

Y 2016 Earnings Call

Company Participants

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

Presentation

Operator

Good morning and thanks for waiting. Welcome to the conference call of ENEVA to discuss the earnings regarding the Fourth Quarter and Year of 2016. Today with us are Mr. Jose Aurelio Drummond Jr.; and Pedro Zinner CEO and Investors Relations Officer. We would like to inform you that this event is being recorded and that all participants are only going to listen this conference call during the Company's presentation. We will then start the Q&A session when further instructions will be provided.

(Operator Instructions) This event is also being simultaneously webcast and can be accessed at ri.eneva.com.br and also on the Engage-X platform where you can find the respective presentation available. You can control also the slide show. The replay of this event will be available soon after its end. We would like to remind you that webcast participants can beforehand post their questions that are to be answered in the QA session.

Before going on, we would like to let you know that any statements made during this conference call relative to ENEVA's business outlook projections, operating and financial growth are based on assumptions and beliefs of the Company's management and rely on information currently available.

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

Investors should understand that general economic conditions, industry conditions and other operating factors may affect the future performance of ENEVA and lead to results that will materially differ from those in such forward-looking statements.

Now we are going to turn the floor to Mr. Drummond, that will start the presentation. Please Mr. Drummond, You may go on.

Jose Aurelio Drummond {BIO 16095800 <GO>}

Well thank you very much. Good morning everyone, thanks for attending the conference call of ENEVA. Today is a very special day for our Company for several reasons, you had the opportunity to see the material fact that we posted on Friday. My resignation and promotion of Pedro and also Company results. And I'm going to talk about both subjects.

First about results, we are very proud of the results we are presenting. Today Pedro is going to give more color and the whole organization is quite excited about the numbers that you are going to see further on.

We met a series of requirements, commitments, operating -- operational performance that make us all very proud. In addition, I would like to talk about the changes that we had in our structure, as you saw in our material fact, I continue as the Director of the Company and both myself and the rest of the Company are very happy to promote Pedro to CEO of the Company.

I had the opportunity of working with him, and I'm sure that it's going to be something very good for the future of the Company. The Company has changed leadership many times in its history, but none like this because this is a transition of continuity that has been planned that has no kind of rupture of any kind, in terms of our corporate structure, organizational structure and I as Director of the Company will continue cheering for the success of our team and Pedro. And I'm sure that he will take the Company to where it deserves, because we built a Company that is unique in Brazil. I am certain that our future is going to be brilliant under the leadership of Pedro. I'm sure that we made the right decision and that we are choosing the right leader for the Company.

With that, generally after my opening, I would turn the floor to CFO -- to the CFO, but now I'm going to turn the floor to Pedro, our CEO.

Pedro Zinner {BIO 17260844 <GO>}

Thanks, Drummond. I thank your kind words. And before starting the call, I would like to thank Drummond for everything that he did for the Company. I think that he led the Company brilliantly, the integration of ENEVA and he leave us a great legacy, it's going to be an honor to give continuity to the work started by Drummond and I am sure that he will continue to substantially contribute to the Company in the Board of Directors.

Whenever, I have any doubts or questions, I'm going to knock on his door. So I'm going to start the call, on page four where we give you the highlights for 2016. About the year of 2016, we had many achievements and changes, because of the changes that we had in the 3rd of October, we had the completion of our court recovery. We had the startup of Parnaiba II, all these were very important factors to restructure the Company.

We closed the year with a portfolio that was 100% operational, EBITDA was 1.2 billion and integrated production of natural gas.

ENEVA is thus positioned as the third largest company in capacities for thermal generation in the country and we are ready to start a new phase for 2016.

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On the next slide, we have all the factors that can be summarized on page four. Again EBITDA of BRL1.2 billion and operational cash flow of 733 million, a cash position of 778 and generation of 1.3 gigawatts average.

As for our operational performance on slide number five, we show an increase of 27% in our average generation of energy basically because of the startup of Parnaíba II. Average generation of the Company grew by 5% in the year, reaching a record volume of 1.3 gigawatts.

As for the fourth quarter of '16, we had the generation of 1.4 compared to 1.5 in the third quarter '16. We had more dispatch of Parnaíba I as well. The coal thermal generation in turn dropped by 61%, a 184 megawatts compared to the third quarter '16 basically because of downtime for maintenance that we had in Itaquí, we had two downtimes for maintenance in Itaquí, one in October because of the cauldron and the other in November because again a failure in our cauldron.

On slide six, we show the level of availability that remained stable in 2016, with the exception of Itaquí. If we do not consider the availability of Itaquí, again that had two downtimes because of maintenance I mentioned before, the volume of availability was stable in 2016 compared to 2015.

Basically we had some of our plants with 99% of availability especially Pecem Coal company.

Our plants number four was disconnected in the fourth quarter. All together, the availability of our gas, thermal plants was 92%.

Before going into details of our financial performance, I would like to give you an update. On March the 2nd, the State of Ceará republished a decree changed the burdens of seven times the tariff to three times the tariff. The new terms for the collection of the State of Ceará will be valid as of September '16 to July '17.

If we consider the high level of dispatch at the monthly impact on costs because of this change in the calculation of tariff -- reached BRL2.3 million compared to 4.7 in the maximum tariff charge.

On slide seven, we talk a bit about the Company's financial performance. When we look into financial performance, net operating revenues of the Company was positively impacted by the startup of Parnaíba II.

As we can see in 2016 and also the fourth quarter the same year. The startup of Parnaíba II had an increase of Company's revenues.

In the year, we had approximately BRL2.2 billion of net revenues, an increase of 16% compared to 2015. In the fourth quarter net revenues was 671 million representing growth of 34% comparing the same period last year.

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Net revenues in the fourth quarter was also positively impacted by the annual readjustments that we had in the country as we have provided in the energy commercialization contracts. Both in the quarter and the year, we had reduction of admin expenses related also to our court recovery. With that, we generated more EBITDA and closed the year with a record result of BRL1.2 billion with growth of 38% compared to the previous year.

In the quarter, EBITDA reached BRL425 million an addition of 50% quarter-on-quarter. This growth can be explained basically by our full capacity in Parnaiba and the start of the Parnaiba II commercial operation.

On slide eight, we highlight the EBITDA pro-forma of the Company. EBITDA margin had an increase of eight percentage points going to 54% compared to '15. The growth shows our record EBITDA of the year of BRL1.2 billion, that can be explained by the full capacity achieved in Parnaiba and also an increase in our dispatch levels.

In the fourth quarter, EBITDA margin got to 63% which was impacted by the non-recurring events that we had in commercialization.

We have (inaudible) as our new commercialization company. And this operation resulted into a non-recurring result that of BRL63.7 million. Again if we discount to the non-recurring events, our EBITDA margin would be 54%.

On slide nine, we try to highlight the contribution to our EBITDA of each business line. We had a lesser generation of thermal coal plants, but also the start-up of the Parnaiba Complex. It's important to highlight also that our capacity is increasing and that will generate a positive impact in our EBITDA. When we have the line, Holding & Others basically we're talking about an addition of 130 million to our provision. That is also including the reduction of expenses with personnel.

On page 10, we talk a bit about our cash flow. We have a record level of cash generation in the quarter and in the year of 2016. 216 million in the last quarter of '16 and 291 million in the year of 2016, an increase of almost 60% in our cash position compared to the fourth quarter '15 adding up to BRL778 million.

A bit of Company investments in the year of 2016, we had a year of consolidation of the project we started in 2015. We increased our capacity to produce natural gas especially with Parnaiba II increasing the numbers compared to last year. In addition, we are able to integrate our businesses having a new model of operation.

As for the Company's leverage level, we can see that our pro-forma debt reached BRL4.5 billion compared to BRL4.8 billion in the fourth quarter 2015.

Our terms for the fourth quarter '16 was 4.9 years and the average nominal cost, 14.3%.

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Our net debt EBITDA ratio went from 5.6 times in the fourth quarter '15 to 3.8 times in the fourth quarter '16. It's important to mention that, in January '17 the Company renegotiated its contract with the financing institutions of Parnaíba II. Extending that to 2019 and keeping the costs, that represented an important step for the Company's capital cost and for its strategies in the long term for Parnaíba II.

On page 13, we highlight what I had mentioned before. We are constantly improving our capital structure and therefore, we had changes in our debt amortization schedule.

We completed Parnaíba II in January --completed the extension of our loans in Parnaíba II in January '17 and also we settled part of our debt in February '17.

Finally, on page 14, we talk -- we say that the year of 2016 was very important year for us, especially by increasing our capacity with natural gas by 61% and also we try to increase our production that is going to be very important for the Company.

We have two new plants that started production in '16 and also we have now a new unit for data processing, that led us to investment estimated in BRL100 million.

Again Parnaíba II started its operations and we also completed our water withdrawal system. We negotiated new structure for Pecém II and now we have new challenges.

As CEO of the Company I want ENEVA to continue to seek operational efficiency to improve the efficiency of our Company with investments, maintenance programs and focus on our coal plants.

We are going to continue to develop the fields for the Parnaíba Complex, Gaviao Caboclo and Gaviao Azul and this is the major differential of our integrated business model, generating energy, reducing costs and making investments.

And we continue to want to reduce our leverage and improve our capital structure. If we stop a minute to analyze the Brazilian energy sector, we see that we are more and more depending on natural gas and we are very proud of being part of this system. We want to leverage businesses in the sector, which is going to be very important for the society as a whole and our employees.

I thank you very much and we'll now open for Q&A.

Questions And Answers

Operator

Thank you. Now we start the Q&A session for investors and analysts alone. (Operator instructions)

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

I would like to thank everybody and since there are no questions, I would like to finish this call. We have -- if there are any problems we will address this later on or if you have questions, we will address this later on. And so, I thank you.

Operator

Thank you. This teleconference of ENEVA is closed. This call will finish. Thank you.

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