictures of the construction work. On Slide 14, top left corner, you see a picture of the unloading of the generator, 480 tons. We're just expecting -- just waiting for the authorization for the transportation. High and medium stages pressured, on your right. It has been delivered to our construction site. Bottom left corner, another picture of the generator. And your bottom right corner, that's the high-pressure and the medium pressure stages when it was being unloaded in Itaqui.

On Slide 15 now, you see pictures on the top -- at the top, that's the main transformer. It's been delivered and it's positioned at its base. And at the bottom, another takes -- another pictures of the Diverter Damper, all four of them have been installed. They connect the exhaust for Parnaiba I to the boilers that are being built in Parnaiba V.

On to Slide 16 now. On your left, you see an aerial shot of Jaguatirica II plant. The white pieces of equipment you see, these are the storage units, they've been positioned and installed. Where you see the crane, that's the assembly of the ceiling or the steam turbine building. On your right, you can see the tanks on the left of that picture, as I've seen -- as I've mentioned, they've been installed. And in the middle, that's the water treatment tanks. At the bottom right corner, you'll see the positioning of the coverage of the roof of the steam turbine building. On the left, you can see some -- or one of the boilers that has already been completed.

Slide 17 now. Top left corner. You can see the chimneys of the boilers. On your right, you can see the metal structure with those green parts that's the assembly of the air cooler condenser. And at the bottom, you can see the storage tanks with its access passage ways already in place.

On to Slide 18 now. These are aerial shots of the Azulao field. On your left, you can see, in the forefront, it's going to be concluded in December. On your right, you can see the 28 cryoboxes already positioned, and they are now being installed in the cryogenic portion of the plant.

On Slide 19, top left corner, that's the admin building. Bottom left corner, the auto generation building, it's already assembled, we have the structure in place. The seven generator sets will be assembled here in December 2020. On your right, you have a close-up shot of the cryoboxes. They are being covered in canvas. And at the bottom of

the isotanks that are the storage tanks for the Azulao plant. They've already been positioned and the manifolds are now being installed.

That's all we had to show you. We can now start the Q&A session, please.

## Questions And Answers

### Operator

Thank you. We will now start the questions-and-answer session for investors and analysts. (Operator Instructions) Our first question is from Mr. Pedro [ph] from Goldman Sachs.

### Q - Unidentified Participant

Good morning. Good morning, Pedro, Habibe and the team. It's been a while I haven't had the opportunity to ask you this question. I've been reading a few articles about a process of yours with the Urucu center. So how is this process going? And what does the company expect for the opening of this for releases and closing? And with the Urucu center, do you have any restrictions because of the location?

And you have Teg [ph] transportation and you probably have some restrictions because of that. We've seen some conversations about it when it comes to the competent authorities, and there were conversations about expanding this network for gas transportation. Then maybe in this case, Urucu would be able to contribute more to the system. So what can you tell me about that?

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

Good morning, Pedro. Thank you for your questions. The proposals haven't been sent. We put -- Petrobras changed its program. We are finalizing that analysis. These are last days, fine-tuning, interpreting the information to submit that to our Board and then make a decision whether we are going to submit a proposal, for how much and what conditions and all that. Petrobras has not informed as to when they're going to open that envelope. We haven't heard any official announcements. They don't usually take a lot of time. As to the gas pipeline, it's a Teg. Everyone is assessing that. Everyone is interested. They've been talking to Teg to think about whether they're expanding it, whether they are interested to expand it. And Teg will negotiate the tariffs or the rates with the molecule owner.

### Q - Unidentified Participant

Great. Thank you. It appears to me that this is a big asset. And it's probably hard to deal with this initiative because there is oil involved, and you have a bottleneck for transportation. So even with higher fees, it could be challenging. And I think these contracts will be over by the end of the decade, around 2028 or 2029. And of course, we also need to think about Teg's interest in expanding it.

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I imagine they are interested. But how would this expansion play out? Would you have reinforcement CapEx for transmission? Would you have new regulations to price this molecule? I do imagine the interested stakeholders are having these conversations, or are they not? Maybe we're only going to see it in the future as companies deal with this information later? Maybe they will try to negotiate this in the future?

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

You're right. All the comments you're make are right. Yes. It's about BRL20 today for transportation rate. It's due 2030, you're right. It's at the end of the decade. As to an increase in transportation, it's a matter of negotiating that with Teg, by making additional investments that may remove that bottleneck, that can transport an additional volume of molecule. This additional investment will be compensated, not in the tariffs per se but there should be some rates increase along the same lines. Everyone that is interested is talking to Teg. We are on the verge of submitting an envelope. It's sensitive activity. Of course, everyone has their own strategy before they submit a proposal. But conceptually speaking, you are dead right.

**Q - Unidentified Participant**

Yeah. Let me follow-up on that question, because I think this is one of the most interesting topics right now. What is going to change for the Company? So let's say you win this proposal, let's say you get it. What is going to change for the company? It looks like another leap. And it's interesting to look at Eneva because it looks like you have had many leaps and you deal really well with them. And you have been delivering on your promises since your IPO. So would this be another leap for the Company or would it be something exceptional for you?

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

Hi, Pedro. This is Pedro Zinner. How are you doing? That is along the lines of what you just said. It's an investment platform with a lot of capacity to allocate capital. Urucu is yet another opportunity. It's a major asset when compared to the size of the company. It's within the company's core competency. We can recover this type of asset. This is the most important thing. We have always pointed out the competitive advantages, the access to gas molecules at a competitive price and then we sell the electrons. This is yet another leap that goes along the lines of the Company's strategies.

**Q - Unidentified Participant**

Great. Thank you, Pedro, and thank you Habibe.

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

You're welcome. Have a good one.

**Operator**

(Operator Instructions) Our next question is from Mr. Pedro from Goldman Sachs.



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## Q - Unidentified Participant

Let me take this opportunity to ask another question. So Pedro was talking about the Company's core and the advantage of using this molecule. Something new in Brazil right now is trading gas. We have less verticalization right now when we have other factors. And we don't know whether supply drives demand or demand drives supply. But I would like to understand your approach with trading and what your focus will be? I know in Azulao, you don't have such a great dispatch.

Would you be able to have capillarity for local business in this case? What is your team thinking about? And what is your company strategy for that? Do you have a small project or could this become more relevant for the company?

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

It's Pedro again. I think we have been made -- we have been making progress slowly, but surely. We have been conservative in terms of the trading unit. But a major change that may happen in the future is to reposition ourselves in that context you mentioned, in the context of having access to gas molecule competitively. And if we have a surplus of gas in our fields, an important component in the company's strategy is to negotiate that likely surplus. We have moved a long way trying to prepare the company in that sense, either by bringing in new people or developing that kind of skill in-house. I don't know whether I answered your question or not.

## Q - Unidentified Participant

Yes. I just wanted to have an idea of how you're putting this together at the company, especially for the trading unit? Do you think this will be relevant for you within the next years? And I think when we talk about trading, we have different levels of trading. We can even talk about trading your own molecule or molecules from third-parties or working with small scales. We also have large-scale clients. So I was wondering about where it would be most advantageous to work in?

Would it be better to work with clients that use diesel right now because they pay much more? Or would it be interesting to go into the business of large-scale trading? Would that make sense for you?

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

I'll be addressing the question more broadly. Yes, it makes sense, and it depends on the amount of reserves you may have on our fields. Maybe portfolio mix makes sense. Well, the segmentation that you brought up makes sense, but it all depends on the scale. If you provide services to industrial customers, you replace diesel, thermal with gas to supply to new markets. Yes, it is part of the company's strategy, and Azulao is a good example in that sense. You generate a new business front in the company using transportation, the gas from Azulao to Jaguaticara. There is another important component. That is, of course, the agenda of the regulatory agencies. You've seen what's been going on, pending issues that have to be addressed, so that we can have a freer market.

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

This is Lino here. That depends on the exceeding reserves. And if so, it all comes down to the cost to make good use of the opportunities. Our molecule is very competitive -- has a very competitive cost. And then we have a liquefaction and transportation costs. It's all a matter of volume and distance, that will make sense to cover the costs. If you can justify those costs to the agents surrounded, it's going to be a winning model. Based on the initial analysis we have been performing, we have been detecting opportunities. There are several opportunities in which that equation makes sense and is competitive. We'll see in the future. If we do have that surplus, yes, that can be a winning model.

### **Q - Unidentified Participant**

Great. Excellent answer. Thank you.

### **Operator**

Our next questions come from the webcast.

Good morning. Is the company interested in being a part of the permanent auction scheduled for December? Could you please talk about the opportunities in the blocks that we see there? And do you think this auction makes sense in December? Should it be held in December?

Second question, how are things going in Jurua? Is it an asset that depends on Urucu? Or can you monetize gas from Jurua in other ways?

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

This is Lino. Permanent offer, look at the blocks, I think it's part and parcel of what we do. We were there in the last round. Of course, we are paying close attention to everything in neighboring areas and even other areas. That's part of what we do on a daily basis. Yes, the company is interested. We are keeping track of these developments. We are considering, and we'll be making a decision with our Board of Directors before that auction on December 4.

Moving on to Jurua, it is an asset included in that permanent offer. It's where we already have projects. We will then have a similar answer. That's what the company is supposed to do. We have to make that assessment. And there are other processes that, at the same time may determine our level of interest. That's what we can say on the verge of these auctions.

### **Operator**

Thank you. If we don't have any other questions, I will now hand it over back to the company for their final remarks.

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

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Once again, thank you for attending our earnings call. Hope to see you next year. Have a good one.

## Operator

Thank you. This is the end of Eneva's conference call. You may disconnect now. Enjoy your day.

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