

Y 2014 Earnings Call

Company Participants

- Alexandre Americano, Chief Executive Officer
- Ricardo Levy, Chief Financial Officer

Presentation

Operator

Good morning and welcome to ENEVA Conference Call to discuss the Fourth Quarter Results and other matters. At this moment, all participants will be in listen-only mode. And later on, we are going to start a question-and-answer session, when further instructions will be given. (Operator Instructions). I would like to remind you that this conference call is being recorded.

I would like now to give the floor to Mr. Alexandre Americano, the CEO of ENEVA. Mr. Americano, you may proceed.

Alexandre Americano {BIO 18747818 <GO>}

Good morning to everyone. With me we have the CFO, Ricardo Levy, corporate matters, Mr. (inaudible). Before giving to Levy, so he can present the figure of 2014. I would like to highlights some aspects that made last year a difficult year, but it's also something to resume our company. Then we see what came in last year in ENEVA without the execution of Parnaiba II, we have some plans in the start-up stage, these plans still presented some operational problems and we had a number of challenges.

From the operational point of view, we faced problems of plant availability from the regulatory point of view, a number of plants were explored to the payment of funds based on unfavorable methodology and even with contract and regulatory tendencies. Now our capital structure was balanced and with low visibility of stability.

Our scenario were ENEVA was focused to conclude the construction of ENEVA and for this we had a very clear target that was to restructure our company. So this is why we work in three fronts. Number one would be to achieve operational stability. Number two, to clean our pending matters with the regulators. Three would be to rejuvenate our capital structure.

Now, we have slide five. The two first points where we established our operation, we stabilized it and we improved our availability in the Pecem II [ph], you can see that we had an average of 92% of availability in 2014. We also made a crucial decision regarding the payment of cost available for Pecem [ph] and we are pursuing the something for the other plants.

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Now moreover speaking of regulations, now we will go to slide six. One of the most important achievements for the company in 2014 was the agreement signed with Aneel to maintain our contract with Parnaíba II. Management strongly believes that this was the balanced decision that maintained ENEVA's interest and also consider the interest of the consumers. We would like to remind you that Parnaíba II is one of the -- the one that has less conception among the thermal plants in Brazil.

It is good to remind you that the beginning of the commercial start-up has been postponed for June 2016. So these have maintained the economic availability of our project. In December, Parnaíba II plants started to operate and its substituted Parnaíba II, I and III. I would like to remind you also there -- we started last year with the capital structure that was improper with early few stabilization prospects, we had an increase of capital with assets where added up to BRL150 million to strengthen ENEVA's cash and we finished with CapEx.

Now in addition to 2014, where we initiated an optimization program of the SG&A. To reduce cost we have already implemented important measure among them, we have dropped costs with personnel and third party something that Levy will mention in details. In addition to this, what we had last year was to renegotiate our debt with our creditors. We want to maintain our operational plans that will totally adapt this profit, this allowed us to make progress in different negotiations and to be able to develop a plan that wanting to structure the capital structure of the company without damaging the operation of the plants.

As you already know, we present in our initial recovery plan that was presented February 12, 2015 and now we are in the final stage finishing the last details in order to call the creditors assembly. According to what we have announced this plan contemplate our debt and to turn part of the start-in equities. Now I would like to highlight the sale of our participation of pursuing in EDP something that happened in the beginning of the year at BRL300 million, this operation has already been approved by CADE, by the antitrust agency in Brazil and will be approved by the creditor's assembly.

I would like to highlight that we started the year with new prospects, this is a year that has already been started with the renegotiation of ENEVA's stake, the financial structure will be remodeled and adapted to the cash generation of our projects.

Now I would like to give the floor to Ricardo, so he can give you the financial results.

Ricardo Levy {BIO 16259732 <GO>}

Thank you Americano. Good morning. Moving on to with our presentation let's take a look at slide number eight where we have the highlights for the fourth quarter 2014 some of the items here are repeated. I'm going to go briefly over the details they are going to be covered by -- they have been covered by Americano.

Parnaíba those was concluded in October 2014, the investment was very relevant BRL1.2 million and so we obtain a great agreement with regulating agency which run about a

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balance with the presentation of the PPA for the plant. We also we are authorized to start operations only June 2016 to go on for 20 years and the partial reduction is fixed annual revenues during PPA term in order to close Parnaíba I cycle in five years.

Still in terms of regulation, we had an important victory, reimbursement of -- by Aneel of approximately BRL300 million due to overpayment of unavailability cost. 240 million of which refer to Pecem I and the remaining part to Itaqui.

Still highlighting the fourth quarter of 2014 on slide number nine, we see the agreement with EDP signed in December when we sold our interest of 50% a transaction amount of BRL300 million, which is very important in the judicial reorganization we are undergoing and also with subject to some conditions, one of them approve of Itaqui which has already occurred, the creditor banks BNDES and IDB most importantly which also approved the transaction.

Now, we only need the approval from another creditor, likewise, talking about the judicial reorganization filed on December, this process is supported to highlight that this process is restricted to the holding company namely ENEVA and ENEVA Participações and the operating organizations are shouldered in the operations. The plan is -- aim to reduce the holding company's expenses and the (inaudible) has already been made by the assembly.

We also have a plan to reduce the holding company's expenses, this started on the fourth quarter and this will yield important impacts which will be felt already in the first quarter of 2015. Now to talk about the main indicators for the last quarter of last year and for the whole year of 2014. We can go to slide number 11, where we see that there has been a decrease in energy sold of about 22%, despite the sale of 132 gigawatts from the test generation of Parnaíba II. However, when we look at the energy sold during the year and we compare it to the previous year, we see that there has been a net increase of 23%, leading to almost 8 gigawatts.

The operating expenses increased 80%, cost and expenses grew 23% which is less than the increase in operational costs, as a result EBITDA was BRL216 million compared to minus 89 million in 2013. The net income has been affected by the reassessment of the asset values and also by booking of -- for loss on the sale of Pecem I. This totaled around BRL1 billion, so if we don't consider this impact, the impact would be negative by BRL500 million, which is less than the losses in 2013, which was around BRL940 million.

Still talking about EBITDA, on slide number 12, you see the EBITDA development during the quarter, highlighting the unavailability expenditures, which is a one-off effect, the ADOMP comparing the fourth quarter to the third quarter of 2014, we see that the numbers were balanced and in line.

Now talking about operating costs on slide number 13. The fourth quarter of 2013 operating costs were primarily impacted by unavailability cost provision for Itaqui in spite of the methodology, the booking is still made during the year of the event we ourselves saw a decrease in the rental and leases cost of around 41 million, which was inflated in the third quarter of 2014.

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Now talking about the holding expenses on slide number 14, we see numbers very much in line with the figures for 2013. If we exclude the extraordinary effects for the fourth quarter, which was any typical quarter, we had several expenditures noncash only accounting expenditures some other cash expenses. But all of these one-off events specially expenditures from ENEVA Participacoes provisional adjustments to payment of PLR and bonus. Contract break-up with some service providers or contract termination in our objectives to optimize the costs in the company. Many contractor be reviewed and some of these contracts do represent financial impacts on termination, impact which will not be repeated in the future.

We would like to highlight the former IT provider cloud contract, which led to an important reduction in the costs associated with these services, some floors were also unleashed. We also terminated contract with some employees and made some important adjustments, not only in terms of the number of employees, but also in terms of senior management and management in the company. We're going to keep on making these cost reduction efforts and the result will be seen as of the first quarter of 2015.

Moving on, let's go to slide number 15 where we see the consolidated cash position. We see a balance of revenues and expenses, CapEx of 45 million, 80% or more than BRL36 million refer to Parnaiba II, a project which has already been mentioned and was still redeveloped in 2014.

Debt service, even though at holding we had a standstill with the private banks which was extended until November and after this period we were under the judicial reorganization regime, we still had some payments to make to these subsidiaries.

On slide number 16, the consolidated debt. Here we have two main comments. First of all and the first chart, you see reduction, which refers to Pecem II deconsolidation as of June, 2014 we sold 50% of the assets to E.ON. So the PAT and other accounting figures are no longer consolidated that's why the debt was reduced.

As the most important aspect is that regardless of the negotiations with the holdings and the private banks. We have reached our objective to seek a sustainable long-term structure through our operational projects. Parnaiba I, Parnaiba II, Parnaiba III, Itaqui and Pecem II have already had their short-term debt prolonged over the long-term debt restructured in a more sustainable way with the creditor banks.

On slide number 18, we have the operational performance of the several different projects starting with Itaqui, we have the adjusted EBITDA at 9.7 million, a result of 11.6 for the previous quarter. So it's important to look to the quarter results vis-a-vis the year result.

The 2014 EBITDA was BRL140 million, vis-a-vis BRL108 million for 2013. Project availability reached more sustainable levels around 90% in the fourth quarter, if we do not consider the 18 days that were stopped for preventive maintenance, in other words, there was not a problem cause by the project, but it was a proactive stoppage by the company. So this shows that the operation has evolved, if you compare the several last quarters.

Total availability for 2014 was 82% against 79% which was the availability posted in 2013.

Talking about the same one, in spite of the fact that the sale or the conditions for the sale were available in December. This sale has still not finished, we expected to be concluded in the next weeks or months. Here we have the main highlights for Pecem I.

Fourth quarter '14 availability affected by the stoppage for corrective maintenance as you know we had a problem at the same one. But as of the redemption of operations, availability was quite balanced and in December, we posted a historic record of 97% availability. We also had the provision of costs for unavailability due to the event that I've just mentioned. And finally 2014 EBITDA faced with this difficulty which occurred as of the third quarter yielded an EBITDA of 47 million positive against minus BRL105 million in 2013.

On slide number 20, we have Pecem II, which hosted important positive figures for 2014. First of all revenue growth in line with higher availability in the fourth quarter of 2014, around 30% growth, thus we managed to have an operating cost for growth energy generated reduced by more than 30%. Higher historic availability recorded in November 2014, the EBITDA was 180 million compared to 2013 EBITDA of around 30 million. Total availability of Pecem II was 92% in 2014 against 85% posted in 2013.

And then we have finally Parnaiba I on slide 21, here you see availability impacted by the strategy of guidance optimization for the Parnaiba complex as a whole. This does not to refer only to Parnaiba I, but also Parnaiba III and some necessary interactions renovate interruptions along 2014 to allow for testing the turbines of Parnaiba II, this turbine was ready for commissioning in October for 2014.

Although, there was a power generation drop, we increased our variable revenue due a greater CVU of 7%. The EBITDA 2014 was highly significant, we finished the year with approximately BRL181 million vis-a-vis 2013 there was BRL113 million. Now regarding availability 94% in 2014 aligned with the results presented in 2013.

Well, finally Parnaiba III in addition to the guidance -- gas optimization for Parnaiba I that we will use it in the entire complex. We also verified a drop of availability, likewise, this allowed the operation of Parnaiba II to availability, cost has been recognized like in other plants with average of 60-month instead of allowed, which is less burden some way for the company.

Therefore, although the payment is done in 60 months, the accounting is done in the year where you have this available. So we had an impact of 38 million. Nevertheless, the EBITDA of 2014 is around BRL10 million positive vis-a-vis and EBITDA in 2013 that was negative of 23 million.

Now I will give the floor back to Americano, for his final remarks.

Alexandre Americano {BIO 18747818 <GO>}

Thank you, very much Levy. I would like to highlight how we assured -- we are with the prospect of 2015, now our efforts are totally focused on approving the judicial reorganization plan and I believe that we will have novelty in the upcoming weeks, regarding this plan.

Thank you, very much. Now we will hold our Q&A session.

Questions And Answers

Operator

Ladies and gentlemen, we will initiate our Q&A session. (Operator Instructions) This concludes our Q&A session. Now we would like to hand it over to Mr. Alexandre Americano for his final remarks.

A - Alexandre Americano {BIO 18747818 <GO>}

Well, I would like to thank everybody for your attention. I would like to strengthen that ENEVA is embarking on a more stable path and I believe that 2015 is full of positive prospects. Thank you very much.

Operator

ENEVA's conference call has come to an end. I would like to thank everybody for their participation and have a good day.

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