

## Q3 2017 Earnings Call

### Company Participants

- Carlos Freitas, Chief Finance and Investor Relations Officer

### Other Participants

- Marcelo Britto, Analyst
- Marcelo Sa, Analyst
- Unidentified Participant
- Vinicius Canheu, Analyst

### Presentation

#### Operator

Good morning. This is ENGIE Brasil Energia's Conference Call, where we will discuss the Results for the Third Quarter 2017. All participants are connected in listen-only mode and ensuing this, we will open the question-and-answer session when further instructions will be given for participation (Operator Instructions)

We would like to remind you that this conference call is being recorded. This presentation, followed by slides will be simultaneously transmitted through Internet through [www.engieenergia.com.br](http://www.engieenergia.com.br) in the Investors section. A slide presentation and the company's earnings release are also available on our website.

Before proceeding, I would like to clarify that all forward-looking statements made during this teleconference regarding the business outlook of the company should be treated as forecast that depend on the country's macroeconomic condition, the performance and regulation of the electrical sector, besides other variables. They are therefore subject to changes.

With us today, we have Mr. Carlos Freitas, Financial and Investor Relations Officer and Mr. Rafael Bosio, Investor Relations Manager, who will talk about the company's performance in the third quarter 2017. Ensuing this, we will have the question-and-answer session. For journalist, who wish to ask questions, you can do so by email sending them to the company's press office.

It is now my pleasure to turn the call over to Mr. Carlos Freitas. You may proceed, sir.

**Carlos Freitas** {BIO 15364136 <GO>}

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Thank you, operator and good morning to all of you. It is a pleasure to be with you today to release the figures for the third quarter of this year and for the first nine months of 2017. I hope that all of you have our material in the site that was posted last night, because of that we will begin with slide number five that refers to the highlights for the period.

We begin with the net revenue from sales with an increase of 3.2%. Half of this growth is because of volume, even in a scenario with an economic downturn and with significant economic problems, we were able to expand the volume of sales by 1.9%, as you can see in the chart. And this translates into approximately an additional BRL28 million in sales. The sales price was approximately flat compared to 2016 and the main reason for maintaining stability is because we had a PPA for more than 300 megawatt [ph] in the regulated market and eight-year-old PPA that will mature in December with higher price. And this energy was allocated to the free contracting market, not this year, but in 2016 or 2015 for delivery this year. And the prices therefore were somewhat below the price of the PPA.

If we compare 2016 with this year, we have a variation in the average price of energy, therefore, we go on to our net revenues. The other half of our growth is due to sales in the short-term market. We fell, as you know and during the quarter, the increase was BRL436. The third quarter in 2016, the price was 116 that is to say a 25% difference. This increase of PLD of the settlement have price difference.

During the semester have led to a drop of 12% in EBITDA for the semester, almost 100 million for the accrued figures out this year. We have had a drop of 12% in EBITDA vis-a-vis 2016. The main reason for this drop is the generation scaling factor that was 17% in the third quarter 2016 (inaudible) and some percent this quarter. This is the main reason.

We had estimated that the GSF would be very good, but it ended up being worse than we expected. The month of September was the worst month in the historical series of data that we have hydrologically since 1931. We had -- never had such a limited increase, as we had in September. And if we compare 12 months between July to this year, this is one of the worst historical results in the last years. Therefore, the third quarter was a very complicated period and this shows us it would resolve in the short-term.

Another very important factor was the increase in the energy projects that we carried out during the quarter and purchases or acquisitions to be able to replenish the lack of energy from Jorge Lacerda. Jorge Lacerda was not working because of maintenance for most of the semester. This was in plant maintenance. And on this third quarter, while we have foreseen for the fourth quarter, it was concluded in the third quarter, because of this, we were forced to buy more energy for delivery in the third quarter due to this anticipated preventive maintenance at Lacerda.

The fourth quarter this means, that we will have more energy to sell and we should be somewhat more comfortable during the fourth quarter, once again, because the maintenance have been enforcing for the third quarter -- fourth quarter but was anticipated in the third quarter. To continue on in the same slide, we had a reduction of almost 10% in net income. We also have a smaller reduction with the same financial result

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in July, lesser financial impact on the concessions to be paid and a net income with a drop of 10%, but that increased for the year by 21.2%. There is also another significant reason for this which is the reduction of the income tax for the semester.

The return on equity and return on invested capital, row as you can see, our return through time has been of 25% in terms of invested capital. And the net debt if we compare this with the third quarter of 2016 -- September of 2016 with this year, net debt doubled because our cash was compressed because of investments and purchases of energy. We would like to remind you that we have a rather comfortable cash position. And CapEx in project such as Pampa, wind, energy, Azul, which is a solar plant and because of this, our net debt has increased, but still within a very comfortable position.

And the last point on this slide, generation with an increase of 20% for this semester due to lower fuel cost and I will break down these values further ahead. A reduction in the number of employees comparing this year with 2016, we had 700 people leaving the company, because of our severance package since last year and the great difference will be, when we compare the fourth quarter with of this year with that of last year, we continue on therefore with the next slide.

I do regret this. I have had a minor problem in my computer with the screen. Please allow me a few seconds.

We are back to continue on with slide number six, once again referring to our financial highlights. Most important highlight was our success in the bid of Jaguará and Miranda. Grant bonus that we obtained that we will be paying in November in the amount of BRL3.5 billion. As we have already informed the market, this will be wholly funded by debt in terms of energy as well as a specific for those [ph]companies that have been built. Part of this has already been closed and another part is under negotiation, so that we can ensure we have this amount in cash.

Another important point was the announcement of the acquisition of the Umburanas Wind Complex with an installed capacity of 605 megawatts. The first part will refer to 360 megawatts. We still have some precedent conditions to be able to satisfy. An important landmark was reached for this company and this was informed. Aneel has given us the preference for acquisition and we are complying with this precedent condition to be able to close this operation this year and we will begin to invest CapEx in 2018 for this part to come into operation during the first semester of 2019. We continue on, we have several operations connected to our Generation Operations Center such as Cana Brava and São Salvador.

On page number seven, two important highlights. Some time ago, it was announced that the company was elected as the best company in Brazil in terms of Corporate Governance. This is due to the several committees that we have in-house and a board that also focuses on this are stringent internal control, Novo Mercado, very active presence of discussions that we hold with the market and this Corporate Governance therefore has yielded this award from Época Negócios. For the eighth time, the company

was awarded the Transparency Trophy. And yesterday at the board meeting, we approved a credit of BRL425.5 [ph] million in the form of interest on shareholder's equity.

We are walking that path as we always tend to do, we're maintaining a very high payout, the highest payout possible, so as not to have accrued cash and well, when we have a very high CapEx and a low leverage, this is something we are very possessive. It's not the case now.

We continue on and an important point that I would like to highlight on page nine, the Jaguara and Miranda plants are still under expansion, this is for the future, but we are going to be adding 832 megawatts to our generation pipe.

On page 10, this will lead us to a share of 6.9% in terms of installed capacity, last year this was 6.3%.

On page number 11, and this is simply to reinforce the message, we can see the great variation between '16 and '17, the changes between the free contracted market and the regulated market. Another very important point, which is not a novelty is the increase of volumes that we have with traders, basically for a new product assembly and to have a constant sales flow.

We continue with the figures of the company. I'm going to skip some slides and go straight to slide number 16, where you will be able to make comparisons with the previous quarter. We have two very significant points, an increase of purchases in 2017 of 18 megawatt average, simply as production. You can see that the Generation Scaling Factor has been worse than expected and to ensure our continuity, we have purchased energy -- purchasing 18 megawatts for this year. Another point that I would like to underscore is the volume sold in 2019, 2020, 2021 and 2022, in the last quarter, the volume available was of 600 megawatt, we now have another 74, and we have sold 160 megawatt for 2020, and 2017 [ph] for 2021.

Significant reduction for the company which means that there is liquidity in the market. Where we are enforcing the message that we are a player and an active player in the free contracted market and that we were able to sell 70 megawatts, selling almost 100 megawatts for 2022. This is the future of Engie in the next four or five years. We're using our commercial skills to sell at the right time and to also purchase at the right time.

Now, let's look a bit about expansion on page 19 and page 20, a point that I would like to highlight for Jirau. Jirau has already begun with Engie, but there are still some trends in the process that are being discussed with Camargo Correa, especially in terms of amounts. There are some points pending that are still under negotiation and this process seems to be taking longer than we had imagined formerly. I do not believe that this process will be able to begin this year. The last hint that I have is that this process -- well, we have setup a committee, we are working side-by-side and we believe we will only be able to begin in the first quarter of 2018. There is this trend for rediscussing things among Engie and Camargo Correa that are somewhat hampering this process -- nothing that will

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raise concern. As I mentioned, we're trying to pay the concession of Jaguará and Miranda and also are considering other assets in the market.

Jaguará and Miranda appear for the first time on page number 21. As you know, 70% of the energy of Jaguará and Miranda have already been allocated to the regulated contracting market, but without GSF. The risk of GSF has been delayed, this is an interesting profile. We have 30% with exposure to GSF and 70% without this exposure to GSF. And as I mentioned, the concession for both of these plants represent 3.5 billion, the revenue for the regulated market is 70 [ph] million for Miranda and 2.5 million in Jaguará. Only the revenue are at 3.75 and the average price will be BRL113 for the energy and we still have 30% not included in the city that is the energy allocated to the three markets with EBITDA and earnings. We believe that the earnings from Miranda and Jaguará will be substantial.

Another item that is now novelty, once again is on slide number 22, we have for the great deal of effort in terms of a distributed solar generation. We have spoken with CSK [ph] and others to be able to expand the energy that we took on in Santa Catarina. We are working with a fuel consumer. This is something that is still beginning, but in the medium-term, this could become something that is highly relevant.

Pampa Sul, the works are moving forward. We have reached a position of 72% of progress. The sales progress of Pampa Sul and Lacerda are also underway, once again this is taking longer than we have expected and our discussions continue on. Therefore, we do not have a date to give -- what to give you. We can simply say that all of this is underway, we have addressed all of the problems and we're still negotiating the coming into operation.

The Campo Largo Wind Complex also advancing. We have finished the foundation. We have installed the transmission line as well. Once again, all of this is underway according to our schedule. The Campo Largo schedule that will add an important volume of 326 megawatts of wind power in Bahia and this is side-by-side with Umburanas. Once again these two projects are extremely close which means we will have a synergy gain most of the key that is mobilized their building Campo Largo will simply do the same in Umburanas. This is part of the competitive edge that we have of seeking growth where we think we can add value. And in the case of Umburanas, we have a park that has been contracted, but not built, but in a position where we will be competitive and this should add value to the company.

We have Assu solar project, which is also a concession and will be completed in December of this year or in 2018.

And I would like to close with our financial performance, I'm going straight to slide number 29. These are the figures that I refer to, a growth of 50 million in revenue past, due to the sales volume, as we mentioned previously and 21 million because of more revenues in the short-term market.

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In the following slide, changes in EBITDA. Once again, we see the impact of the higher volume sold BRL10 million less ROI, but the great highlight here is negative, it's the increase of purchases for resale and the short-term operations in the Electrical Energy Trade Board. Once again representing that 8% for the quarter in terms of net income changes of approximately BRL30 million, very much in according to what we saw in 2016. Lower income taxes, as I mentioned previously and the financial impact due to the monetary restatement debt and the lower income tax.

On the following slide, once again the historical evolution of our return on equity and return on invested capital remaining stable through time at approximately 25% for return on equity and somewhat less when it comes to return over invested capital.

Our debt appears on slide number 33. That continues to be BRL3.2 billion. Net debt, 1.5 and as of June of this year, nevertheless, this gross debt of 3.2 will be lengthened throughout the year due to the debt to pay the new concessions that we just had acquired.

This is also illustrated on page 36. A large part of our CapEx, which is considerable this year, we have an estimate of investing BRL2.3 billion this year. Basically, with Campo Largo, Pampa, Assu, and because of the recurring maintenance that we view, we have spent 3.5 billion for Jaguará and Miranda which means that our CapEx has reached BRL5.8 billion vis-a-vis the second quarter, most of which funded by our debt. In 2018, we will have new debts coming in and we'll have a negative value for equity.

The coming years, we are going to disimburse [ph]our funding with BNDES. For Campo Largo, we will be making drawdowns. And these are drawdowns for Campo Largo and Lacerda and they are going to return to energy BRL800 million negative. We have BRL0.3 million this year and for the coming year, we are going to have 2.5 billion additionally. We are walking the talk once again, well optimizing the company -- balance optimizing our capital once again trying to have a more efficient structure.

And finally to conclude on the following slide. Our dividend policy as mentioned formerly, we have announced a payout of 50% of our profit and now 425 million for interest on shareholder's equity. Once again, very attractive and of course this will enable us to grow in the market.

With this, we would like to conclude the presentation and open the floor for questions and answers.

## Questions And Answers

### Operator

Ladies and gentlemen, we'll now go on to the question and answer session. (Operator Instructions). Our first question comes from Mr. Marcelo Sa from UBS. You may proceed, Mr. Sa.

**Q - Marcelo Sa** {BIO 16454581 <GO>}

Thank you for the call and I have a question that refers to your outlook on hydrology and what you expect in 2018? Hydrology has been rather poor, very low and what is your expectation for 2018? What are you thinking about in terms of prices for 2018, likewise, you could remark on 2018 as well?

**A - Carlos Freitas** {BIO 15364136 <GO>}

Thank you, Marcelo for your question. What we can say about 2018 is that the energy prices that we're foreseeing for 2018 will be BRL230 or BRL240. And clearly with a drop few times, when everybody hopes that hydrology will return to its normal pace, the GSF will continue to be an issue in 2018. There are some plants that are increasing their take in the energy reallocation mechanism and once again as I mentioned GSF will continue to be an issue in the coming year. We are going to end this year with a very low yield curve.

At the end of September, the average levels of the reservoirs in the Brazilian system were extremely low. And this is a reflection of the dip-point that we had with very low hydrology. In 2018, we are estimating a reasonable generation -- scaling factor. So far we do not know what it will be, but it will be important. The price will not be as high as it has been this year, but everything will depend on the rainfall in the coming months. Basically, we are adopting measures to protect ourselves. We have 7% of our energy that is uncontracted for the coming year besides the protection that we have in hydrology.

**Q - Marcelo Sa** {BIO 16454581 <GO>}

Thank you. And along these lines, the government has sent, issued a technical note, a proposal for the energy sector and they're going to be dealing the coming week with a situation of Eletrobras and the situation in the free contracting market. What is it that you are thinking about for these proposals for the electrical fixture? And if the -- along with the proposal for Eletrobras there will be a room for all of the companies that are working in the free contracting market, because of the generation scaling factor.

**A - Carlos Freitas** {BIO 15364136 <GO>}

Well this is a topic that is important and it has two or three different viewpoints. The government will have to make feasible the sale of Eletrobras and un-hamper the short-term market especially the free contracting market as you mentioned. These very clearly are the two government priorities for this year, I don't know if they continue in 2018 or 2019. The government has been holding conversations with us so that they can un-hamper or move the barriers from the market and once again continue on with the sale of Eletrobras. We are very attentive to this.

But there are also more structural changes such as the gradual opening of the free contracting market, distributors and how they pay their taxes which would be very interesting structures. We are not sure when all of this will be communicated. The government has signaled that this will be done as soon as possible, but once again these are extremely complex issues. Everything is proceeding, we're discussing this and perhaps there will be a proposal in the first semester of 2018, we hope that this will be the case.

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**Q - Marcelo Sa** {BIO 16454581 <GO>}

Simply to understand this more clearly. There will be a provision or measure to be able to address the problems that Eletrobras and perhaps in the first semester of 2018, they can address the problems of energy in the short-term market and the free contracting market. And an agreement in terms of the generation scaling factor that could still take place this year, do you think that it will come along with a package with Eletrobras?

**A - Carlos Freitas** {BIO 15364136 <GO>}

I don't know if it will come along with the Eletrobras package or not. What we are articulating and arguing is that the free contracting as it stands today -- will we trade with the Electric Energy Trade Board is making the market unfeasible and because of this, we're attempting to ensure that this will be resolved this year and we do think that something will come out this year. Now, if this will come in the same package as Eletrobras, I cannot say.

**Q - Marcelo Sa** {BIO 16454581 <GO>}

Thank you very much.

**Operator**

Our next question comes from Mr. Antonio Diaz from the (inaudible) . You may proceed, Mr. Diaz.

**Q - Unidentified Participant**

Good morning and thank you for the call. My question refers to the revenues of the third semester and this date has not been announced yet, and I would like to know why there is a delay in the announcement, I think of the payout for the first semester.

**A - Carlos Freitas** {BIO 15364136 <GO>}

That is a very good question, and for that we have a good answer. This is due to the 3.5 billion that we have to pay for the concession at the end of November. I do believe that we will be able to resolve this before that but part has been lost for December. We have preferred not to pay the dividend today, once again you have a clear view on the issue of Cemig but as soon as we can pay out the dividends, we will do that.

**Q - Unidentified Participant**

Thank you very much. I was imagining this was the case. Thank you once again.

**Operator**

(Operator Instructions) Our next question comes from Mr. Vinicius from Credit Suisse. You may proceed sir.

**Q - Vinicius Canheu** {BIO 6300903 <GO>}

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Good morning and thank you for the call. For the concession from Cemig and or from concessions that have already matured and this causes concern because there is a good potential. And will you have that same appetite in the new auction that the government will be holding?

**A - Carlos Freitas** {BIO 15364136 <GO>}

The issues -- yes, it could be depending on how the auctions will be structured, perhaps, we will evaluate and participate in that type of auction. In the case of Cemig, it was very interesting for a variety of reasons, not only because part of the energy was already contracted without GSF, but also because some of the plants were already under operation, the EBITDA is still zero. And these are assets in the market in both Southeast which is where most of our clients are. And nowadays, the clients are less -- there in the south of Brazil. It is not a considerable risk, but it is the client themselves that have requested this depending on how the sale of these assets will be structured. We may participate in the auction, we do have an appetite to further invest in Brazil and that is why in the short-term, we continue to think about transmission in December and we're also analyzing the auctions for new energy with wind and solar projects.

**Q - Vinicius Canheu** {BIO 6300903 <GO>}

To continue along this line, there was a relatively low level of competition in this auction and the return levels were interesting. And can we extrapolate what you did in this auction for Jirau that can -- maybe that independent committee that is going to carry out an evaluation. Can we assume that level of return that you have at this auction, you will also use to leverage what will happen at Jirau.

**A - Carlos Freitas** {BIO 15364136 <GO>}

So far I cannot remark on Jirau. We are still about to evaluate the project. We're going to compare things with what is comparable and the parcel that has been contracted is different at Jirau, because of this we are going to carry out an evaluation to see which would be the return, but this will only be done subsequently.

**Q - Vinicius Canheu** {BIO 6300903 <GO>}

Thank you.

**Operator**

Our next question comes from Mr. Marcelo Britto from Citi. You may proceed, Mr. Britto.

**Q - Marcelo Britto** {BIO 15393330 <GO>}

Carlos, good morning. Thank you for the call. I would like to ask a question that refers to the sales process of the thermal plants. Now we have had a persistent hydrological problem in Brazil and both assets have had to be hedged in the scenario, because of this, are you thinking of postponing the sales process, could we know at which stage it is in? And if the design will contemplate -- having energy from that asset, do you view this part of your commercial policy and to also perfect your portfolio.

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**A - Carlos Freitas** {BIO 15364136 <GO>}

Marcelo, very good question. We're going to begin with the last question, the answer is yes. Through our conversations, we want to have a situation that is capable for us and for the buyer, of course. For 2022, we no longer have any energy. We still have some for 2019 and we would have still make acquisitions during a period of transition, something that will be also favorable for the buyer. This will be important for the transition period in a more structural fashion, we could protect ourselves from the hydrological risk, either by having assets or by having contracts through the assets, we will have checks that we can anticipate that we will have a dispatch and we would have a reasonable return based on the contracts. There are also pros and cons.

We believe that we can manage the hydrological risk also through contracts. This will become evermore complex. It will require creativity, when it comes to structuring the contract. And once again, our people in the commercial area know how to do this. The sale is proceeding very slowly but it is proceeding and we continue to hold conversations with the interesting parties. Once again, the advance has been slow. And we're speaking about risk. We're thinking about the warranties that we'll give. All of this will require time, as we're speaking with several interested parties, this is taking longer than we had expected.

**Q - Marcelo Britto** {BIO 15393330 <GO>}

Thank you, once again.

**A - Carlos Freitas** {BIO 15364136 <GO>}

Thank you for the question. Have a good day.

**Operator**

With this, we would like to end the question-and-answer session. I would like to return the floor to Mr. Carlos Freitas for his closing remarks. Mr. Freitas, you may proceed, sir.

**A - Carlos Freitas** {BIO 15364136 <GO>}

Thank you very much for your presence at our call and once again, our IR team is at your disposal to respond to any doubts or questions. Thank you once again and have a good day.

**Operator**

The conference call for ENGIE Brasil Energia ends here. We would like to thank all of you for your participation. Have a good day. Thank you for using Voitel.

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