Q1 2014 Earnings Call

Company Participants

- Fabio Bicudo, Chief Executive Officer
- Frank Possmeier, Executive vice President

Other Participants

- Bruno Pascon, Analyst
- Carlos Jamaica, Analyst
- Lillian Yang, Analyst
- Terje Meita, Analyst

Presentation

Operator

Good morning, welcome to ENEVA conference call to discuss the first quarter results and other matters. At this moment all participants will be in a listen-only mode. Later on, we are going to start the question-and-answer session and further instructions will be given. (Operator Instructions) I'd like to remind you that this conference call is being recorded.

Now I would like to give the floor to Mr. Fabio Bicudo, the CEO of ENEVA. Mr. Fabio Bicudo you may proceed.

Fabio Bicudo {BIO 15000971 <GO>}

Thank you. Good morning, everyone. Thank you investors for being on the call. This is a busy week. These are, as you know, challenging time in Brazil. There's a lot going on in the sector we operate in. We are glad as ENEVA to be contributing to Brazil with the 2.4 gigawatts we have of thermal capacity.

It is important for the stability of the country; that is important for the stability of the country, and we believe that ENEVA has and is making important contributions in this moment of a challenging grid management and supply of energy.

We've had relevant developments, I'll start today we'll talk about several important topics. Number one, we announced earlier this week a debt and equity planned for ENEVA, which allows the company to stabilize its capital structure. As I mentioned in the call earlier this week, that's a critical component; first, we need to stabilize the company, make sure the company has a capital structure to continue to operate, to negotiate and to proceed and move forward with its plan.

We explain that in detail to you earlier, again, that plan is designed very carefully to reduce the risk for ENEVA and to bring variables that prior to this were less under our control into something that is more under our control. So the plan is very carefully put together for our first capital increase and then the asset sale and then a second capital increase. What I can tell you at this time is that the capital increase has been launched; we have the process moving forward. And as part of our agreements with our shareholders and the banks, we are working with them to have disbursement of the funds of that plan as soon as feasible.

We as management of ENEVA are working hard to already get the disbursement today from both E.ON and the banks and that is the task that the team is assigned to. We feel, of course, much more confident once that plan starts with a big commitment demonstration of commitment from the banks and the shareholders. So, the team is very focused on already moving on the disbursement of funds in the plan we announced two days ago.

The second topic we'll talk about in more detail on this call is the Aneel's decision yesterday. I think that everyone who follow this closely was somewhat surprised by the decision, we as management as well. I would like to reiterate to all of our investors is that we have a plan in place as it relates Parnaiba II. The waiver request was part of the first step of many different alternatives that we have. We had envisaged that there could be a setback within Aneel, we did not hope for one, but that was in the plan.

I would like to highlight that the restructuring debt and equity that I just mentioned are not linked to that decision. So, we are confident that we move forward. We have the ability to talk about many other options. I would also like to say that in relation to the Aneel decision what ENEVA is seeking is a balanced solution that on the one hand allows for predictability of private investment in Brazil.

On the other hand that provides the energy to the distribution companies into the end clients of the system that allows a plant that can generate 518.8 megawatts to be finalized and ready to operate with a very efficient use of gas. This is the combined cycle latest generation plant and then allows the conclusion of the plant to where we have 80 plus percent done and we have over 1,000 employees on-site to conclude on time.

So, we are looking for a balanced solution. We have several alternatives, we'll describe a few of them to you in more detail the steps that happened yesterday in our perception was a step within the plan. The restructuring capitalization plan is not linked to this and we will continue to pursue alternatives, which will describe later. So, that's the second I think topic that we will cover here and I'm sure there will be questions around Aneel decision.

The third and the reason for the call today is quarterly results and to talk about the performance of the company over the last quarter. I think that as I said in the prior quarterly results call, we are slowly evolving from a pre-operational company that had a number of projects into a company that is operating those plans, learning from that experience and increasing revenues and becoming, what I would call an operational company. Now, that's a phase, it's a process that takes time.

Quarter-by-quarter, you see that the revenues are coming in, the different variables around operations are being worked on and we move from pre-operational into operational in this quarter is not different from that. So we have the new capacity being added. We have a number of variables that worked in our favor, others that did not. We'll talk about that in more detail. But again I see progress; I see evolution in our quarterly results, which is something that would be expected.

The last part of the call that I'll conclude on is to wrap up these different elements of the restructuring plan that was announced, the capitalization plan that was announced, the Aneel decision in the past, and the objectives of the company, the results and then challenges that we still face that I think are evident in clear to you. But I want to make sure we walk you through some of the challenges and elements we faced in the market in Brazil.

At this point, again to conclude saying that management has been working very hard to have plans for the different scenarios we see here that management is balancing the different outcomes to make sure that ENEVA is protected and that ENEVA has the capital, the ability, the team to continue, to exist, to grow.

We can talk also a little bit about growth and I think there's some interesting developments around new auctions that we need to mention.

But most importantly, management will be here to inform the investors in the market of their development of these different action plans. And any deviation from many of these plans; and any deviation from the risk parameters that we see today, we will of course be informing and working with the market. At this point in time, we are executing our plans and moving forward. But we will keep our investors informed.

With that, I've told you what I'm going to tell you during the presentation.

Let's move quickly into the highlights. I'm going to do the first two pages and then I'll turn it over to Frank Possmeier who has led you through many of our other calls and he will walk you investors through the presentation. On the first quarter highlights page two, as I mentioned, you see again a ramp up in the net operating revenues of the company, you have higher costs, operating expenses down quarter-over-quarter. We'll get into that into more detail, as you know, we also have a strong focus starting now on reducing the cost of the company. More than that we have a commitment to reach a much lower level as of 2015. So we'll talk about cost separately.

You have a positive EBITDA, which I think is a very a good development on the other hand we need to be careful that some of the items in that were non-recurring. Therefore, we are moving forward, but it's not we don't want to paint a picture here that everything is solved and done.

And of course, still on the net income level, debt levels, we have work to do. Generation sales of course are what kind of revenues and there you see, what I described as pre-operational into operation. We have the EBITDA coming up in large part due to the operation of Itaqui, Pecem, Parnaiba I, Pecem II, Parnaiba I. And of course, you'll see later on, there has been improvement of in coal plants, there has been a reduction the cost per megawatt, its positive.

I'll balance that by saying there are still challenges in the end, when I talk about risks and perspectives, I have to say that 100% dispatch for company that is going from pre-operational to operational is a challenge. So we need to balance bringing the plants into operation with adjustments and with the scenario where we need to be running full blast all the time. So, that's something that is important to note, and I'll talk about in the end. Capacity we have the second generation unit of Parnaiba III, you already knew that we announced. So, Parnaiba III is now at full capacity of 176 megawatts. There was an injunction, you already know about that as well related to the hourly unavailability at Pecem I and at Itaqui, the famous adopted [ph] topic we've explained to you, which fits into predictability attractiveness of building thermal plants in Brazil.

The PGN transaction, capital increase, as you already know concluded. I think it's a very important step as you know OGX Maranhao in the last days was in a critical condition. That's an important asset for ENEVA for the stability of the Parnaiba complex. We are very glad and happy to have Cambuhy as an investor and partner and E.ON working hard and deploying capital to balance out some of the risks that exist in that complex and to help us achieve what we would like in terms of further growing it and reaching a point of stability, I'll talk about that in the end more carefully and then we've already announced the capital increase and the measures.

On page three, is the description exactly of the capitalization of the company, debt material profile extension. We've gone through this in a separate call with you this week, so, I'll be very brief, to the extent, people who did not follow that call we can answer questions and team here will be, will also be available later on to answer questions.

As you know it's a two-step capital increase. The first phase was already announced BRL360 million the prices defined at market close Friday 1.27. E.ON is committing to the full amount or the pro rata amount of ownership of 120 million and then the second capital increase, which is the difference between 1.5 billion and 3.16. And also E.ON is fully committed there and that may be through an asset.

Now what's important to say here in Phase I is launched; the stock is trading ex-rights I believe today. We are working now in the team with both E.ON and the banks to have disbursement as a signal of the commitment and again of the de-risking of ENEVA.

Today, we'd like to be able to announce that if and when it's done, it is not, it's something that we believe it is very important and we'll work towards that. As you know, the sale of Pecem II the asset that we have, which is a very surprising asset in terms of performance, stability, predictability. It is one that's moving forward and the process has been launched. It's a six-week process; it runs parallel to this first phase capital increase. We are actively moving forward on that.

And as you know, E.ON has backstop to acquire 50% of that asset. So, if we're not able to sell it to a third party, that transaction takes place anyway and then gets contributed back as equity into ENEVA so in the end, we have more proceeds into cash and flexibility and we keep the asset. So I think, again, the plan is designed to remove or push out risk that we don't control and to bring in elements that are under the control of our shareholders and of the management team of ENEVA. On the bank side, there are a number of other measures that are critical. So, there is a bridge as I described this first 100 million we would like to see come in today and are working towards that as a signal and that's happening,

then there's a push down of debt BRL700 million, which has already started there. There is a process that takes place with the DNDS, where the DNDS will be allowing the banks to move in and sharing collateral and determining the terms of debt.

Those conversations are ongoing as we kicked off the plan this Monday. Hopeful that it's pushed maturities pushed out start in 2017. Five-year maturities, so that it gives us the breathing room with the remaining HoldCo debt and then the financing banks are going to issue their share of 150 million to pretend that replaces the first bridge and also there is a second leg to that which is the DNDS disbursed another 150 million for a total of 300 million debt financing at the end.

And then ENEVA has the commitment to reduce costs, that I said, it's not only a commitment it's a desire by the management team to have a streamlined organization to have more efficiency and agility in to balance out against the different contributions that parties bring to the table to allow for a successful plan for everyone involved.

I have to say again that there are no prepayment penalties on the remaining HoldCo debt. That is a strong incentive and flexibility for the management to refinance that debt and then bring in, again an even better capital structure.

I think that is an important asset that management will have in too, an incentive to refinance and bring in and even better capital structure. Also in this renegotiation, we did not pay fees to banks. So, all the debt that is being pushed down or the bank debt that is being renewed or pushed out did not result in fees being charged whenever. And I think that is again another relevant component and demonstration of support from our different stakeholders.

With that our calls on the broad introductory comments on the capitalization and on the highlights of the quarter, turn it over to Frank Possmeier, who will lead you through the remainder of the presentation and I close with remarks and then of course, we will open for questions from all of you. Frank, please.

Frank Possmeier {BIO 18083214 <GO>}

Thank you Fabio. Let's turn to page four, where we see the EBITDA development from the first quarter last year to the first quarter this year. As Fabio outlined, this is exactly the picture where we moved from a pre-operational company from a development company to now fully operational company was 2.4 gigawatts of operations in place and to this EBITDA of approximately BRL104 million. Itaqui, the whole Parnaiba complex, meaning Parnaiba I, III and IV contributed and Pecem II which also been reflected in this positive EBITDA development in the first quarter compared to the last quarter in 2013.

Q4 2013 is significant reduction in operational costs due to less startup costs that we have and that outage cost, because all of our fleet is operating in a much more stable basis.

Moving to page five of the presentation, costs and expenses, operating costs on the HoldCo expenses. When you look at the better operational performance that I just mentioned, it results ultimately in more energy that we sold to the market. So we increased our generated energy approximately by 5% from the last quarter in 2013 to the first quarter in 2014. And we are able to stabilize our operating cost at around BRL160 per megawatt hour. In reality, this is reduction in cost, in real operating cost on the plant level because what we have seen in that period of time were increased gas prices and increased coal prices. So actually the operating cost of our management, of our O&M is going down.

And when we compare the operating cost to the first quarter last year, so on a year-over-year basis, we were able to drive that down by approximately 60%, really reflecting that we move now into a more stable operation on the power plant level. When we look at the HoldCo expenses, we also have good news compared to the last quarter; we were able to reduce the cost on ENEVA and ENEVA Participacoes level by approximately 20% compared to the last quarter 2013 and this goes along with a significant reduction in headcount.

We were able to reduce the headcount from 176, with which we closed last year, 263 by the end of the first quarter. So approximately 7.5% down. And in April, end of April, we were even able to reduce that further by another 10 people. So the actual headcount we have today within the company is 153 people.

And as Fabio outlined already, the management and ENEVA, the whole company is committed and it was designed to reduce our overall holding operating expenses to a sustainable level of BRL80 million by year-end.

So we would implement the cost reduction program until December that from 1st of January onwards 2015 for the whole year of 2015, we will have a stable SG&A expense of BRL80 million for the whole company. After this overview for the Company itself, we go now plant-by-plant to the operational performance. On page six, we start with Itaqui. We nearly reached in the first quarter, an EBITDA of approximately BRL40 million it's still impacted by unavailability is in the power plants due to coal mill outages that we had in the first quarter and some problems we had with the FD plant in the power plant, but nevertheless we see a stabilized performance Itaqui power plant as well.

We see here on a cost per megawatt hour basis, an increase in operating cost, which is due to higher fuel costs mainly here to higher coal costs that the international coal prices went up in the course of the first quarter.

Turning to the operational performance of Pecem II, we see a very promising availability of the power plant of up to 97% in the first quarter translating into approximately BRL50 million of EBITDA, we are very proud of this power plant and Fabio outlined that already. When you look at the average performance of a power plant in the first year it's approximately on the coal fired side at 70% availability, with this power plant, we really outperformed all international benchmarks that we have.

And then also when you compare variable revenues for the variable cost you see that here we have a very efficient plant that we just generated approximately BRL20 per megawatt hour with every single megawatt hour we produced.

So very optimized plant and something which we now will make use of and translate into Pecem I and Pecem II and we will make use of the lessons learned last year in the Pecem II power plant. Turning to page eight of the presentation, the operational performance of Parnaiba I, again here an EBITDA of 45 million rise and still an outstanding performance of Parnaiba I power plant, 99% availability there by outperforming our PPA significantly the operating costs here, when you look at that per gross energy generated probably as per megawatt or also here is significantly up by 20%.

This is mainly due to the end, we have prices, so the gas, international gas prices that are the index that form the index or PPA contract that we signed one significantly up in the first quarter compared to the fourth quarter last year. Then we also reflected in the gross margin, which is approximately BRL60 as per megawatt hour that we have for the power plant.

Unfortunately due to the contract, we have signed this money will not stay with the company, but is a pass-through to PGN. From the fully consolidated entities now we moved to our equity consolidated entities Pecem I and Parnaiba III.

Also Pecem I we've seen an uptick in availability, we are stabilizing the plants and after the problems we had also in December and January with the first unit of Pecem I. We are now stabilizing, it was approximately 70% of availability in the first quarter. So it's getting better, but it's still not there where it should be. Nevertheless, the Pecem I complex generated also EBITDA and contributed positively with BRL50 million of EBITDA in the first quarter. And when you look at the operating costs and here, I want to focus again on the operating cost per gross energy generated.

You'd see a significant reduction from the fourth quarter '13 [ph] to the first quarter in 2014. So by stabilizing the plant having less outages having less (inaudible) to use, we were able to really bring down the cost significantly by approximately 40%.

On Parnaiba III, again like the send picture on Parnaiba I, very good availability with 96%. The only reason why this is a bit lower than Parnaiba I is that we reduced our Parnaiba III in the course of February in order to do the testing of CT51 of Parnaiba II. So we use that gas from that power plant in order to test our new unit in Parnaiba II and therefore, the availability was reduced. Again here, the variable margin is very positive approximately

BRL100 per megawatt hour. But again, this is a pass-through to PGN as part of our gas contract.

When we turn to page 11 of the presentation, we see the cash flow profile of the company. We started the quarter with approximately BRL280 million of cash and cash equivalents available that went down to approximately BRL100 million by the end of the last quarter, obviously not a comfortable position for a company like ENEVA, but we have addressed now this problem by the announcement of the capitalization and debt restructuring profile that we did on Monday and with a capital increase of approximately 1.5 billion that will flow into the company in the course of the next month.

We will tackle this topic and as Fabio outlined as earlier this week, we expect the disbursement of the first part of the capital increase and of the HoldCo bridge from the financing banks and therefore, address also our cash needs on holding level.

On page 12 and I don't want to go into detail. Here again, we see the debt profile of the company by the end of first quarter 2014. We have an increase of approximately BRL80 million compared to the end 2013. This is due to the last remaining element of the debt restructuring that we did in December 2013 being paid out. It was an 80 million tranche that was paid out by Itau in the course of the end of January, begin of February, and that is the only highlight on the debt development.

More importantly to mention what we announced on Monday, which is that we now, we've significantly reduced our HoldCo debt by pushing down BRL600 million to BRL700 million of HoldCo debt down to the project to Itaqui and to the Parnaiba complex. And the remainder of the HoldCo debt approximately 1.5 billion. We have a new maturity profile of five years, so it will be extended until the end of 2019 and we have a three-year grace period so only in June 2017 we will start to amortize the debt. So therefore, we have transferred and translated all of our short-term liabilities from the debt side on holding level into long-term liabilities, that only mature from 2017 onwards.

So far, as an overview and then I will turn back to Fabio for the main takeaways of the quarterly results and off where the company stand with respect to Parnaiba II and the restructuring of the debt and the capital increases.

Thank you. Frank. I think as we concludes the presentation and I will still talk about the topics that are relevant, especially the Aneel's decision. I'll say here in the page 13 the plants are operating, we are contributing to the stability of the grid and I'm happy that the thermal capacities complementing the challenges that we faced by the predominantly hydro matrix Brazil has.

We are working hard to improve the performance of the core plant to reduce their operating costs and bring expertise, talents, engineering capabilities, our shareholder has been contributing in a relevant way. We have a new COO, that is one of the most experienced engineers within E.ON that has substantial experience in coal-fired assets is already here on site working with us on that at six times harder to do in the current environment and we are working there as well.

Capitalization, I talked about quite a bit. I think that was the first objective and we need financial stability to be able to execute plan. Parnaiba II, I will talk about it in detail, Parnaiba II and before my closing remarks. We have the first stage of our plant was requesting for the waiver, we believe we have a case that has been tested by other companies. We believe the case is based on solid ground, of course, this is a difficult moment in Brazil and the regulator has many challenges and issues they need to solve for, but we've seen a number of other companies well with the similar case and received a waiver of such as the one we have requested.

We also know that there was a risk and as part of our plan that this matter would not be resolved with the waiver request. We believe there's still an ability to appeal and appeal mechanism within the regulator I have to say we are in dialog with the regulator so there's a dialog in place. That's why also I'm going to be very careful about the strategy and the details and I know it's point that can be frustrating for our investors not exactly minute-by-minute decisions, we will make, but I think the important to highlight is that we are in dialog with the regulator, we want to find a balanced solution. The waiver denial was something that we thought could happen. We've had it happen in other instances of the matters that we are discussing with the regulator, (inaudible) where we have not yet received the final decision from Aneel are also working with them together and went through an injunction in the normal course to obtain relief and be able to finalize the matter.

And they will need time, these decisions require analysis. There are many different elements being considered. So just to highlight here that this first stage was something we expected to resolve in the waiver. If we are not able to appeal, or the appeal is not allowed and that's something that the Director General has the ability to do. We are in dialog with regardless with them to find a balance structured solution. We have the ability to request for an injunction. There are certain matters that were surprised and that also allow us to file additional injunctions to protect ENEVA from the cost that were mentioned in that meeting.

As you know, under the regulations of the system, we can request for the project to be canceled. There is a bid bond that becomes due in that event of BRL60 million. Also fixed revenues penalties of the first year can be imposed, which would represent another BRL280 million. I have to highlight that is not a structured balanced option, but it is an extreme result, if we were not able to reach an agreement which I still believe is not the case because when the project is canceled, the equipment is there; we've invested over BRL1 billion of our capital; we've mobilized people and we have a very efficient capable plant not operating. And I think the buyers of that energy would be not in a good position.

On the other hand, I think we can arrive at something that is more balanced and discuss it with the regulator carefully, that is our intention. So I'm just giving you all parameters of injunction possibility that is already prepared and ready that we're talking to the regulator regardless of that. That we can appeal and then there are other more complex measures that we can discuss, but which really don't think are the optimal equilibrium, as I said between building and believing in it and being there and then the penalties that we're talking about.

It's important to highlight that predictability is critical and that stability is critical for continued investment.

We have other projects, I'll talk about in a minute and finding a balance in working with the regulator and not against the regulator, I think is a right way to go. This was the first stage; it was not exactly what we had hoped for, but we already anticipated that we might need to use other measures as we have on several other occasions. So that's the Aneel decision comment.

On the overall conclusion, I'll say the following as I opened. Right now, we faced many challenges and risks, both at ENEVA and in Brazil. The management team of ENEVA has a plan; we're executing; we've delivered on announcing the debt and equity and working hard to implement each stage. We have a plan for Parnaiba II; the Aneel decision was a step, which we will continue to work on to manage and to resolve in its balanced way. On the operations, we have a plan; we have a new COO who is here with us and we will count on the health and expertise of our shareholders where applicable.

Last I'd say, we also have projects that interestingly enough may fit within the new auction. We have made no decisions. Of course, we need capital, stability and other issues behind us to be able to consider resuming growth and we need the support of our creditors and the key stakeholders to move forward. But I will just highlight that (inaudible) gas project, then renewable wind farm project.

Even the closing of the cycle, our relevant contribution to a country in need of energy. Some of them are very efficient within the use of gas. The closing of the cycle of the Parnaiba produces more energy without consuming gas. They require capital but they can be built and help again complement and generate energy in a moment where Brazil needs that.

For those projects to be even considered, first of all, we need to make sure there are appropriate rates of return. That those rates of returns are balanced with the risks we see today in Brazil. Those risks include regulatory risks, predictability within the system and therefore the rates of return for new growth will have to be down with the reality of what we live in terms of the risks of the system regulatory and predictability.

As I said, of course, we require capital, so having a stable capital structure to think about those projects is critical. We may need partners; we need our shareholders to be confident to have an option to grow. So management right now is working hard to make sure we keep those options open and that we have the ability, at the right time to consider them; do not throw out the growth options but to carefully evaluate whether those growth options fit into the current risk environment we face, and if we have the support of our shareholders to move forward.

The, last comment on the challenge risks in and the plan is, we are happy up until now to have had the support of our stakeholders. The NDF has been very relevant and important creditor and shareholder of the company. (inaudible) is in a difficult moment but has supportive and as you know, and as you know through the capital increase may be diluted but is backing the company.

The creditors who have been with us in our part of the plan, and most importantly E.ON, which I would say is a relatively new investor to Brazil in a very challenging moment. They have demonstrated commitment ahead of all of this volatility. It is a complex movement to the investing in Brazil. But they are behind us, they are committed to the plan and have put the equity forwards. I believe that their support has been fundamentals and it is our job as management to continue to de-risk ENEVA and make sure so that we can think about even growth with their presence. They bring capital, they bring expertise, they bring predictability to our company that was started by IT [ph] and now it's moving onto the next stage.

So again I would reiterate their commitment and support and how important it is to have them with us. On the last comments, I think, never again has challenges that started in the past, including capital constraints in the past, including other issues OGX Maranhao was a challenge that again with the support of E.ON and ENEVA was managed, but we have a very complex environment in Brazil. And foreseeing, we have surprising hydrological environment which create pressure on all different parties and from our point of view 100% dispatch scenario for thermal on the one hand, it's great that we can contribute in the capacity ENEVA is stabilizing the system helping stabilize the system.

On the other hand its greater strain and pressure and challenges, which we are managing and which all other companies in the sector that operate thermal are managing which include operating new coal plants in their first year of operation with the dispatch level that forces us to delay the maintenance to operate plans for all the time, for blast. And as you've seen from time to time, we have outages and we have issues that team here is very focused on. But for the plants are running and we'll continue to manage that within this scenario.

The 100% dispatch scenario for the company also implies that the gas plants and the gas fields are managed with that dispatch environment in mind. That means we have to work carefully both for the plants making sure that they are running like the coal all the time and available and that also means maintenance and another issues need to be managed very carefully.

And that also we optimize and work with PGN, our partners to optimize the gas basins; to protect the gas basin; to make sure that this different aspect scenario is being handled carefully to assure that we can also grow that basin and enhance future gas and that's something that the management team of ENEVA both on the call and on the gas side is working very carefully with our partners, we are glad to have them, they are committed. But this is a very different, let's say environment and then the one everyone imagined some time ago and we are working hard with their support to protect the gas basin and optimize it and allow it to grow. So these are the main messages I would like to leave. The last comment is ENEVA looking to again de-risk each step to find balanced solutions to work with and not against the regulator to allow the Parnaiba II project to come back. And if possible to resume growth at the right time under the right conditions, then we appreciate the support of the different stakeholders have provided.

And now I'll pause and answer any questions you may have.

Questions And Answers

Operator

Ladies and gentlemen, we are starting now the Q&A session. (Operator Instructions) Our first question comes from Mr. Bruno Pascon with Goldman Sachs.

Q - Bruno Pascon {BIO 16451201 <GO>}

Thank you good morning. I'm Bruno. I have two questions. First, regarding Parnaiba II, just to understand exactly the timing is for the CapEx of the gas supply system. De-risk [ph] from the earnings release confirmation that the equipment is still under a customs clearance. So just to have an idea when you have customs cleared equipment, how long would it take to put the system to work? And then to have the plants fully available? That's question number one.

And question number two, regarding the timing for the capital increase. When does the Company expect to receive the BRL1.5 billion? Is it going to be in deep by the end of June and therefore they're going to recognize already the second quarter results. Just to have an idea for the timing of the conclusion of the two phases of the capital increase? Thanks.

A - Fabio Bicudo {BIO 15000971 <GO>}

Okay. Thank you, Bruno. Finally, I'll start and then I'll turn it over to Frank. I think, you had two different questions and within the first question, you had also issues there, but, the first one in terms of the Parnaiba. I think there are two important elements there; One is ENEVA's effort to conclude and finalize the plant. As you know, the gas-fired unit is built, combined cycle plant is built in stages. There we have basically three big pieces of equipment; the two gas turbines and then the steam turbine. And that is step by step gradual.

So we've already concluded what we call TG51 which is the first gas unit. We've concluded the TG52 unit, are still -- we still have to perform tests and make sure that that unit is really ready for operation and we are very advanced, working hard with as I said, more than 1,000 people on site, very carefully coordinated to finalize that plant before the end of this year and hence, we have this also this waiver request with the regulators. So we are moving people, equipment, capital, we have a very carefully designed agreement with our EPC provider that is a balance again solutions that we feel confident with and are moving forward in the conclusion of that plant. Separately, I think you're also asking a question that was linked to gas availability.

Our partner PGN is working to optimize the gas availability within that complex and it's working hard on I think you mentioned bringing an equipment, clearing equipment, bring an additional rig and then concluding a number of elements that are linked to get supply, which I will not get into detail here.

But they are working very hard to accelerate and to resume what this company -- the gas supply company should be, given all the challenges they inherited from what was the unfortunate demise of the OGX Maranhao group that left, that company in a difficult, financial condition left it in a difficult management condition and now we are glad to have Cambuhy and our partner, they are very focused on doing their side of the equation, which is working on the gas supply.

So that's what I'll say on that question. Both parties are working there to conclude that. On the capital increase timing I'll turn it over to Frank, who can walk you through steps of the plan that are relevant and will lead you to understand when the second capital increase and the 1.5 billion is in play.

A - Frank Possmeier {BIO 18083214 <GO>}

Bruno thank you for the question. When you look at what we have announced on Monday it is three set capital increase of three elements of the capitalization of the company. The first one is a smaller capital increase that we have launched yesterday and the rights traded till today the register [ph] of BRL360 million E.ON committed to BRL120 million of that portion, the private capital increase series Phase I subscription period of 30 days, and then all the leftovers of the right, that hasn't been taken up are then subsequently sold in the market again in the following 15 days.

So the first capital increase will have a have approximately 45 days to 50 days duration and therefore it's likely the main part of this one closed was already in the second quarter. I think currently that its closing day is the 2nd July if I'm not mistaken.

And (inaudible) to the first phase capital increase we have launched the sales process Pecem II. And we have approached bidder at the beginning of the week signed NDAs and move forward on this one, I think it is realistic to assume that we need four week to six week window to get binding offers into this one.

So I don't think that this will be take to you really close in the second quarter, most likely at the beginning of the third quarter. And then once we have concluded the first phase capital increase and the sale of Pecem II. We will then start the second phase capital increase at the beginning of July, beginning to mid of July, which will then again need another 45 days to 50 days. So closing of that one is earlier by mid to end of August.

Q - Bruno Pascon {BIO 16451201 <GO>}

Very clear. Thank you.

Operator

Our next question comes from Mr. Carlos Jamaica with Corvalis Capital.

Q - Carlos Jamaica

Good morning. Thank you very much for taking my questions. I have three. First one would be on the capital increase. As I understand, when you defined BRL1.5 billion of capital increase mix, there were certain assumptions or you know and how you would be spending that cash. And my question would be what was assumed for Parnaiba II and i.e. what kind of cost?

Second question would be on the payment for Parnaiba II fines. There is some press discussion about BRL227 million to be paid for March. Could you avoid paying that if you appeal another decision? And what would be the process around that? And my third question would be on PPA cancellation. Would you be able to sign a new PPA to cancel the current one? Thank you.

A - Fabio Bicudo {BIO 15000971 <GO>}

Okay. So, on the two questions, first, on your question about what is the assumption for the CapEx. CapEx of the Parnaiba II within the plan. I think, we have included the conclusion of that plant there. So it is part of our plan to finalize Parnaiba II. For that, we need and I'm going to put a parameter around it here, between 200 million and 250 million. There is the agreement I was discussing, we have with the EPC provider on site and is the conclusion of the CapEx we require.

I'm not going to go into detail here, but it's a balance agreement where we have a time schedule for payment that is stretched out over time. And then also at the same moment, allow them to continue working on the plant and concluding it. So it is in our plan, we need about 200 million to 250 million to finalize it. On the second question, which is a one that we will answer very carefully because of the, what came out yesterday, again as we explained to you, the Aneel meeting, the end had some surprises and some challenging moments. So yes, there was a mention in that meeting yesterday that, we could be potentially at risk of the first 227 million and it was mentioned by the regulator in that meeting, to everyone who was able to watch. What we can say at this point in time is that, we will analyze alternatives, that we have alternatives as I described. We believe that if what was mentioned in that meeting and as I explained carefully, we're still in dialog with the regulator carefully, analyzing alternatives and we have not been formally notified of that. So all we have is what you have that -- that could be pushed forward. If and when we are notified and, of course, like any other company, we will evaluate alternatives. I can tell you at this point in time that alternatives exist, we have, as I said plans for contingencies and surprises and what happened in the meeting yesterday is, what we jointly saw.

Again, we have not been formally notified and if and when we are, we will, like any other company react, we believe there are alternatives in place for that. But at this point I cannot react to something that is only what we saw in that meeting.

A - Frank Possmeier {BIO 18083214 <GO>}

Carlos, I'd like to follow --

Q - Carlos Jamaica

Yeah.

A - Frank Possmeier {BIO 18083214 <GO>}

And there was a third question, there was a third question, I would like to answer which is the PPA cancellation question. So if we succeed with cancelling the PPAs and yes, we are entitled to go back into an auction, but it depends upon the discussion with the regulator at that point in time because there might be a blockage of the project and we will discuss that with regulator, when we come to that point.

A - Fabio Bicudo {BIO 15000971 <GO>}

Yeah, I think it's a complex question. It's a last resort, as I said, I don't think either for the regulator or for Eneva that is a balanced solution. We need to request that cancellation to the regulator; it's something again that we would leave only as a last resort. We have the full intention of reaching a balanced solution with a regulator or in dialog with them. So I reiterate that there is only a last resort and is one of the many measures that we have prepared and outlined and thought through.

We just want to indicate to you, in whatever, there would a stress scenario what the amount involved would be and how they would work. But again, that is a scenario that we have to discuss with the regulators at a proper time and we don't think that's something that we'd like to pursue right now.

Q - Carlos Jamaica

Thank you very much for the answer. And maybe I could just follow up on the first question. Did you assume any incremental cost for Parnaiba II, say, for power purchases or for cancellation or anything like that or just CapEx was part of the plan for 1.5 billion?

A - Frank Possmeier {BIO 18083214 <GO>}

CapEx was the amount included in the plan. We do have the ability to pay certain fines and again the challenge around those are the timing when they happen, the amount, as you know they can vary as I mentioned is a bid bond amount, that is one. There are other amounts that involve the fixed revenue penalty. But again, there, we have within the Company and we negotiated with our creditors' flexibility to pay a certain amounts we could not at that time envisage what the solution would be. We have a waiver request; we have the ability to file an injunction so we believe that we have some management of that issue before we move forward. So for now, it's the CapEx, where we have the flexibility to make payments depending on how the situation evolves.

Q - Carlos Jamaica

Thank you.

Operator

(Operator Instructions)

A - Fabio Bicudo {BIO 15000971 <GO>}

I think, we have a question here from one of the investors about also CapEx estimates for Itaqui and Pecem. I think there the question is around bringing those plants up to what we see as a benchmark, which is Pecem II. So what does the company need to invest.

I think the question is amounts, but I would assume also time. And what I'll say here now is that we prefer to address this question in a lot of detail around the Eneva Day that we will be scheduling with all of you. Now that, we have the debt plan announced, now that we have this new development on the Parnaiba, but that we have a plan and then moving forward, we will host that day and there, we want to talk about the operations of the company in a lot more detail.

I can tell on the question here that we have a sense already, yes. We are refining it; as I said, we have a new COO who has been with us for a few weeks and is finalizing and in that day, we will have him to walk you through what we think our improvements, investments, adjustments that we can make the time those will take and then the amount. So we'll request to wait a little bit on that answer and have a full better detailed plan for you in a few weeks time.

Operator

Our next question comes from Ms. Lillian Yang with UBS.

Q - Lillian Yang

Hi. Thank you for the opportunity. I was glad to see this financial restructure plan coming out. I had two questions. One is what happened to the gas supply agreement with PGN? In case you have Parnaiba II cancel? And the other question is what would it take -- or what is required from our view to actually bring the turbine I of the things, one, back to a level of availability which you disclose, which maybe 90%? Thank you.

A - Fabio Bicudo {BIO 15000971 <GO>}

So Lillian, I'll answer your questions in the reverse order. I think on the Turbine I, Pecem I, let's separate several things there they are critical. First, as you know, there were issues with the equipment supplier that led to big challenges in overhauling that unit and allowing the unit to, let's say, come back to it in normal operating condition.

Second, there is a normal ramp-up issue of a core plant that was disturbed by this equipment event. What we can tell you is that the equipment event was solved. The equipment supplier has worked with EDT and with Eneva to provide maintenance, repair and solutions on site and now, we are moving forward with bringing that unit into normal operations as I said, that's a challenge or it's in the beginning. But I can also say that we have finalized and concluded an agreement with the equipment provider there. That is a comprehensive agreement where they will continue to sit alongside us and make sure that now, that the main issue was resolved that we will implement and finalize.

I think the company is also working hard to bring best practices from this into and even lessons learned from the Itaqui to Pecem I, so that we can share and improve the operational availability of that asset. But I think that's where we are today on Pecem I and we have again the benefit of having EDT very involved and supportive and focused on that issue as we are and EDT brings also thermal and coal capabilities from plants we operate around the world.

On the gas supply agreement, as I said, the whole topic of the Parnaiba has many different elements; one of them is the regulatory aspect and the delay and the request for waiver, which may evolve as we discussed in two other solutions. If we have a cancellation of the Parnaiba II as a result, which I'll reiterate is not something we would like to pursue for many different reasons, including the gas supply agreement. That's a discussion that we will have then, of course, have envisage and talked through with our partner PGN on possibilities, results and balance in equilibrium.

So that's I would say work in progress. They're close partners of ours and when we are working together to map and work through these different scenarios. But at this point, Lillian, I prefer not to give a specific conclusion because the scenario of the cancellation is one that we do not envisage as a central scenario for Eneva. But I'll just respond by saying that always, we will find a balanced solution with our different counterparties in this matter.

Q - Lillian Yang

Understood. Thank you.

Operator

Our next question comes from Mr. Terje Meita with Una Capital.

Q - Terje Meita

Good morning, everyone. Thanks for taking my question. Just one question. It would be great, if could give us more color about how the debt restructuring is linked to the extra part of the restructuring. Or in other words, if any top of the debt part of the restructure is somehow linked to the success of the SGE offer? Thank you.

A - Fabio Bicudo {BIO 15000971 <GO>}

Sure. If I understood your question correctly, there is no real leakage; you have different components and you have different time variables. So first, you have the equity coming into the first capital increase as a step that is announced and taking place. As I said, we are working with the parties to have the disbursement today. In parallel, you have a debt disbursement of the first, let's call it, bridge of BRL100 million, which is also, we're working to have disbursed today. One event is not linked to the other and will happen simultaneously.

So, yes, they are linked in a way, but it's a simultaneous all at once linkage in other, in that dependency driven relationship, number one. In the subsequent phases of the plan, you have debt pushed down, you have the replacement of the bridge with the Pecem commitment and in parallel, you have the Pecem asset sale and then the capital increase. Those events also happened over time and are subsequent and they are not linked to the results.

For example, of the first equity increase. So it's a plan designed to move step in step. I think, there is an incentive for the banks to move from holding to operating. There is an incentive for the second capital increase to happen and we have defined for investors the minimum parameters and the full commitment. So we have a full commitment for E.ON's first capital increase for the Pecem acquisition. For the second capital increase and we have the banks -- bank commitments to do all of the different measures that we describe. So I would say that plan is already happening and there is no real linkage between the different elements other than moving forward and getting them done.

Q - Terje Meita

Okay. Thank you.

Operator

(Operator Instructions) This concludes our Q&A session. I'd like to invite to Mr. Fabio Bicudo for any closing remarks. You may proceed, sir.

A - Fabio Bicudo {BIO 15000971 <GO>}

Thank you, everyone for what has been a long call under challenging circumstances we appreciate the time. We will scheduling the Eneva Date. As a last comment, I will say here from a management point of view and using a very Brazilian expression, we have many plates in the year; we're working hard to keep all of them in the air; our objective is to defend and work with and bring stability to Eneva. To the extent, we feel the need and if we feel that, that it is relevant, we will be communicating with you on any development that we think deviates from the challenges, risks and plan that we have described. So for today, this is where we ended with the quarterly results and our discussion, debt plan and equity plan. And we'll be in touch. against. Again, Eneve Day will be scheduled right after this call. And if you have any further questions, please contact the Investor Relations team. Thank you, everyone.

Operator

This concludes Eneva conference call for today. Thank you all for joining us and have a great day.