

Y 2021 Earnings Call

Company Participants

- Eduardo Antonio Gori Sattamini, Chief Executive And Investor Relations Officer
- Marcelo Cardoso Malta, Chief Financial Officer
- Rafael Bosio, Investor Relations Manager

Presentation

Rafael Bosio

Morning, everyone. We're beginning our Earnings Results Conference Call for the Fourth Quarter '21 and Full Year for ENGIE Energia. I am Rafael Bosio, the IRO for the company.

At this moment, all participants will be in listen-only mode, and they can already pose their questions to the speakers through the platform. This conference call is being recorded at our site www.engie.com/ir. We have the files that will be used, the presentation as well as the release, where you will find more detailed information on operations, new projects and analysis of our income statements.

Well, I would like to clarify that the forward-looking statements made during this conference call referring to the business outlook should be treated as forecasts that depend on the economic situation of the company, the performance and regulation of the electrical sector as well as other variables. They are therefore subject to change.

Today, we have with us Eduardo Sattamini, CEO and IRO; and Marcelo Malta, the CFO, who will also speak about the performance of ENGIE. For journalists who wish to pose questions, you can do so through email, sending them to the Press Advisory Group of the company.

I will now give the floor to Eduardo Sattamini, and I will flip the slides. We're beginning on Slide number 5.

Eduardo Antonio Gori Sattamini {BIO 16648085 <GO>}

Thank you very much, Rafael. Good morning to all of you. We begin with the highlights for the year 2021. We're going to focus on the results of the year, and the detailed information on the quarter is important for the comparison of quarter-on-quarter. And all of this you will find in our release. We will refer to some figures for the quarter but we would like to analyze what happened during 2021, the company performance and how it protected itself from the severe water crisis, which was the worst in the historical series in 20 years.

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We begin, therefore, with our first driver, which was the hydrological risk negotiation. It is one more year where we have a renegotiation obtained for electric generators at the end of 2020. This year, the impact was BRL1.591 million representing BRL623 million over and above the first amount that was accounted for at the end of 2020, which means that, we have BRL2.05 billion referring to this recovery of expenses that were incurred by the company for thermal/electrical dispatch and the import of energy. Once again, displacing hydric [ph] generation, which forced electric generators to purchase energy in the market to comply with their obligations.

So we have received one additional parcel in the fourth quarter with a significant amount, as you can see, BRL1.2 billion in the fourth quarter. We had carried out an additional recognition in the third quarter, well, for a slightly lower value, because of our understanding and the maturity of this process that we can see before us.

A second important factor that exerted pressure on our results and you will observe this in our financial aggregates and numbers were the non-recurrent largest impairment of Pampa Sul, which we hope to sell still in the first semester of this year, with a financial close foreseen until the end of the year. And our solar distributed unit where we are discontinuing our activities as part of our portfolio, it is our understanding that this activity has much more added value, low entry barriers. And today, because of the fragmentation, we lose focus on our main business, which is wholesale sales, large accounts, of course, but this still has a very high added value as the market opens up.

Another non-recurrent element was the result of the sale of the Jorge Lacerda Complex in October, a transaction that, once again took place in October, reducing our volume by 200 million non-recurring events. Thanks to our decarbonization strategy. This is the price that we pay, but we understand with the sale of Pampa Sul this year, we will become a generator of fully renewable energy with relative value for our customers who are looking for carbon neutrality and decarbonization in their activities. We will be our customers preferred client as we don't have fossil fuel anymore.

One more driver was TAG's contribution towards the company's EBITDA, BRL602 million in 2021, with a positive variation of BRL115 million year-on-year. And mainly due to the enhancement of our operational result because of the valuation of the transport contracts for this company.

Another driver that we would like to present as information for you, so that you can understand how efficient our portfolio management team was. Despite a 2021 with a very worst hydrology, the impact for us in the short-term was only BRL35 million. This is -- this contracted energy that we allowed purchases in the short-term market, energy swaps enabling us to make adjustments in our portfolio and to not practice very high prices. Thanks to this management, our loss in the short-term market was constrained.

Now when we look at 2020, where we were in a better situation and not very good, albeit, we had a loss of BRL276 million year-on-year. What we would like to underscore here, nevertheless, is that the global impact on our EBITDA -- Rafael, I don't know if you have -- oh, there we are -- have made the necessary changes, we do observe a reduction

of EBITDA -- of the recurring EBITDA of 8.4%. But when we consider that adjusted EBITDA considering non-recurring events, we have a growth of 12.3%.

Well, were it not for these problems, we would have an increase of EBITDA of 12.3%, showing once again that the company is following its growth strategy. We worked with Campo Largo II that came into operation this year. Further ahead, we will speak about the coming [ph] into operation of Gralha Azul in December. And we will speak in greater detail about the works and the conclusions of whatever is underway. And we will base the growth that we already have on 2022. Very well. Rafael, another slide?

When we look only at the recurring factors and a few non-recurring ones, we have a drop [ph] of 44%, If we take away the non-recurring events, the drop is only of 11.8%, natural, because of the water crisis and the problem of an acceleration of inflation, energy electric companies leverage their growth. We're not a very leveraged company, but we do have a reasonable level of leverage with an efficient capital structure.

Our debt is, of course, pegged to inflation, because our contracts are also, it's a standard index of the company, the IPCA, the broader Consumer Price Index, and as inflation speeds up, it causes an impact on our debt stock and what we have to pay, and this will reflect itself on the contract prices only the coming year. So we should recover some of these financial losses through our contracts, but the financial result has that immediate impact due to the restatements and our concessions, and loans and funding. Our net financial result was less than BRL3 million and a variation vis-a-vis last year of BRL1.2 million -- BRL1.7 million, which is the lower financial result.

Let's go to the next slide, please, Rafael? We go through the qualitative highlights, information for you. In the first bullet, information that we are distributing based on our stock reserves, 700 -- BRL638 million more. And the goal -- the main goal of this is to maintain the level of proceeds that we had last year, which was BRL2.17 million. And with this measure to pay out dividends, we reached BRL2.5 per share, raising the dividend to a position of net debt equity for our investors, we have reached 5.8% of our installed capacity in renewable energy. And until the end of the year, we will clean up our portfolio and work only with renewable energy. Once again that figure is 95.8% of renewable energy.

Another important highlight is the beginning of commercial operations of Serra Pelada in the substation there. Connecting the Serra Pelada line to the Itacaiunas line. Now this is an extremely important issue for us. And towards the end of the first semester, we will announce another stage to comply with this project. Very well. Let's go on to the next slide.

The Board of Directors has approved the acquisition of the Photovoltaic Complexes, Paracatu and Floresta. If I'm not mistaken, last year in the third quarter, we announced related parties agreement to purchase these two solar energy complexes. This was materialized. The related parties have the support of outside advisors, the Bradesco Bank and two other advisors, so that, that we could carry out an exempt and full evaluation of these assets. The total amount paid was BRL625 million for 255 megawatts. This has a

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low leverage of 50% and represents a very satisfactory return for ENGIE Brasil Energia, and it's an asset without risk, under construction.

Another highlight. The company is one of the three Brazilian companies among the 100 Most Sustainable Companies of Corporate Knights. We're in the third position with Banco Brasil, and ahead of Natura [ph], that is in the 18 position. Now this survey -- this ranking is carried out between 7,000 listed companies. And what we are seeking of course is to further enhance this position when we clean up the matrix -- the energy matrix of the company. We obtained the Integrated Management System for all of our plants and these are plants that have been recently acquired. And they require this certification, so that 100% of our larger plants could be certified.

Another important certificate was ISO 37001, an Anti-bribery Management System certification, very important to operate in Brazil. And it is of supreme importance to have the certification to show transparency and avoid any deviations in our company processes, fraud restrictions, code of ethics are all taken very seriously in the company. And we were able to show this through the certification carried out by Euro Compliance Institute.

As of this quarter, we will begin speaking about our ESG highlights. In 2021, we had some very important steps, first of all, the installed capacity and percentage of renewables that are growing year-after-year. We will have a significant leap beginning this year because of the sale of Jorge Lacerda and the following year where we will be 100% renewable. But we have had a continuous growth in new generation. The emission intensity varies according to the dispatch of the plants. In 2021, it was somewhat lower. Beginning in 2022, with the exit of Jorge Lacerda, this value will be significantly decreased. The emissions of Jorge Lacerda were almost 4,000 tons year, vis-a-vis 1 million sub -- a total of 5 million tons a year, which means were dropping 20% of the total emissions that we had in previous years.

We're going to look at total emissions and carbon credits generated. We have new activity, vis-a-vis previous years. All of this based on electrical dispatch, but we do have a growing generation of carbon credits, and we are working with non-conventional renewable energy. In 2021, we had the generation of credit carbons not issued [ph] of 20 million tons.

We're also following up on water input and consumption. Our trend is to have a greater control of this, and a benchmark, so that we can have less impact, of course, on water availability on the planet.

When it comes to diversity and the percentage of women in the workforce, this has been increasing. We have devoted great efforts to attract evermore women to our operational force. We have an extremely male history and we're trying to change this. We have held several training programs with a focus on women in the O&M sector, in the Northeast exclusively for women. And our Administrative Director is going to Umburanas for the graduation of the first group of women, a group exclusively made up of women to operate our plants.

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And when it comes to social responsibility investments, we have maintained a 100% of incentive-aided resources in the last few years. Of course, with greater, lesser availability depending on the tax profits, when we have tax impacts -- as a percentage of the tax impacts, of course, there will be variations throughout the years.

Let's go on to the next slide; speak about energy sales. Well, very basically, this gives you a broad view of our energy availability in the first graph to the left. Our energy balance, our policy is to maintain uncontracted energy in the case of an eventual impact. And of course, this increases as we move away from the year because we need to have reserves and also the capacity to service our customers. This is how we act. We sell energy. We have the goal of being sold out for the coming years. This is our strategy of reducing exposition of the company to differences that could happen between one year and another and to avoid dependency on the hydroelectricity we still have in the country. So we're always selling energy, but we also maintain a very good contracted level for the coming three or four years.

High level, this is what we perceive here until 2024. 78% of our energy has been sold. If we withdraw that reasonable reserve to support withstand critical hydrology, which would represent 10% to 20%, 10% of our portfolio could be sold to the free customer market, approximately 550 average megawatts of capacity. This is our way of working to reduce exposure of spot prices in the company. So when we speak about a price drop that apparently exists in the market, what we see is that, portfolio is properly hedged against this effect.

And when we look at the future prices, especially spot prices, until 2026, we will have a revision of the price model which will create a pressure to increase short-term prices with an impact on the value in the long-term contracts as well. Now with the improvement of hydrology in the year 2020, at the end of 2021, we had a hydrology that was more favorable than expected. But in 2023, we see minor variations. The model is changing. And it will also change levels and allow for less volatility in terms of our prices, which is important for price stability and a more adequate operation for the operator. We think that the free market is very important. We have a great diversity of clients. The steel mills are perhaps one of our main segments. It represents close to 14%. Then we have food, cement, great diversification among industrial and commercial segments in Brazil without significant concentrations to avoid specific risks with individual segments.

We go on to the next slide. Another idea of how we have structured our commercial strategy. There are no great changes. I'm going to speak about a reduction in the number of clients. When we saw a reduction and availability of energy, we were quite selective in terms of our clients, and we had a minor reduction. This has nothing to do with a change in strategy. But yes with a change in availability in 2021, there was a possibility of having little hydrology throughout the year. And extending into 2022, obviously, this decreases our appetite to contract with clients that have greater risk. And because of this, we had a reduction in the number of customers.

As the market opens up, this curve should once again grow, and we will have greater number of smaller customers, that will offer us higher margins. They will migrate from the distributor very well. We will speak about our capacity expansion.

As mentioned, the company continues its search for growth. This year, we began the construction of the Santo Agostinho Wind project. It's at the initial stages of construction with concreting. It has 434 megawatts of total installed capacity, and the construction will continue on until the end of the year. This is only part of the capacity throughout the first or third quarter of 2023. The separation will be operating at full with 6.2 megawatt machines of the latest generation.

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The transmission project that we have alluded to, the Gralha Azul had a slight delay because of the COVID effects, is, of course, is natural. And this has generated an increase in CapEx, because the lack of productivity brought about by COVID meant we had to spend a bit more, and we were forced to revise our investments -- the estimated investments. But we do expect this to fully return to the company. And in March, we will be invoicing 25% of the allowed annual revenue, and only a small parcel will begin only in 2023, with a coming into operation of a Copel [ph] Substation. The entire project will be operational in March, and we will simply be awaiting the connection with Copel.

Next slide, please. This is the case of Novo Estado with a slightly different situation. We had a delay due to COVID and an accident that we have already mentioned last year. This was critical for us. We were forced to look upon all of our procedures. We replaced our subcontractor that was assembling part of Novo Estado, and presently, we have a term for 50% of the allowed annual revenue until April and the last 50% foreseen until the end of 2022. At the beginning of the fourth quarter, therefore, we estimate that this line will be fully operational. It's a gigantic line with 1,800 kilometers, crossing 22 municipalities between Tocantins and Para. Very well, Rafael. Next slide, please.

As mentioned, we have recently acquired Paracatu and Floresta, Photovoltaic Complexes. They're appearing here for the first time. And of course, they will go into the normal operation, 259.8 megawatts. Extremely important for us, Paracatu and Floresta. While the acquisitions had a rather high value, this was in the 2014 auction along with Soong [ph], we sold 30 megawatts of installed capacity and this park will now come under operation in the state of Minas Gerais, and will be part of our solar complex. Almost 300 megawatts of installed capacity -- solar capacity, with a view to increase this with another project that we will show you further ahead.

Well, Jirau, always present here. This is an asset that has been very well-managed, decreasing its exposure through the purchase of energy in the market with operational enhancements. And we're constantly discussing the operation. There have been significant enhances that Jirau underwent in the first year of operation. And at some point, the controller will bring this asset for our assessment, so that we can add it to ENGIE Brasil Energia as one of our assets.

And as we were mentioning, the projects under development, we have a small graph to the -- at the bottom left showing you the evolution of our pipeline. We have 2.2 gigawatts of pipeline, basically solar and photovoltaic renewable energies, once again. As mentioned, we recently acquired Azul. Where is it? At the very top. The Azul Photovoltaic Complex with 870 megawatts, consolidating this with our other two Azul projects in the same park. Thank you, Rafael.

Rafael Bosio

Let's proceed. I will now give the floor to Marcelo Malta to speak about our financial performance. Malta, you're on mute. If you could --

Marcelo Cardoso Malta {BIO 21276941 <GO>}

Good morning, everybody. Sattamini already mentioned the most important events for the year, with impact on our financial results. On Slide number 20, we show you our solid financial performance shown through the return on investment and ROIC. Now if we take into account the impairment effects, we have a drop of the ROE of 30%. And basically, this is due to a reduction in our net income, because of the increase in financial expenses, as mentioned by Sattamini. In ROIC, a small reduction of 22.7% to 20%, maintaining the historical levels.

To the right, we are showing you our performance between 2016 and 2021. We made investments amounting to BRL22.5 billion with high leverage of 82%. We have increased our proprietary installed capacity by 70% and in renewable assets 34%. We acquired TAG with a stake of 32%. We enter the transmission sector with 2,800 kilometers under construction already at the final stages. Our adjusted EBITDA between the periods varied 113% and net income 34%, below the EBITDA variations. Especially, due to the impact of financial expenses on profit. And in dividends and shareholder equity distributed in the period, we amount to BRL11.1 billion.

On Slide number 20, a graph showing you the net operating revenue change during the period. We had a BRL174 million increase in financial assets due to asset remuneration. The acquisition of Jaguará and Miranda following the accounting procedures was recorded as a financial assets readjusted by inflation and interest rates.

Last year we had exports, which we did not have this year. Price and volume -- sales volume, an important variation in prices, but on the other hand, the drop of volume, this is basically due to a reduction of consumption among customers and a generation restriction for Pampa Sul because of the import of energy from Uruguai and a reduction in the energy volume sold due to a larger amount of uncontracted energy that we less this year because of GSF variations. In 2020, we recovered the (inaudible) taxes, and we also have financial assets that have been updated by the inflation indices with a variation of BRL281 million.

Next, please. The results of TAG, that ended the year with BRL602 million. And this contributed to our EBITDA by BRL187 million highs. The results variation of TAG is due to an update of the energy transport contracts based on inflation indices. TAG's updates, its contracts by IGP-M and IPCA as well.

In terms of EBITDA, if we compare the values recorded between the two periods, we have a drop of 8.4%, but if we don't take into account non-recurring events, we have an increase of 12.3%. This is an important impact. The renegotiation of the hydrological risk in

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2020. This recorded BRL960 million, and in 2021, BRL1.150 [ph] million, a variation of BRL23 million. So because of the hydrological risk, the variation was BRL2.6 million.

We had a reduction in the purchases of energy bought for portfolio management. This was in a typical year, we had high energy prices with an average difference of settlement price, last year it was BRL280, because of this, we have lower energy supply. And we also opted to have a higher volume of uncontracted energy to reduce our purchasing needs.

I have mentioned the Jaguará and Miranda financial asset remuneration. This increased EBITDA by BRL174 million. Price and sales volume has already been mentioned. We had an increase in regulatory charges, our service rendering contracts, especially the O&M contracts, simply because these were restated based on the inflation indices and increase in coal consumption because of the variation in Jorge Lacerda asset. While the transactions at CCEE, the Energy Board, the impact was negative in only BRL35 million, due to our very efficient portfolio management that mitigated exposure risk to the GSF. This variation of BRL295 million is mainly due to the fact that in 2020 we ended with a positive situation of 240 million transactions at the Energy Trade Board, our equity income variations on the TAG results. And in the last column, non-recurring impact, the impairment in Pampa Sul and ENGIE solar energy distributed in the sale of assets at Jorge Lacerda.

Our net income evolution. If we compare the values recorded, we have a drop of 44%. If we put aside non-recurring impacts, the reduction stands at 11.8%. Now, the main impact here as mentioned by Eduardo Sattamini was the financial expense on our debt stock, 66% of our total debt is indexed to the IPCA, the broader Consumer Price Index, and the non-recurring impact due to the impairments and loss of capital in the sale of Jorge Lacerda.

Here we show you our balance debt, and increase of '20 to 2021, mainly due to the funding withdrawals for Santo Agostinho and the debenture [ph] emission to fund the EBIT of Santo Agostinho and what was left from the funding of Gralha Azul and Novo Estado. So we ended the year with a robust cash of more than BRL5 billion enabling us to distribute all of the profit this year, and the profit that we had retained last year.

Now in terms of leverage, we're still at very comfortable levels, ending 2x net debt EBITDA. Our debt profile and composition and expressive part will mature in 2022. In 2020, we decided to carry out a swap of our debts index to CDI with maturity in 2021-2022. This has proven to be a very assertive decision and it's generating expressive financial gains for the company. To the right, you see the breakdown of our debt, an important part index to the IPCA. Duration of that debt presently stands at 6.9 years and the nominal cost presently stands at 13.1% a year IPCA plus 2.8%.

And our investment plan CapEx for 2022, mainly we will have investments in Santo Agostinho and minor installments remaining from Gralha Azul and Novo Estado in 2023. The investments that are missing, of course, to conclude the works at Santo Agostinho.

Here you see the background of our dividend policy in 2021. We're going to pay out all of our adjusted profit for the year, besides the amount we obtained from the profit last year,

and with this, we would like to end with a yield of 6.2%.

Very well. That is all in terms of the financial presentation. I return the floor to Rafael.

Questions And Answers

A - Rafael Bosio

(Question And Answer)

We're going to now go on to the question-and-answer session. We have several questions. I will try to consolidate those that are similar. The first question, and I will divide them in three parts. Question from Maria Carolina Carneiro, Antonio Junqueira from Credit Suisse and Citibank. And about the acquisition of Paracatu and Floresta photovoltaic plants. They would like us to speak about the acquisition, if those BRL625 million respond for the equity and if there's a debt, which is the debt and the percentage of leverage of the project, if we could give them greater visibility of the EBITDA margin as well.

A - Marcelo Cardoso Malta {BIO 21276941 <GO>}

Rafael, perhaps I can answer this question. In the presentation, I spoke about BRL625 million as the equity backed debt, is approximately the same value, 50% debt and equity. And to give you more color on the acquisition, EBITDA margin of this asset is 70%.

I'm sorry, what were the other questions? I believe, well, these are the basic questions, a question if we're thinking of other acquisitions with similar related parties. Now, these were the two assets and to share the history with you, they were developed outside of Engie Brasil Energia for a company that was not part of the group. It was called Solar Direct in 2015. It was acquired after the 2014 auction. It has taken, of course, some time for the company to be absorbed by the group abroad and for construction, for licensing and we were not involved with it until they coming into delivery and we were waiting for the best moment to carry out the acquisition because of some readjustments that were necessary to consider performance.

And as the assets have less operational risk, we understood it was time to carry out the transfer and, of course, we spoke to the related parties for this. The margin is 70% EBITDA margin, 50-50, BRL625 million equity, perhaps a little more, BRL649 million in debt, and an earn-out potential because of the performance. Well, we still have to prove this, this year. And if there is earn-out, this means more results for us. And they will be shared to improve our profitability, of course.

This was an interesting acquisition for the parties. It's not an isolated asset. The size is relatively small, but it made full sense to transfer this to the country. Well, besides Shigal[ph] that also has a stake where we are the reference shareholder and at the right time, of course, it will also be brought in for analysis and I can see in the chat that there are no questions from individual investors. There is no trigger. We haven't started up a decision process. This will be done at the right moment. When the controlling company

believe the asset is ready, whether risk is mitigated to avoid having a divergence of perceptions between our company and the controlling company, we have to reduce uncertainties to the outmost to have a healthy discussion, as we did with the solar assets.

A - Eduardo Antonio Gori Sattamini {BIO 16648085 <GO>}

To complement this, Bruno, who asked the question about Shigal[ph] says, if our interest in electrical generation assets persists we're a large operator of energy in the country perhaps the largest, and we have a large interest in hydro electrical energy, but it's not our focus. We have been growing considerably in renewable energy to reach a balanced matrix for generation so that we can decrease the risk of the portfolio as a whole. The acquisition of Shigal[ph] increases the percentage of hydro electrical energy in our portfolio, but releases our capacity to invest more in non-conventional renewable energy as transmission grows.

Presently, there's a bottleneck in the northeast and this will be the focus for non-conventional renewable energy. Once again in the northeast for the low -- and for the large consumers in the southeast, yes, of course, we are interested in these assets. Hydro electrical assets is something we will see less and less because of environmental issues. But it will complement our generation capacity and will enable us to grow even more in non-conventional renewable energy.

A - Rafael Bosio

Thank you, Sattamini. We go on to the second question of Carol, GSF and the outlook for 2022, and a question on our protection strategy.

A - Eduardo Antonio Gori Sattamini {BIO 16648085 <GO>}

Well, you know that we don't normally comment on this, the general -- the GSF. Well, at the end of last year, in the fourth quarter last year, once I lowered GSF, and we took measures to reduce consumption and increase hydro electrical dispatch. And of course, we got ready for a more critical scenario. I tend to say that there is a symmetry, when we have bad hydrology or good hydrology, if we can, we prefer to remain during longer periods with good hydrology. The long-term contracting is lower vis-a-vis the losses that you will have when you buy at high prices for the long term. So this market symmetry is something that we're seeking. We tend to be quite conservative. When we looked at last year with a GSF very close to 70 and when we look at 2022, the expectation is to have something much closer to 85.

We will have more energy because of hydro electrical generation and we will be settling off more energy and we will have a stronger balance. Then what we expected when we budgeted for the company.

A - Rafael Bosio

Thank you, Sattamini. A question from Caro[ph] and Mr.Sousa about participation in the next transmission auction if we would be interested in this.

A - Eduardo Antonio Gori Sattamini {BIO 16648085 <GO>}

Yes. Transmission is one of our foci and of course, we can do this through the transfer of energy from production to consumption. This is an activity that also confers stability, growth and we will always remember this diversification of the business offers us different opportunities at different moments. And there's a huge competition that presents with transmission. In the past we had it with generation in the auctions but this is something that is cyclic and you will observe that, the next auction will be much smaller and it has gone to the market because of highly aggressive bids of players in the past that were not able to convert those bids for transmission into reality.

What we will observe is that those that are aggressive that lead the market to perceiving a much lower return, in truth are not successful. So we hope that this will show the market that being aggressive does have a limit. And we have to ensure that the bid will be sustainable and that the companies entering that sector will continue to work with the lines that are delivered. And this is very important for energy planning in the country. If you auction a line, that should remain for the four years. And if you spend two years fighting against that entrepreneur, who cannot make the line work for two or three years, well, this line will have a delay of three or four years, and energy planning will be severely hampered, but of course, this is the role of the regulator.

The government to be attentive to this type of player, who has a much more aggressive stance and ends up reducing the market price, the market returns and creates an unsustainable and unhealthy market situation. We are going to participate, we hope that behavior will be more rational.

If it is not rational, we will wait for the time when the lines will pose an adequate return.

A - Rafael Bosio

Very good, Sattamini. We do have some questions relating to the commercial market. A question from an individual investor and from Giuliano Ajeje from UBS, on our participation in the free contracting market we're speaking about 60% in the free market, 40% in the regulated market. If this is a pattern that we follow in one or another market and a question about our growth in the market if we're going to continue to focus on high-tension markets and low-tension markets.

A - Eduardo Antonio Gori Sattamini {BIO 16648085 <GO>}

The first question about the 60/40 split, well, this is the result that we look at the regulated market. We think it will end because of the number of auctions. It will take away from the distributor, the mandatory nature of purchasing energy, the market opens up more and the regulated market shrinks. And so there will be a reduction in our portfolio as well. There will be contracts for a very long-term hydro electrical plant selling at six or seven years in these contracts. Of course, we'll have to continue until the end. Ten or twelve additional years if we think of Shigal[ph] perhaps more.

Therefore, we will continue to have part of the regulated market in our portfolio. But it is a reality that the free contracting market will replace the regulated market because of the

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acquisitions. And with the opening of the market, the customers will be ever more smaller. We have been getting ready for some time. If you look at our presentations and conversations that have taken place in the last four or five years, we have been speaking about investments in this digital platforms.

We have several products presently, that we present to our customers with a great deal of success. And the trend is for this digitation to continue on our part, to reduce the cost of transaction for the minor customers. And of course, the transaction costs and profitability of the business will increase. We will continue to grow as the market opens up and our intention is to capture our stake in the market of the free contracting market and of course, this will lead to a change in paradigm. We're working with high-tension customers, is important for us that we will also be in the retail market servicing smaller customers. We also work with segmentation of customers in private and retail, as the banks do we end up having to do this with specific products for each segment to service and satisfy their needs.

A - Rafael Bosio

Thank you, Sattamini. We have a question here involving the commercial area, it refers to prices. A question of Vitor Sousa. If we are feeling a pressure for lower prices in the long term? According to him, there's a excess of supply in the Brazilian market. And I think we have already spoken about this.

A - Eduardo Antonio Gori Sattamini {BIO 16648085 <GO>}

In the long term, we're not considering a drop of prices, but we might want to reinforce this, the long-term prices and I'm speaking of the very long term, five, six or seven years going forward, it will tend to be the marginal cost of expansion, and it has dropped in the last few years, because of improvement in solar and wind equipment, but there's a limit for this, with inflation at present, with inflation of commodities and the exchange rate devaluation.

These prices are already higher. We already perceive a detachment of the cost of expansion from supply. Perhaps this is due to this potential over supply and we will have an intermediate period and it is in this intermediate period that our company has a high level of contracting. We're not concerned with this eventual oversupply, frustration of profitability for projects and what will happen, of course, is that these project developers that have sold energy at low prices will not have a satisfactory return and they will be penalized by investors and funders. They won't reach their coverage indexes. So, it is possible that if this occurs this excess of supply, it will have to blow out in a large number of projects that are being recorded at present and this will also cause a great deal of anxiety in the market.

But these are projects that will not work in the market. They have no capacity, they have no lines. Now it has to be in accordance with the energy demand foreseen. So I don't think the prices will become extremely disruptive for the energy. We will have moments where the price will be somewhat lower, but the trend of prices is to accompany the extension. And in a certain way, they have already dropped significantly and the trend is for stabiliztion at a certain level for the long term.

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A - Rafael Bosio

Sattamini, thank you very much. Now before we go on to the next question, we have two comments/questions from individual investors, Sid Sousa[ph]. If the company fulfills requirements to contract energy in the free market?

A - Eduardo Antonio Gori Sattamini {BIO 16648085 <GO>}

All CDs you can enter our site and the free market area and then the energy where you can find information on how to fit in and which are the necessary requirements. Please contact us if you have any difficulties.

A - Rafael Bosio

Another comment. A question from Christian[ph]. Simply to clarify, he asks -- or, asks us to speak about the reduction of 300 employees in the company vis-a-vis the last quarter.

It's important to clarify that in the fourth quarter, we materialized the sale of the Jorge Lacerda complex. There was no firing. These employees were transferred, and they continued to work in initiatives with the new owner. So, we did not have that decrease of 300 employees during the quarter.

We now go on to a new topic. Giuliano from UBS, speaks about the maturity of the O&M contract for TAG. What we're intending to do? And if there will be a cost reduction at TAG?

A - Eduardo Antonio Gori Sattamini {BIO 16648085 <GO>}

Thank you for the question, Giuliano. Well, this is already happening. We're in a period of transition between Engie and SBQT. We have agreed on a new modality. The price will be decreased. I can't refer to the price, but yes it will be reduced and have results that are very similar for the next periods. We will have a period of overlap between the new operating team of Engie and the exit of the Transpetro team. There will be savings for this asset and an increase in profitability for the coming period.

Now to remind you, TAG has an interesting feature. It was a leveraged acquisition where it foresaw a period of acquisition finance and it has been increasing its profitability significantly in the coming years, thanks to the reduction of financial expenses because of the funding and amortizations.

So we expect to have growing results at TAG in the coming years. And the maturity of original contracts of Petrobras will then enter a normal contract of asset remuneration, but up to that time, we will have an improvement in profitability and improvement in terms of the results generated, better distribution and of course, better results for Engie.

A - Rafael Bosio

Thank you, Sattamini. A question about leverage. Mr.Sousa asking, if we intend to fund new projects using our present-day capital or if we would use any financial leverage?

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A - Eduardo Antonio Gori Sattamini {BIO 16648085 <GO>}

Yes. We do have room to further leverage the company and because of our sensitivity in terms of the maximum leverage to maintain the AAA with our risk classification, it would be 3.5x net debt to EBITDA. So, we do want to maintain stable results, and the idea is to maintain leverage level that will be optimal. Keeping in mind that the maximum limit is 3.5%. This doesn't mean we're going to make a leap to 3.5 and stay there for the rest of our existence.

During the phase of investment, we could reach those 3.5 and when we invest higher levels of equity, this will generate EBITDA. And this will immediately contribute to a reduction of that net debt to EBITDA benchmark. It may increase but it will rapidly go back to 2 or 2.5, which we deem to be a reasonable level for long-term operation. So there will be a fluctuation between 2, 2.5 and 3.5 as we make investments. If we need a more robust growth, we may have to analyze another capital structure. But for the time being, this is not our intention.

A - Rafael Bosio

Thank you, Sattamini. Well, we do have a time constraint. We will go on to the last two questions. Very important to mention, one from Rodrigo[ph], an individual investor asking about delays in the project implementation, Gralha Azul, Novo Estado, Santo Agostinho, for example. Santo Agostinho went from March '23 to the first quarter of 2024.

A - Eduardo Antonio Gori Sattamini {BIO 16648085 <GO>}

This is not happening, Rodrigo[ph]. Santo Agostinho, the forecast was March 2023. We're bringing this up for the fourth quarter 2022. I don't know if you want to add to this. Of course, we had the impacts of COVID. Gralha Azul, Novo Estado, the issue of rains in the north, these are normal situations. They're delayed vis-a-vis what we wanted as an internal goal, but everything is very aligned with our plan. This will not significantly impact the profitability of the projects.

The only thing I would like to underscore is that they're ahead in terms of obligations with a regulator very much ahead significantly, so to give you an idea, good idea, Gralha Azul 18 months before. It will be ready 12 months before -- 100% of the operations will be ready 12 months before what was expected.

We don't have a delay when it comes to the regulation. Quite the contrary, we have anticipated this.

A - Rafael Bosio

Thank you, Sattamini. Very well the last question and of course, our channel to speak to the IR team is always open for those questions we could not address during the call. The last question from Ricardo[ph]. Which are the main bets for Engie in 2022?

A - Eduardo Antonio Gori Sattamini {BIO 16648085 <GO>}

Our bets are to deliver the projects that we still have in our portfolio within the budget and deadlines, of course. This is always good. Our implementation team is making great efforts for this, and to develop new capacity through contracts with our free contracting customers and our sales and development team is quite focused on this and, obviously, to make sure that we have operational efficiency to get the best of our assets to be very attentive to regulations.

We have an important year. We have to be attentive to regulatory changes and ensure that they're done in a rational way to balance out the interest of the diversity of the agents involved so that we can have a healthy environment to operate in Brazil. We have been able to achieve this in the 22 years of operation. This has been possible. We have ups and downs. But the breadth of these variations is limited. We have been able to influence this environment favorably. We have a good business environment in Brazil, and we have been able to mitigate risks and the downsides of our operation. So these are the bets for this year.

We are going to grow, we're going to make the most of the growth acquired, and I remind you, it has to be profitable growth. It's no use to grow to increase market share. This is not a return on investment. Our financial discipline has always been one of the main features of the company and will continue to be so and when we announce a project, it will be based on all of these assumptions.

A - Rafael Bosio

Thank you very much, Sattamini. Thank you, Marcelo Malta. With this, we would like to end the question-and-answer session. We would like to thank you for the very enriching questions. Once again, our entire IR team is at your entire disposal to address the questions we could not respond to. So let's keep in touch. Final words from Sattamini and Malta.

A - Eduardo Antonio Gori Sattamini {BIO 16648085 <GO>}

We would like to thank all of you for your presence. We had a large number of participants and we're very proud that we can draw your attention and have your presence with us. So we hope to see you until the results of the first quarter, unless we have something important to announce. Thank you.

A - Marcelo Cardoso Malta {BIO 21276941 <GO>}

Thank you for your participation. It's always an honor to be with you and until the next quarter.

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