

Y 2021 Earnings Call

Company Participants

- Lino Lopes Cancado, Chief Operating, Member of Board of Executive Officers
- Marcelo Cruz Lopes, Director
- Marcelo Habibe, Chief Finance Officer and Investor Relations Officer
- Pedro Zinner, Chief Executive Officer

Other Participants

- Analyst

Presentation

Pedro Zinner {BIO 17260844 <GO>}

Good morning to all of you, and thank you for participating in our Fourth Quarter '21 Conference Call. Before we begin the call, I would like to ask you to please read the disclaimer on Slide number 2.

We go on to Slide number 3 to speak about the quarter highlights. The fourth quarter of 2021 was another period of very strong operating performance. We recorded a record EBITDA of BRL860 million, a 40% growth vis-a-vis the fourth quarter 2020. This performance was due to a high increase in the variation in units, higher fixed margins of the plants, and the impairment of Itaqui. We also closed the year with BRL1.7 billion in cash, and considering that amount, our leverage stood at 2.8x net debt over EBITDA.

In the fourth quarter of 2021, we announced the incorporation of Focus Energia. The operation, which was concluded now in March, will create a pipeline of more than 3 gigawatts in renewable greenfield projects. The contraction of the Solar Complex Futura 1 with 870 megawatts of capacity is at an advanced stage, and it should begin operations this year. Besides allowing ENEVA to enter the renewable segment, the incorporation of Focus will strengthen our commercialization activity, which is fundamental in an ever more liberal market. Another highlight was the success of the Capacity Reserve auction in December of 2021. The Azulao 1 and Parnaiba Fourth plants have contracted power for a 15-year period beginning in July 2026, thus guaranteeing a ballast as of that date.

We also certified 6.9 billion of new gas reserves, 6.9 million in the Parnaiba Basin and 1.3 in the Amazon Basin. With this, we ended the year with a total reserve of 36.6 billion cubic meters in Parnaiba. For one more year, we've surpassed our goal of reserves -- by 264%.

Now, after these initial words, I would like to give the floor to Marcelo Habibe, who will speak to you about the market, panorama auctions and our financial results for the

quarter.

Marcelo Habibe {BIO 20367888 <GO>}

Thank you, Pedro, and a good day to all of you. I'm going on to Slide 4. The fourth quarter of '21 had two trends -- inversion trades. The hydrological scenario recovered and the consumption of energy decreased. The energy effluent in the South and Southeast increased significantly, after the worst historical sequence of 90 days in the fourth quarter.

To the left, you'll see the first drop of energy consumption after consecutive quarters of increase. This reflects a lower domestic consumption due to the more pleasant temperatures. In this context, the National System's organization decreased restrictions in hydro electrical generation, but maintained a large part of this in the fourth quarter to ensure energy. However, there was a significant dispatch decrease beginning in November. The combination of these factors led to a drop of more than 60% in PLD in the fourth quarter '21 vis-a-vis the fourth quarter 2020, going from BRL351 megawatt hour to BRL135 megawatt hour.

In Slide 5, you'll see the recovery of hydroelectric generation accompanied with a reduction in thermal dispatch. The subsystem North reached 98%, and hydroelectrical production was double of previous years. This scenario can change in the second semester when we have a decrease in rainfall in the Northern subsystem. In the Southwest and Southeast subsystem, the hydrology of March already shows a slowdown and stabilization in storage.

In Slide number 6, we show you the auction schedule for 2022, we always monitor the planning of auction to assess new monetization opportunities, new thermal projects, or to re-contract our existing plants. More recently, with our conclusion of the incorporation of focus for ENEVA, we have opened new optionalities for contracting solar projects. As disseminated at the end of the year by the Ministry of Mines and Energy, there will be six auctions held by ANEEL for generation. In at least four of them, it will be possible to contract thermoelectric projects, all concentrated in the second quarter. At the end of the year, there will be documents published and these will point towards our appetite to participate in these.

As we presented in ENEVA Day last year, we're working on our project portfolio, it would include two thermal plants in the Amazons, Azulao 2 and Azulao 3, and the Rio and San Louis region. It is important to point out that the holding of auctions for capacity reserves should allow for the participation of thermal projects, but this depends on the results of studies that are being carried out by the ONS.

We now go on to Slide number 7. Although we have had a hydrological change, all of the plants of ENEVA worked based on the energy warranty of system. The lowest production reached 75% in the first semester, compared to 91% in the fourth quarter 2020. The production of gas had a drop of 13%. In the fourth quarter, the CVUs of the coal plants on Parnaiba 1 continued to be positively impacted by the expressed increase in the fuel index, the Henry Hub prices. Now, these factors offset the reduction in dispatch and allow

for a growth of BRL460 million in net revenues, 30% greater than the fourth quarter of 2020.

We now go on to Slide number 8, where I present the main impacts of EBITDA in the quarter. In the fourth quarter, adjusted EBITDA reached a historical value of BRL860 million. This 40% growth was thrust by the performance of upstream, an increase in the Henry Hub quote increasing the price variation in Parnaíba 1, positively impacting the variable revenues for upstream. The generation and coal segment also contributed to an increase in EBITDA. Both were benefited by the increase in CIF-ARA that was un -- disconnected to the average cost of the carbon stockpile. We also had a reversion of impairment of Itaqui, thanks to the good results obtained in the test to recover the PPP assets of the plant, an improvement in operational performance and better outlooks in dispatch.

We now go on to Slide number 9, where we speak about the main cash flow impacts. The operational cash flow of the company reached BRL316 billion in the quarter, leveraged by the highest EBITDA in the period due to a better operational result. This result was attenuated by several effects like a greater need for working capital, and the increase in the carbon stockpile. Disbursement totaled BRL274 million destined to the development of the Azulao-Jaguatirica project, the construction of Parnaíba, and abstract activities. The cash flow of funding activities totaled a disbursement of BRL384 million. This includes interest rate amortizations, disbursement for the acquisition of shares of the company itself to work with the long-term remuneration plan, and the setup of new balances of our reserve account for the debentures of Parnaíba 1 and the funding of BASA. We ended 2021 with a sound cash position of BRL1.6 billion, granting us flexibility and liquidity to face the growth strategy of the company.

We go on to Slide number 10, where you'll see the capital structure of ENEVA. Net debt of the company totaled BRL6.2 billion, and leverage stood at 2.8x net debt over EBITDA. The average term for maturity of the consolidated debt was 5.3 years at the close of the year, with most of the maturity concentrated in 2026. At the end of 21%, 66% of the debt will be indexed to the IPCA. The average term of debts indexed to IPCA is 3.8% for other debts, 1.4% above CDI.

I will now give the floor to Lino, who will speak about our investments for the quarter.

Lino Lopes Cancado {BIO 20167891 <GO>}

Thank you, Habibe, and a good day to all of you. Investments for the quarter totaled BRL388 million, of which BRL151 million were destined to Azulao-Jaguatirica and Parnaíba 6. In the upstream activities, investments totaled BRL181 million, some for the development of the Gaviao Preto camp. And the development of Gaviao Tesoura received BRL18 million for the drilling of the wells, Gaviao Tesoura 2D and Gaviao Tesoura 3D. Now, the rest of the investments in the segment was destined to the exploratory campaigns that are underway in the Parnaíba and Amazon Basins.

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In the generation segment, BRL24 million refer to compliance with contractual milestones for the long-term for Parnaíba 1 and Parnaíba 2 plants for the Hot Gas Path. BRL14 million were geared to payments remaining from the major overhaul in Itaqui concluded in the second quarter '21. Another BRL15 million were geared to maintenance of the ventilators, and several maintenance carried out in the second semester of 2021. In Parnaíba 6 plant, we carried out the initial payments of BRL32 million for the acquisition of a generator, a turbine, a chimney, and modules and drums for the boilers.

For the construction of Parnaíba 5, we disbursed another BRL5 million in the fourth quarter, and this is due to exchange variation and positive hedge operations. We had a credit of 6 million for the CapEx of the project for the period.

In Azulao-Jaguatirica, investments had a lower scale compared to what we historically did. Now, all of this was done in the first quarter 2022, when the plant came into operation. In the fourth quarter '21, we carried out the hot commissioning of the plant, with a highlight for the commissioning of the regasification equipment, the gas generators, and the steam turbine.

On Slide number 12, you will see an update of our thermal projects. The pump Azulao is working at full steam, and the two gas turbines entered commercial operation during the first quarter of this year. The steam turbine is already generating energy, and is in the final phase of tests to ensure availability of the combined cycle. At the end of March 2022, the steam turbine will also enter into commercial operation, concluding the full commissioning of the entire plant.

At the beginning of 2022, we protocolled at the National Agency a second request to eliminate liability, referring to the delay in the operations of Jaguatirica 2. We have concluded the assembly of the turning gear in Parnaíba 5. All the boilers have also been tested. Now, the steam turbine will be concluded in the second semester of 2022, when we will also have the cold and hot commissioning of the cooling tower, BOP, the boilers and turbine. The beginning of commercial operation has been foreseen for the third quarter 2022. In Parnaíba 6, we issued a Consistency Report for the basic project in February of 2022, and the detailed engineering is underway. We will have the beginning of civil work foreseen for the end of the second quarter 2022.

In the next slides, we would like to show you some pictures of these projects. In Slide number 3, you'll see the Azulao Field and Jaguatirica. In the Azulao camp, you'll see the production for two months. We produced 8.23 million meters of natural gas, 9,650 cubic meters of LNG sent to the power plant Jaguatirica 2, and we had 244 trucks sent in February of '22. In the plant Jaguatirica 2, the total production of these two months was of 13.4 gigawatts hour for the system.

In the following slide, we have pictures of the Parnaíba 5 plant to the left, and the aerial view of the plant that has its assembly fully concluded. And to the right, the assembly of the turning gear, the steam turbine, and presently, we're working with the alignment of this turbine.

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In the next Slide number 15, some pictures of the beginning of the works at Parnaíba 6, additional works of the soil work, and the assays carried out for the foundation of the Parnaíba 6 plant. We go on to Slide 16, and we show you an update of the Futura solar project. A 100% of equipment have been contracted, out of which 70% of the critical equipment has already been delivered on site.

All the equipment purchased and deliveries are within schedule as planned. The construction is advanced. The first step-up transformer has been installed at the base of the substation, and the second one is already being transported by land and expected to arrive at the site in April '22. Land settlements and installation of the base for e-houses are also in progress, and are scheduled to be accomplished by the second quarter in 2022.

Advances in the -- assembly of trackers, installation of modules, assembly of the string inverter, and medium voltage transmission network. All these activities will be completed in the -- in Q3 2022. In March, we received 30 of the 110 e-houses, and they are going to be start assembly in early March. Cold commissioning and hot commissioning are scheduled to start by the end of the second quarter in 2022, and we also have scheduled the sectioning of the 500 KV transmission line for the second half of the year. We expect to start commercial operation of the photovoltaic units by Q4 2022.

Now, the next slides. We also have a few pictures showing the progress I've mentioned. On Slide 17, for example, we can see the drilling and nailing of the piles, the tracker assembly and the drainage channels being installed for the project.

On the next slide, Slide number 18, the transformer unloader at the base being positioned, and the GIS Base also can be seen on the right-hand side. On Slide 19. Several modules being assembled, and the trackers at the channels for the first photovoltaic units for the plant.

I now turn the floor back over to Mr.Zinner for his final comments.

Pedro Zinner {BIO 17260844 <GO>}

Thank you, Lino. Well, the year 2021 was extraordinary in different senses. We closed the year with the best quarter in our history. Considering the macro-economic scenario which was much more turbulent and the good results presented, I think that tells a lot about the company's resilience. Despite the problems and troubles, our business model and our capital allocation stood out.

We have reached a record EBITDA level, we overcome our reserve target, we diversified our portfolio in a very efficient manner, and we also were very successful in our auctions for reserve contracting, capturing two exceptional projects. Those opportunities came up throughout the year, and we were able to reap the opportunities in a timely manner.

Having said that, I'd like to close the presentation of results for Q4 '21, and then, I'll start the Q&A session. Once again, questions should be sent in writing, using the Q&A icon on your Zoom screen. Thank you.

Questions And Answers

Operator

(Question And Answer)

Good morning, everyone. The first question. Can you comment on the company's strategy for the generation auctions? Are you going to focus on thermal or are you also considering participating in auctions for renewable sources. Marcelo over to you.

A - Marcelo Cruz Lopes {BIO 21075922 <GO>}

Thank you for the question. Habibe showed our schedule for the auctions for 2022. There is going to be an auction in 2022 for new energy and it tends to be more competitive around renewable sources. As for the second half of the year, auctions should be more concentrated on thermal plants. We have a project pipeline in place, which shows opportunities across different types of auctions, and the pipeline that will come along with the merger, our focus is a renewable portfolio. So renewable energy would be more adequate for new energy. And that auction is expected to happen the I-minus-4 or A-minus-4, A-minus-5 or A-minus-6. That's what it focuses portfolio.

Operator

Thank you Marcelo.

A - Marcelo Habibe {BIO 20367888 <GO>}

Next.

Operator

What's the likelihood of a never exporting natural gas? In addition, of course, the use the company makes of the gas for its own purposes? Lino.

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

Now as for the exploitation of natural gas, we need to liquefy it first and liquefy the gas in large-scale, today Eneva's liquefaction capacity is in small scale, because it tends to serve our Jaguatirica II project in Roraima. Now, given the advancement of our exploratory campaign in the area in Jurua and we have been working hard on this that becomes a material possibility that of exporting gas in the mid run. Should reserves turn out to be larger than the company's capacity to sell the gas in the country.

Operator

Thank you. Another question for Marcelo Lopes. As gas prices go up, energy prices go down, does the company come to prioritize gas instead of R2W?

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A - Marcelo Cruz Lopes {BIO 21075922 <GO>}

That scenario, gas going down, energy going up, that's a short-live trend, when you look to the mid to the long run prices tend to converge. So we cannot expect those models to change in the future because of a transitory situation.

Still, I have announced during another day that our gas trading front also tapping into our skills such as liquefaction and the fact that we have learned to do that in Azulao-Jaguatirica, that of course becomes an additional possibilities for us to monetize our gas. We do not want to replace R2WW it will be rather an alternative to allow us to bring the highest possible return win rate of the reserves we already have and the ones will develop through our time.

Operator

Thank you Marcelo. Next to Habibe. The net debt to EBITDA ratio at 2.8x, does it include focuses merger, what will be the ideal level of leverage for the company?

A - Marcelo Habibe {BIO 20367888 <GO>}

Thank you for the question. No, it does not include focus 2.8x refers to December 2021 the acquisition of Focus. Even though be announced in December, it only materialized in February. There were some bureaucratic steps to be taken precedent conditions to be met. So it actually happening February the second week. So we will have a higher level of leverage at the end of Q2. Met that EBITDA ratio.

So in addition to the acquisition to the tune of BRL700 million, which came from the company's cash to acquire Focus. We also have investments for Futura I. We still lacked BRL2 million of investments, which will be unfolded throughout the first quarters of the year. So that ratio should go up a little into Q3. Of course it also depends on the level of dispatch and some other macro factors including Henry Hub prices and others, which will affect Parnaiba I. But anyway, that ratio we get close to 4x. Once again, the net debt EBITDA ratio close to 4x.

Operator

Another question for you, Habibe, with the increase of expenses of the holding, can we see that as a recurrent?

A - Marcelo Habibe {BIO 20367888 <GO>}

Part of it is recurrent, because that's tied to the company's growth, the company is growing, implementing new project of advancing towards new frontiers and that requires an increase in expenses. And that is recurring. There is a component, which is non-recurring. They have to do with projects, we have worked on in terms of acquisition growth projects and we have to hire consultancy companies and those are now recurring expenses. So it's a compound 50-50 in terms of G&A, 50-50 between recurring and non-recurring expenses.

A - Pedro Zinner {BIO 17260844 <GO>}

If I may add to his answer, Habibe's answer, with SG&A growth 46% are linked to long-term incentives. So we see that as an investment in human capital, given the company's performance and results. And also when alignment across or around incentives rather.

Operator

Thank you. Pedro and Habibe. Next, Marcelo Lopes. In terms of commercial partnerships to sell energy for industries in the North, where does that stand? I'm talking about the company's pipeline, which makes reference to a large market, which is addressable at this Northern region of Brazil.

A - Pedro Zinner {BIO 17260844 <GO>}

Well. In the North of Brazil, we have been working to develop solutions to be able to offer an integrated product to that segment and are remain focused in the north is an isolated system, diesel and gas and also natural gas becoming a part of the waterway transportation system. We are moving forward with new partnerships and the idea is to be able to offer a better logistic solution and also to be able to offer solutions around generation and how to move those barges down the rivers.

In addition to some other commercial partnerships in the words, the first project has already been implemented and we hope to be able to announce those throughout the next months. But to your point, those partnerships have been moving forward and we expect to see results throughout the year. Thank you.

Operator

Now the question, law of 14134 of 2021 called the new law of natural gas was approved last year and establishes a new legal landmark for Brazil. Are there possibilities of new projects to create or to expand growth in addition to the existing ones, so that the companies will expand its footprint in the Amazon, this was partially answered but if you want to compliment?

A - Marcelo Cruz Lopes {BIO 21075922 <GO>}

I think the new natural gas law was an important landmark because it's brought legal security to all parties especially in terms of a consolidating the role of the free consumer, several states have worked on their local legislation, creating the legal entity called free consumer, and of course, helps us in our trading efforts. Instead of Amazon, for example, advanced significantly in terms of local legislation. And that is reassuring for us to make the necessary investments for us to use our own gas and also to be able to sell that gas to third parties.

Q - Analyst

Thank you Marcelo. Another question for you. What do you expect to happen in terms of infrastructure around gas hubs? How is it moving along?

A - Marcelo Cruz Lopes {BIO 21075922 <GO>}

Well, the project are advancing our initial priority is to see those projects mature in terms of engineering solutions and in terms of coding/estimates to have a more precise idea of costs. So, until the -- until Q3, I'd say, we should have that those expectations of those estimate so that as we get closer to the end of the year and as we get closer to reserve auctions later in the year, we already have mature projects in hand and in a good position to explore good commercial opportunities that should emerge.

Operator

Thank you Marcelo once again. (Operator Instructions) Since there are no more questions, I'll turn the floor back over to Mr.Zinner for his final remarks.

A - Pedro Zinner {BIO 17260844 <GO>}

Once again thank you very much for participating in our earnings call. I hope to see you again for the first quarter results announcement for 2022. Thank you everyone and have a nice day.

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