

Y 2020 Earnings Call

Company Participants

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

Other Participants

- Guilherme Lima, Analyst
- Marcelo Sa, Analyst

Presentation

Operator

Good morning, everyone and thank you for standing by. Welcome everyone to Eneva's Conference Call to discuss results relative to the Fourth Quarter 2020. Today with us, we have Mr. Pedro Zinner, CEO; Marcelo Habibe, CFO, and Lino Cancado, COO of the company. The event is being recorded and all participants are connected in listen-only mode during the Company's remarks. At the end, we'll start a Q&A session when further instructions will be provided. (Operator Instructions) This event is also being broadcast over the Internet through our webcast and may be accessed at ri.eneva.com.br, where the respective slide deck can also be found.

You are free to flip the slides at your own pace. A replay facility of this event will be made available at the end. Participants will be able to file their questions beforehand to be addressed during the Q&A session.

Before moving on, I'd like to remind you that forward-looking statements made during this conference concern the Company's business outlook, operating and financial targets are based on beliefs and assumptions on the part of the Company's management. And also on information currently available.

Forward-looking statements are no guarantees of performance. They refer to future events, which depend on significance that may or may not materialize. Investors should understand that general economic conditions, industry conditions and other operating factors might affect the future -- the performance of Eneva and lead to results that will differ materially from those expressed in these forward-looking statements.

Now I'd like to turn the conference over to Mr. Pedro Zinner, who will start the presentation. Please Mr. Zinner, you may carry on.

Pedro Zinner {BIO 17260844 <GO>}

Good morning, everyone and thank you for participating at our results call for the fourth quarter 2020. I hope that you all well and safe during this delicate moment of all or lives. Before moving on, I would like to ask you -- look at the disclaimer on Slide number 2, if you will.

Moving on to Slide number 3. I'll speak a bit about our main achievements in 2020. Our robust financial performance reflects the resilience of our business model. To improve the efficiency and the profitability of our -- as well as our capital structure, we concentrated -- in reducing debt and in maintaining a strong balance sheet which is also flexible, which will make our growth strategy more viable.

Even in the most adverse scenarios, we have kept our commitment with the safety and security of our employees and the quality of service delivery to our clients, we'll continue leading and developing projects that will make it possible for us to transition to a cleaner, more stable and cheaper energy for society, thus fulfilling our mission of supporting the growth of renewable energy.

About 2021, we're working with 6 main objectives. The first one is to maintain our reserve replacement ratio and further develop our exploration portfolio in the Parnaiba and Amazon basins. The second one is to conclude the implementation of Azulao-Jaguatirica projects and continue the implementation of the Parnaiba V project on time.

Third, to expand our operations along the whole gas to power value chain. Fourth, to enhance our marketing strategy and to develop new value chain. Fifth, to establish long-term commitments from our sustainable future and develop ESG metrics to monitor our progress and achieving our results. And also to promote the reduction of our carbon footprint, focusing on providing energy solutions that replace high-emission energy sources.

Now let's move on to Slide number 4, in which I will talk about our fourth quarter results. Our fourth quarter results exceeded our expectations, especially considering the difficult situation we experienced in 2020. Our adjusted EBITDA totaled BRL614 million in the quarter, a 16% increase year-over-year. That reflected the recovery of dispatch levels combined with increased sales of prices in regulated and free markets as well as the reduction of operational costs.

Aiming to improve the capital structure of the company, we continued paying our short-term debts and debentures early. As a result, we had longer-terms and we reduced our debt. We closed the quarter with BRL1.3 billion as cash balance. A slight increase compared to BRL1.8 billion in the fourth quarter of 2019. So at the end of the quarter, our leverage was of 3.3 times net debt over EBITDA.

Our CapEx achieved BRL629 million in the quarter. Most of the proceeds were directed to be Azulao-Jaguatirica and the Parnaiba V project as well as our exploration activities in the Parnaiba basin. We also focused on acquiring blocks in the quarter. We acquired two

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blocks -- some blocks in the second Open Acreage cycle of ANP with the Jurua field, and the Solimoes basin. And 7 exploratory blocks, 3 in the vicinities of the Azulao field in the Amazon basin, and 4 in the Parnaiba Basin. Creating a new exploratory front for the company.

Now about the first quarter of 2021. As we announced, we were invited by Petrobras to take part in the negotiation phase to define the terms for the potential acquisition of exploration fields and production of hydrocarbonates in Urucu. The signing of the sales contracts depend on successful negotiations that involve commercial and contractual aspects that are typical of the transaction itself, I would like to make it clear that we cannot give you further details about this negotiation because of confidentiality issues.

Having said that, I'd like to turn the floor over to Marcelo Habibe, who will give you an overview of the market and the financial performance in the fourth quarter.

Marcelo Habibe {BIO 20367888 <GO>}

Thank you, Pedro. Good morning, everyone. Let's move on to Slide number 5. I'll give you an overview of the energy market in the fourth quarter of 2020. When it comes to demand, we saw an increase in the consumption of energy because of the economic recovery after the initial shock of the social distancing measures in the first half of 2020. And we had a typical climate here with higher temperatures.

Our energy consumption was 2.3 higher, year-over-year. And in 2019, we had a pre-pandemic period as you can see on the chart on the right hand side, when it comes to supply, the volume of rain affected the reservoir levels and this effect, together with the high temperatures of the period, contributed to the drying of the land, which committed the re-establishment of the energy levels in our reservoirs. This led to an increase in the average prices of energy and increase the production in thermal power plants in the quarter.

Now let's talk about the market forecasts for 2021. We started the year of 2021 with the reservoir levels that we're at the lowest in the last 5 years. As you can see in the chart in the left hand side, so ONS authorized since the fourth quarter of 2020 and throughout the first years -- first months of the year, a dispatch for energy supply.

Looking ahead, we see the recovery of the reservoirs and the market forecast show a reduction of the dispatch prices for the following months. And the actual numbers of January to March in 2021, we estimate that the dispatch will be around 26% -- from 26% to 36% in the first quarter of 2021.

On Slide 7, you can see the company's performance impacts. On the left hand side, we see a slight reduction of the average dispatch in the fourth quarter of 2020 when compared to the same period of 2019. This reduction is due to the pandemic impacts on the economy. On the consumption of in 2020, and although there was a recovery in the end of the year. There is still some effects here impacting the fourth quarter results.

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However, it's important to highlight that we see an increase in the volume of energy in the free market in the fourth quarter of 2020 compared to the same period of the previous years. And this is because of the increase in energy in Parnaíba I and III that we did in 2019, reducing the amount of energy in ACL making more energy available to be traded in that level. Gas production also had a slight reduction of the dispatch volume responding to the reduction of the demand in the thermal power plants in Parnaíba.

And in spite of the scenario, we had an increase in net profit, because of the higher prices of energy sales in ACL and ACR. We had an increase of CVUs of the power plants in the fourth quarter mainly due to the annual inflation adjustment, that takes place in November every year, and the impact of the fuel and exchange rate indexes from one quarter to another.

And like in Parnaíba I, Itaqui, Pecem. So summing up, although we are consuming less gas and energy. We've had a greater profit with a greater efficiency in gas production and energy production.

So now let's talk about the financial performance on Slide 8. Consolidated EBITDA grew 16.3% year-over-year achieving the highest quarter value in the history of our company, BRL615 million. The EBITDA in Parnaíba Complex had 81.2% increase year-over-year because of the higher energy prices and cost reduction in operating expenses. But we had a reduction of EBITDA in the coal generation, especially because of the positive impact of internal reversions that happened in both quarters but that happened in higher volume in the fourth quarter.

So in the fourth quarter of 2019, the EBITDA was impacted by a reversion revenue of BRL127 million and in the fourth quarter of 2020, the revenue coming from this reversion was BRL53 million. These reversions happened in each quarter and led to positive results, recovering our fixed assets with improvements in our power plant performance. And although there was an EBITDA impact, these reversions do not impact our cash flow.

Now, we should also highlight the performance of our trading, which achieved records -- record numbers. There was a BRL15 million increase this quarter year-over-year and this results is a reflex of the successful strategy to early capture the trend of upward prices in the first quarter of 2021, of the fourth quarter of 2020.

And the EBITDA, that we achieved throughout the year, BRL1.6 billion was the highest in the history of our company. The highest ever. And 2020 was the hard year with lots of adversities, many unknown factors and even so, we were able to achieve record results in EBITDA and net profit. Now on slide number 9. Let's talk about cash generation. We closed the fourth quarter with a solid cash position to fulfill our obligations and to build Parnaíba V and Jaguatirica and to make the most of other market opportunities.

Our balance on December 31, 2020 was BRL1.9 billion aligned with the cash balance in the end of 2019, even considering all the cash disbursements that we had throughout that period of time. Our operating cash flow was BRL265 million boosted by a higher EBITDA

in the period and need of higher working capital impacted by a higher accounts receivable.

So accounts receivable was negative here in this period, mainly due to our billings being generated in November and December with due dates for January. So this money is already in our cash, but this is temporary. We had BRL543 million being disbursed for the construction of our plants, exploration activities, the developments in Parnaíba and maintenance of our power plants throughout the quarter.

Finance cash flow was negative by BRL417 million because of the disbursements made for prepayment of the debts type B [ph] and short-term debentures, as well as interest amortization.

Now going on to Slide number 10. In the quarter, we raised BRL213 million from BND and BRL517 million from the Bank of Amazon. So adding to the disbursements, that are forecast and that will be made as the constructions develop and the cash position in the fourth quarter of 2020, we have a liquidity of BRL2.5 billion more than enough for the CapEx that we have planned for Parnaíba V and Azulao-Jaguatirica in the next 2 months of around BRL1 million. Our liquidity position makes us feel comfortable to face our CapEx commitment in the short term as well as to consider new opportunities.

Now on Slide number 11. As a result of our continuous liability management efforts, we are improving our debt profile and capital structure. As I said in the fourth quarter of 2020, we made an early payment of the Itaqui debts with BNB, BNDES and short-term debentures.

With this payment of early [ph] -- more expensive to extend their consolidated debt term for 6 years, reducing the average cost of debt from 8.2% a year to 6.9% a year in the 4th quarter -- from the 4th quarter of '19 to Q4 '20. I'd like also to reinforce that currently about 80% or rather 6% of our debt will mature after 2025. At the end of the fourth quarter of last year, our net debt over EBITDA came out at 3.3 times, which is within our covenants guidance.

The increase of our leverage reflects a growth of the company's debt throughout 2020, combined with the financings of some of our projects.

I'd like to turn the floor over to Lino, who will go into more detail about the investments in the quarter.

Lino Lopes Cancado {BIO 20167891 <GO>}

Good morning, everyone. On Slide 12, we can see that as we continue to work on our plants, the consolidated investments for the fourth quarter 2020 came out at BRL869 million, 50% up from the fourth quarter of 2019. 88% of that amount was allocated to building our new Azulao-Jaguatirica project. And also the Parnaíba V plant. And the remaining were used in activities of exploration and maintenance of our plants.

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I'd like to go over some of the details around those investments and the respective projects. In Parnaíba V, the detailed engineering project has been concluded, the assembly of the boiler and of the chilling tower construction are close to completion. As for the chilling tower 6 cells out of a 12 total have been completed.

The arrival of the generator and the transformer were two important landmarks for the construction process and they have already been installed at their respective platforms. The steam turbine and now the water treatment pieces have been received and the two first stages of the steam turbine are already fixed at the bases in the building, which will house the turbines. In Azulao-Jaguatirica at the end of 2020, we had already delivered 33 cryoboxes which have been commissioned and we now only have one cryobox left to complete our 34 total, (inaudible) received 34 cryogenic trailers at the end of the year. The primary Gas Treatment Unit has also been concluded at the end of the year 2020, and we started the cold commissioning and we forecast for first gas to happen in the first half of 2021 as Azulao-Jaguatirica the assembly of the metal structure of buildings of the our -- air condenser cooler at the ACC were completed at the end of 2020.

We are now installing the electric cables and concluding the assembly of the power island equipment. Now equipment from the power island have already been received and installed and are now fixing their basis. In other words, our steam, turbines, dumpers, smoke stacks, generators, steam turbines as I said everything is already installed at the respective bases. As for the UTS [ph], the delivery of the pieces for maintenance for Parnaíba II has been concluded. And we also paid remaining amounts for the maintenance conducted in Parnaíba I in the first half of 2020.

As for the thermal -- coal thermal plants, we received equipment to unload coal from vessels. And we also conducted the maintenance of the transportation system for coal. And also for the reclamation facility. And on top of that, we have also invested to meet legal requirements. First for Pecém II, we also invested to adapt to Brazilian regulations, MR [ph] 10, 12, 13 and 20 and addressed critical pumps and also we overhaul the control room.

In the upstream, we concluded the drilling of 2 wells, ENEVA 16DA and ENEVA 17D, an extension of ENEVA 15 which was a finding at Gaviao Belo in the second half of last year. As for development, we finished drilling the well 7-GVBN and Gaviao Branco Norte. We also finalized the construction of cluster 6 at Gaviao Branco West with an 8 inch pipe to interconnect GDB cluster 3 to Gaviao Preto basic project, and we have also concluded the basic engineering project for the Gaviao Preto project, which will be implemented early 2020. And will be ramped up in 2022. And the remaining balance is also being accounted for the drilling of well 7 Gaviao Tesoura 1 and Gaviao Tesoura field that was included in the third quarter of 2020.

Moving on to Slide 13. Let's move on to some more details of current scenario, you can see on the Slide, Slide 13, the gas flow at Azulao-Jaguatirica and the status of all those projects. From left to right, our wells have been drilled and completed. The primary gas treatment unit has also been finalized, as mentioned, and is now in its commissioning phase with first gas expected for March. Liquefaction also mentioned, 33 out of the 34 cryoboxes have been delivered, assembled and cold commissioned and they are ready

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for the hot commissioning in the second half of 2021. As for tanking at Amazonas has been 100% installed and assembled. And lastly, as for the trailers at the end of 2020, we had 85 of them received. Right now, we have totaled 100 trailers out of 110.

Final delivery is expected for March 2021. At the other end of logistics, Jaguatirica, tanking at Boa Vista, 168 isotanks have been received. That's 100% -- 100% have been assembled as well. As for the regasification plant, we have positioned the tanks, commissioned them as well. And right now, we are assembling the manifold piping, which will transfer gas to the plant, regassed to the plant. As for the TPP, we have concluded the tail engineering works, the assembly has also been made for the power island, and administrative and electric building projects are also completed. Underway, we will have the assembly auxiliary equipment of turbines and also the control instrumentation and part of the interconnection pipeline for the plant. Over 90% of the Jaguatirica project has been completed and the commissioning for the gas and steam turbines will start in February. In other words, has already been started in 2021. Start-up is expected for the fourth quarter of 2021. And once again, we requested an exemption of responsibility of 120-day liability waiver, and we are now expecting a response from ANEEL. As for Azulao, 88% of the project has been completed. All 7 generators of the plan for self-generation already that will provide energy for the liquefaction phase, they are already assembled. And they're now going through a -- the cold commissioning phase. As for the hot commissioning, it started in January of 2021 and is expected to be completed in April 2021. The initial of the cryogenic trailers will be happening now in 2021, and the first GNL tank is expected to be delivered in the second quarter of 2021.

As for Parnaiba V, engineering has been concluded at 96% of what we call heavy construction work. Mechanical assembly has reached 85%. We have already received, as mentioned, the rich [ph] generator that was a very complex logistics process, a very heavy, heavy piece of equipment, and it's already assembled. The assembling and commissioning of the substation has already been concluded as well. That includes connection of the generator to the transmission lines, and also the assembly for the commissioning of the elevator or that elevator transformer rather that has already been concluded.

We have received all parts of the turbine, generator, boilers and condenser. They're all critical pieces of equipment and they're already at the site, many of them already installed, with the exception of the circuit breaker, which is expected by April 2021. Start-up is expected to the first quarter of 2022.

Moving on to Slide 14, we'd like to mention the recent announcement of commerciality of the new gas field for the Parnaiba Complex, it is being called Gaviao Belo and the Declaration of Commerciality was announced. Just to give you an idea of the size of the findings that are happening on the 6 blocks, which were acquired in the first cycle of the offer in September of 2019. In 1.5 years, we reached Declaration of Commerciality, once again, an important gas field. To reach that path of success, the well -- the first well was drilled in 2020. And with the data from the well submitted to ANP, we moved on. And until the end of 2020, all obligations and commitments for this discovery plan, which was submitted to ANP or to the agency was concluded. That included drilling and testing a second well and the acquisition of seismic study surveys. Our best expectations were

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confirmed for the second well, showing a gas column of over 66 meters with petro physical properties, which are similar or superior to the best fields of the Parnaiba basin can be compared with Gaviao Real and Gaviao Caboclo.

As for the volume, we do not have the acquisition or the certification of reserves, which will only happen at the end of the year as it is the practice of Eneva. But we already have estimates made by Eneva, statistics, which are based on data from the 2 wells and those -- that data can be seen on the left-hand side of the slide, Slide 14. We estimate recoverable of 8.03 of gas in place. And when we cover the recovery items of -- index of 85%, that represents 5.8 billion cubic meters of recovered reserves, which equals --equal to 22% of our remaining reserves at the Parnaiba basin. In other words, in December 2020, we closed the year with 26 Bcm of reserve -- proved reserve at the Parnaiba basin. And with the possible exploration of 5.76 to be certified. That field alone would represent an increase of 22% in our reserves.

On top of that, the field is also reaching condensed and we expect 22 million barrels of condensed products which will be generated during the production of the reserves. The next steps include the drilling of another 2 wells and in 2021 and the acquisition of another 54 kilometers of seismic 2D or 2D seismic and a third well, evaluation well after the acquisition of the seismic acquisition, possibly early in 2022. And lastly, the company now has 180 days to deliver the development plan to ANP.

And with that, we would go on developing the field. It's also worth mentioning that the field is located about 100 kilometers from the company's power plant for the Parnaiba basin and a few kilometers from the Gaviao Carijo field to the west. If you look on the map, the map on the right, we can have the red -- see the red arrow showing Carijo to the west and to the north, the position of the plants. I now turn the floor over to Pedro Zinner, who will talk about some of our ESG highlights.

Pedro Zinner {BIO 17260844 <GO>}

Thank you, Lino. While our commitment in maintaining a high level of corporate governance and sustainable practices forms the basis of our business approach, we are happy to see some more interest on the part of society in terms of environmental and governance issues, especially among investors and regulators. And to adequately deal with those issues, which were, of course, made more intense because of the COVID-19, we need to have vision and we need to be committed with a focus on the long run. Those aspects have always been in our DNA, and you have always listened to us talking about that. We have invested across several different ESG initiatives, some of them can be seen on the slide. And we have provided more visibility to this topic through our sustainability report, which was published in September last year.

We all -- we take this matter very seriously. And we don't want to commit to specific KPIs or specific targets before we have an extensive assessment of the main metrics, which are directly linked to our strategy. So you may expect that to happen in 2021. Eneva has grown fast, and we intend to maintain that trend. Our market value moved from over BRL20 million today, increasing our generation capacity in more than 30% and expanding our businesses across all (Technical Difficulty). We are like parents who once realize their

kids have become adults, and that happens at the snap of a finger. So we are very excited to disseminate our innovation culture in favor of concrete initiatives related to social, environmental and sustainable topics. I'd like to turn the floor back over to Lino, who will share pictures of our undergoing projects.

Lino Lopes Cancado {BIO 20167891 <GO>}

Good morning once again. On Slide 17, we can see the Parnaiba V Plant. You can see in the pictures on the upper left side, the arrival of the generator at the site and right below it, the lifting operation to put the generation at the top of the building of our steam turbine. This weights over 300 tons and the total operations took over 15 days from the Itaqui port to the arrival at our work site.

On the next slide, number 18, you can see the placement of the high-pressure and medium-pressure stages of the steam turbine at its base. You can see these stages being lifted on the pictures on the left and the center. And on the right-hand side, the arrival of the condenser at the port of Itaqui. The condenser equipment is already at our work site, and the assembly has started in March 2021. Now we can see an aerial view on Slide 19 of the Azulao-Jaguatirica integrated project in the Azulao site. And on Slide 20, you can see the progress of the work. On the upper left side, you can see a picture of the administrative building then you can see our LNG charging station being built and the third picture in the upper part of the slide, the trailer patio being paved. You can see the trailers working there. And the lower part of the slide, on the left-hand side, you can see the PTU's condensed tanks, which have -- the unit is 100% completed. And on the right-hand side, you can see the natural gas liquefaction unit electric center. This has also been concluded and is waiting for commissioning.

Slide number 21, still about Azulao. On the upper left side, you have an aerial view of the auto supply plant that will generate energy for the liquefaction units of the Azulao plant. This auto supply plant is almost ready. It's in the final stage of assembly of the equipment and generators. On the upper right side, you can see the installation of the auto supply generation and peripheral equipment. And here in the lower left side, you can see the generators at the base within the building of the auto supply plant in Azulao. In the lower right corner, you can see the external view of the building. The walls are being put up. Actually, now in March 2021, they have already been completed and you can see the fuel tanks and the black stack generator, a small diesel generator that is used to start the other generators in the auto supply plant. Still on Azulao field. We can see on Slide 22, in the upper left corner, you can see the 22 cryoboxes already installed at their bases. a 100% of them have been commissioned and tested at coal -- not -- in cold not generating liquified natural gas.

Then you can see all, the base here. One of the bases is empty here in the center picture for future expansion. But all the isotanks have already been received and installed. The ones that we were supposed to receive for now. Now on the right hand side of Slide 22, you can see the propane loading of cryoboxes. Propane is a gas that we use in the process of those units. Now in the lower left corner, you can see a picture of the cryobox tests being conducted. And in the center, you can see the isotanks with the interconnections already installed, which is what you see in blue.

On Slide 23, the logistics part of the Azulao-Jaguatirica project. You can see the trailers and tractors at Volkswagen/MAN in Resende. They have already been received by our logistics partner. And you can see the cryogenic trailers at that time, still located at the plant in Sarandi, the state of Santa Catarina, and these trailers are currently being transported to Manaus. Now let's look at the Jaguatirica site of the Azulao-Jaguatirica integrated project.

Here on Slide 24, you see an aerial view of the project. And on Slide 25, we can see further details of the Jaguatirica site. On the left-hand side, you can see an electric building, which has already been completed and is now receiving the electrical wiring. You can see several coils outside the building, which are being installed in the equipment and panels that control the plant within the electric building. On the upper right side, you can see the administrative building and Jaguatirica II almost complete. And in the lower right-hand side, you can see our power island. You can see the chimneys with the boilers. The 2 smaller chimneys are positioned right beside the dumpers and the gas turbines. And in the end, in the background, you can see the steam turbine building and 2 structures that look like W -- an inverted W is the air condenser. So the condenser of the Jaguatirica plant that does not use water. It only exchanges air and heat with the environment.

On Slide 26, you can see a close-up shot of the air cooler condenser assembly. And on the right-hand side, you can see our steam turbine building, which I mentioned previously, but this is a close-up shot. You can see the turbine inside and the wall behind which you can -- you would see the transformer of the steam turbine.

Then on Slide 27, you can see the gas storage and regasification. We have already received all the tanks and installed them and all the interconnections have been completed. And beside the tanks, you can see the installations there of the regasification that are being completed and interconnected to the system that will take the gas to our gas turbines. On the right-hand side, a close-up shot of one of the 16 transmission line towers that have already been completed. So this is what we wanted to share with you in terms of the pictures of the projects, and now I would like to open for questions. Thank you very much.

Questions And Answers

Operator

We will now start our Q&A session for investors and analysts. (Operator Instructions) Our first question is by Marcelo Sa from Itau, Marcelo, you have the floor.

Q - Marcelo Sa {BIO 16454581 <GO>}

Good morning, everyone. Thank you for this call. I have a question. I saw on the newspaper, that the project that will lead to the monopoly of gas in the Amazon was approved? And it's going to be assessed by the Governor? Does that impact the Urucu activities? Will you be able to sell to end consumers at a lower price? Can you give us for

the details about that? What can you tell me about Urucu? Do you have any expectations of when this transaction will be completed? Thank you very much.

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

Good morning, Marcelo. This is Lino Cancado speaking. Thank you for your question. So first, I'd like to comment on the Act that was passed at the assembly yesterday. This is a very modern Act for gas, that is aligned with the Certipian [ph] Espirito Santo legislation, which are the most modern state legislation for natural gas in Brazil and one of the main characteristics of the Act is the clear division between distribution and commercialization, net trading of gas. So agents can now trade gas, regardless of the distribution type. So projects outside the network will not be under the monopoly of the distributor.

The movement of natural gas and internal installation and transfer gas ducts within the property of the operator would not be considered distribution activity. So gas to power projects in the field like the projects that Eneva develops will not be considered a monopoly of the distributor. Now, when it comes auto supply, import and free consumers, this new Act makes it possible to consume over 300 cubic meters per month. So 10,000 cubic meters a day. If consumers have a consumption above that, they can negotiate with the distributors. Of course, they will have to pay for the distribution, if they are connected to the network, but they can make this direct negotiation with the producer.

And it also -- the Act also enables to set-up condominiums. So if there is a group of businesses that together consume over 10,000 cubic meters located in the same region. Then they can apply to become free consumers and therefore to be able to negotiate directly with the producer. So I think these are the main highlights of this Act. There are many others. This is a complex law, but it's aligned with the most modern legislations that have been approved in the country as I said.

As to the impact this has on Eneva's operations, I'd say this has a positive impact on Azulao, because we currently have certified reserves that are above those that we need for the Jaguatirica project. So, Eneva is now free to negotiate directly with those free consumers and a possible conclusion of the Urucu acquisition negotiation. I mean, first, the existing contracts will be respected in full, as they are today. So there will be no impact on existing contracts. But there is a possibility to trade additional gas from the reservoirs and Urucu.

And Eneva also acquired the Jurua field, which is located to the west of Urucu, and is near that Urucu production mash, so this can be developed and negotiated with free consumers, either through LNG, transportation or through the gas duct to Coari- Manaus.

Q - Marcelo Sa {BIO 16454581 <GO>}

Thank you very much. That's very clear.

Operator

Our next question comes from Guilherme Lima from Santander. Please Mr. Lima, you may carry on.

Q - Guilherme Lima {BIO 21017551 <GO>}

Good morning, everyone. I have couple of questions on my side. First, could you comment on the deferred tax which was recognize the results and also the potential of Pecem [ph]?

And a second question about the monetization of Gaviao Belo. Do you already foresee that through LNG projects. Otherwise, what would be a defining factor for you to consider Gaviao Belo for that kind of monetization? Thank you.

A - Marcelo Habibe {BIO 20367888 <GO>}

Good morning, Guilherme. Thank you for your question, I'll address your first question about the deferred income tax. Recently, there was a change, a revocation of CVM Instruction 371, which restricted or prevented companies from provisioning deferred income tax. They had to obey a 10-year window, that's no longer the case that was lifted. So our tax losses will now be able to be explored for 13 or 14 years. So as this 10-year restriction was lifted, those 3 to 4 surplus years of fiscal losses that we are not going to explore allowed us to register that as a positive result. That's what happened. In terms of (Technical Difficulty) but the only difference is that we no longer have that 10-year window restriction. We have no expectation of recognizing more than that. We already recognizing the whole term in terms of tax losses. In other words, that new window of 13, 14 years is enough. We should not expect to see new provisions going forward for the next quarters. That's just an accounting effect to be sure.

Of course, the practical consequence in terms of cash flow is one. Basically, we reduced our loss base in accounting terms, which way stays at BRL1.2 billion. So today, we'll bring that accounting loss down to 0 earlier and consequently, pay out dividends earlier than anticipated. Our short-term cash flow won't change at all. Lino will address Gaviao Belo.

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

As for your second question, Guillaume about Gaviao Belo, as we have increased our remaining reserves at the Parnaiba basin. We now have new avenue of opportunities to explore. We will start trading gas from Gaviao Belo or other fields. So now we have an option and it's up to us to decide what to do in the coming months. And as, of course, as exploratory campaigns move forward, we could, for example, trade LNG directly from UTG today, where we have reserves that can be used also for contracts at the plant level. Just to reinforce something, this had already been announced on the Eneva Day, we have created a new business unit which we called energy solutions with small scale LNG, dedicated to providing energy solutions to clients who today are using diesel or other types of oil fields and replace that by natural gas, a cheaper solution and also a solution with a lower environmental impact, lower carbon emissions. And in that respect, we are already talking to several potential clients, NPOE and Para around the Parnaiba complex and the same thing goes for the Amazon and Roraima in the environments of our gas reserves in the Amazon.

Q - Guilherme Lima {BIO 21017551 <GO>}

Okay, good. Thank you for your answers.

Operator

(Operator Instructions) Your next question comes from the webcast. And it's the following. I'd like to know, the company's position in 2021 around auctions and M&A operations? Thank you.

A - Unidentified Speaker

Good morning and thank you for your questions. As for auction, 2 auctions are expected to take place this year. About us and a third one on isolated system. The first one, A minus 4, A minus 5 in June. And a second energy auction in September for new energy. So the company is assessing a few projects. We have nothing to anticipate right now. We assessing also a possible partnerships over us [ph] to move on with the acquisition of the few projects, and also participating future auctions. But as of now, there's nothing we can announce. No acquired projects as of now or ready to be implemented in other words.

We are, as I said, assessing possibilities and as soon as we have more material information, we'll communicate that to the market. As for M&As, it's -- my rationale is along the same lines. We are assessing a serious opportunities coming from different energy sources and also from different assets. It's part of our fiduciary duty to assess alternatives, to assess market possibilities. But again, nothing to announce today, nothing on the verge of negotiation. With the exception of something we have already announced. We announced in January. So let's wait a little for things to move forward so that we can communicate that on a more material manner. Thank you.

Operator

(Operator Instructions) This concludes our Q&A session. And I'd, like to turn the floor back over to the company's executive team for their final remarks.

A - Pedro Zinner {BIO 17260844 <GO>}

Once again, thank you everyone for participating in our earnings call. And I hope to see you all again for our Q1 2021 call. Thank you again, have a nice day everyone.

Operator

Eneva's audio conference is now over. Thank you for participating and have a nice day everyone.

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