

## Q3 2018 Earnings Call

### Company Participants

- Carlos Henrique Boquimpani de Freitas, Chief Financial Officer, Director of Investor Relations
- Eduardo Antonio Gori Sattamini, Chief Executive Officer

### Other Participants

- Analyst
- Andre Sampaio, Analyst
- Vinicius Tsubone, Analyst

### Presentation

#### Operator

Good morning. At this time, we would like to welcome you to Engie Brasil Energia Conference to Discuss the Results of the Third Quarter 2018. All participants are connected as listeners only and later we will open the question-and-answer session when further instructions will be given for your participation. (Operator Instructions) We would like to remind you that this conference is being recorded.

This presentation followed by slides will be simultaneously transmitted through the Internet through [www.engieenergia.com.br](http://www.engieenergia.com.br) in the Investor section. There you will also be able to read the presentation and the company's earnings release.

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

With us today. Mr. Eduardo Sattamini, the CEO of Engie Brasil Energia, Carlos Freitas, Financial and Investor Relations Officer and Rafael Bosio, Investor Relations Manager, who will talk about the company's performance in the third quarter 2018. Ensuing this, we will have the question-and-answer session. We would like to remind journalists who wish to ask questions to do so by e-mail sending them to the company's press office.

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

**Eduardo Antonio Gori Sattamini** {BIO 16648085 <GO>}

Good morning to all of you. It is a pleasure to share our good results with you. We are going to begin on slide number five, with the main financial and operational indices. During the quarter, we had a net operating revenue 50.4% higher because of our short-term operation. Obviously, this is due to our installed capacity. We have Miranda and others that have already begun to work with wind farms also contributing to the net operating revenue. As a result, we had a significant increase in EBITDA with 43% higher vis-a-vis the previous semester and better EBITDA, margin but a drop vis-a-vis the same quarter in 2017.

And the semester '17 and '18, what we have been doing is to have that short-term recovery, we have a long position and because of this, we end up doing short-term actions -- with positive actions, but we are subject to the default in the energy market. We had a significant increase in our leverage during the -- comparing with third quarter 2017 to 2018. We increased our net debt more than 4 times due to our activities and due to the increase of investments that we are making. All of this evidently had an impact on our interest rate and it reflects a growth for the period that is higher than the EBITDA.

We're going to go on to slide number six with the main highlights for the quarter. The company is commemorating in September 20 years of privatization and we are now called Engie Brasil Energia. We had the operation for the acquisition of the remaining shares of Engie Geracao Solar Distribuida, which means that we have greater freedom to have a more robust growth and to accelerate the pace. This is of course a way to have more satisfactory clients. We have six wind plants in the Campo Largo wind complex that began their commercial operation during this quarter and in the month of October, we have eight of these wind plants in operation and we have (inaudible) assisted operation, not commercial operation, but assisted operations. We have the -- once again, the plant from Campo Largo have been completed and of course we're working with constant financing, this is something recurrent in wind energy and we have made significant investments here. There should be a barrier of entrance for the small ones in the market. And we also had a partial draw down of the National Economic and Social Development Bank.

And the next slide, slide number seven, we continue with our highlights. We have concluded the work of streamlining the digital control system for Machadinho hydroelectric power plant. For the ninth time, we have been awarded with the Transparency Trophy organized by Anefac, Fipecafi and Sersa Experian. This, thanks to our accounts (inaudible) because we are a very transparent company that of course highly award (inaudible). And we approved a credit on interest on shareholders' equity in the amount of BRL397 million the -- and intermediate dividends that will be paid on January 4 and November 13 in 2018.

We now go on to the next slide that refers to Engie's shareholding structure. And of course, this is the structure that includes several companies, the holding company, specific companies where we are making financing or other systems that are connected to the national system.

In the next slide, the only change that we have refers to the increased capacity because of the wind farms that have entered into operation and of course here you have

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(inaudible) and the plants that have already been completed and that are part of our portfolio.

In the next slide number 10, we are showing you our leadership in the market with 10.2 of installed capacity for energy, we show you (inaudible) and of course the Campo Largo complex that will be coming into operation between now and the end of 2019. All of this enables us to have a very open dialogue with all of you and the possibility of continuing to make the most of market opportunities. In terms of transmission, we're continuing on with our normal projects. We do have a project that is part of our budget in the short term, it is the energy line in (inaudible).

In the next slide you will serve our very diversified portfolio where we have 47% destined to the pre-contracting market 10% to traders and distributors. And in the short term, we have been selling more to traders because of the operations that we began in 2018. And of course, this was part of our activity to focus more on the market prices and of course this has enabled us to work with a better arbitrage and prices in the short term.

Thanks to our diversification, and as you can see this is considerable diversification among several segments of industry and trades. Perhaps the most representative is the food sector and despite this, we still have a very low contracted energy. We have 10 megawatts in the three markets, there are variations semester after semester because it depends on the consumption of different industries.

We do have some contracts that enable us to grant some flexibility and of course this has an impact on our sales and we may have movement towards a decrease of activity and what we are representing here is our average sales activity and from the last quarter to this one, we have had a slight reduction of 210 megawatts, I believe.

We go on to the next slide, which is the energy market, we're on slide number 15, this is our structural offer, and the prices during 2018 have been under pressure because of the energy crisis that we have had for many years already. In the month of October, we had a certain spike and this has enabled us good activity. And once again, we have had greater presence of thermoelectric and hydroelectric run of river plants.

In the next slide, we speak about our commercial strategy. We work with commercial strategies that are well distributed through time. This eliminates that impact of having a lack of energy through time. And one of our characteristics is to practice price variation.

### **Carlos Henrique Boquimpani de Freitas** {BIO 18638688 <GO>}

Good morning to all of you and thank you, Eduardo Sattamini. I will continue now on page 23, referring to the Campo Largo wind complex. As we have already mentioned, we have six wind farms that are in commercial operation. Yesterday, two additional wind farms came into operation, we're simply awaiting the release and until mid-December, we will have the entire complex operating 310 megawatts and (inaudible) this is our wind farm hub. Besides Umburanas, this is operating very well. And as you can see here, it is still

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operating below capacity and has come into commercial operation before the term expected. And we're simply waiting for the company to execute all of the project.

Something very similar takes place on page 24 with Umburanas Wind Complex. We have made good strides in the construction. The idea is to have two parks that will come into operation at the end of November and December and until the second quarter of 2019, we will have an additional 360 megawatts of wind farms offering more wind energy to the company.

We go on to page 25 for Gralha Azul. This is a project where we are still in the phase of environmental analysis and we're preparing the RIMA which is the approval, we're still mapping out the land and beginning to negotiate the contracts with a CapEx value of BRL1.7 billion, which means approximately 15% below the CapEx of Aneel, that was approved in December of 2017.

And ENGIE Geracao Solar Distribuida, we have had a growth compared to the previous quarter. The trend is to have somewhat greater, larger system. This is still a very small business in Brazil, evidently, but it is a market niche and the new sales channel that will enable us to continue to have commercial growth. And of course at ENGIE, this will fulfill the free market that is still not being serviced.

And to speak of growth, we go on to page 27, where we show you the projects under development. As you can see here, we're still closing contracts and we continue to sell energy through PPA for the long term and what we're trying to do is to begin to enter this market, we reminded that Campo Largo and Umburanas on average have been contracted in two-thirds for the three contracting markets. And of course, we continue to (inaudible) business in this sector and we have a significant volume of PPA and we will be making new investments in Campo Largo as well as in Umburanas. We hope to give you further news very soon.

We now go on to the financial performance of the company, we are on page 30, where we refer to the net operating revenue changes with a growth of 50% vis-a-vis the third quarter '17. Basically this year, because of the speed of trading and because of the speed of sales and the trading operation, we have reached BRL466 million additionally at the Electrical Energy Trading Board as well as in other areas. Once again, this compared to the year 2017. This of course besides the higher sales price that has predominated this year and an increase in sales. The revenues of Jaguará and Miranda that give us revenues month-after-month. What you see here are only 70% of what we could get from Jaguará and Miranda, BRL430 million per year approximately, and the 30% of Jaguará and Miranda in the three contracting markets are here as well.

When it comes to our EBITDA, we have had a significant change. Besides the contribution and the increase of sales prices, the net balance of the short-term market that was BRL188 million. We have also had an increase in sales volume and a minor saving when it comes to the cost for permits and material. And of course, everything that is (inaudible) and a lower cost of materials. Now, given the increase in fuels and thermoelectric market which is positive because this is going to be as short-term impact and an increase in sales

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and sales to trading companies giving us an increase of almost BRL400 million and purchasers of energy for trading and for our portfolio as a whole.

Although the first quarter was quite complicated in hydrological terms, we did have an EBITDA performance that is higher than BRL1 billion, BRL1.21 billion, it comes to our net income. We do have a very important highlight in our financial results, a net expense of almost BRL50 million and the first due to the increase of our debt, this is very obvious of course.

We have announced a 100% of the purchase of Miranda with debt and we have carried out draw down from the BNDES for Campo Largo and Pampa during this quarter, this represents BRL1 billion BRL80 million geared towards projects and of course there have been changes there, but this wasn't the main reason, the main reason was that throughout the year, we had a significant increase, we have concessions to pay for thermoelectric plants like Cana Brava and others that are indexed to inflation and in the case of Campo Largo and Cana Brava, their index to the ITMP, they represent \$12 billion BRL 800 million. And for the -- accumulated for the year, 10% we have to pay 10% I believe and for the accrued (inaudible) for last year, they were negative.

What you can see here clearly is the greater impact of inflation and in my opinion, the coming year, we will have an increase in the prices of PPA because a large part of our contracts are indexed to the general Price Index of the IGPM.

We go on to Page 33 and you can see that we have a good return on the capital invested and return on equity. We have a very strong financial situation and we continue to look for projects that may be attractive for the company. As I mentioned on the next page, we have an increase in our debt. We reached BRL2.3 billion of net -- across that too at a very comfortable level for us.

And considering our EBITDA, we do have a competitive edge in the company. We can continue to increase the company debt and they will continue to increase always based on our growth. We have very good projects in our pipeline and we are going to achieve a large part of our growth through this debt. But of course, always on (inaudible) basis.

This debt is on page 36, it's not having any pressure on our cash. And we obtained it at a very attractive cost and always in reals and not pegged to the dollar which gives us a great deal of tranquility. And I would say a certain strength in terms of credit. And we are able to obtain it quickly and at a low price.

On page 37, we refer to our CapEx. We still have significant volumes of CapEx in Umburanas, Pampa and Campo Largo for 2019. We're going to reach BRL1.3 billion and for Pampa transmission and Umburana and the main CapEx once again will help us in the environmental part far and in the part that refers to land. Most of our CapEx will be spent in the year 2020 as you can see on the chart.

On page 38, our dividend payout we announced, payout on the first semester and yesterday as well, we in -- interest on our own shareholders' equity at the price of BRL1

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per share, BRL50 million approximately, but we have already announced for this year a payout in dividends and this enables us to maintain a very interesting policy in the payout of dividends. Besides, the growth that we have in the country significant contracted growth with Umburanas and others, and we see some room to continue to do this. This is not the promise that we're making, once again we do not have the intention of accumulating cash or keeping cash in the bank. We're spending our CapEx on profits that also maintaining our dividend payout policy.

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

## Questions And Answers

### Operator

Ladies and gentlemen, we will now go on to the question-and-answer session. (Operator Instructions) Our first question comes from (inaudible). You may proceed.

### Q - Analyst

Good morning to all of you. Thank you for that call. I have two questions, the first if you could speak more about Pampa Sul that will go in cooperation in the second quarter of 2019. How many turbines for each phase, when will they come into operation? And how long will you carry out tests until the commercial operation? My second question refers to slide 27, where you mentioned your project portfolio with the last phases of on Umburanas and Campo Largo that will be coming into operation until the beginning of 2019, which is your project you're going to work in the free contracting market, the non-regulated market, long-term contract what is it that you are thinking out for it?

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

Well, the first question refers to Pampa Sul. We have 300 megawatts of installed capacity and the idea is to begin operation already in January of 2019, once again we're undergoing tests operation but the intention is to begin operations approximately in the second quarter. The process for the sale of the asset, we took the decision of incorporating it again. We of course fill our region with uncertainty but we're quite confident in terms of the quality of these farms and in (inaudible) months, the situation will be much better so that we can give the buyer a certainty that this asset will be fully operational. When it comes to our growth in terms of renewable energy, as we're developing Campo Largo phase II for the pre-contracting market, we're going to begin contracting suppliers and consultants and much more. So we will have a new installed capacity and of course we will work with long term contracts and we're very optimistic that we will be able to make a decision for the beginning of construction until the end of this year. We're at the end of negotiation of a new area very close to Umburanas and Campo Largo and evidently, we're going to look for satisfactory profitability conditions. We're not going to enter the regulated market, if they don't allow us to have the profitability conditions that we expect. Now we're going to keep working in the pre-regulated and the pre-contracting environment and the regulated market as well. Now you have six months more of operation, I'm sorry I did not hear their name of the plant, it is very probable that we will intensify the process for (inaudible) of course everything will depend on how much

time we need for the evaluation and much more. And it could be that the closing will take place only in 2020. We already have some interested parties and we have decided to take on the construction risk until the end to do away with all of these discrepancies and all interested parties have to do (inaudible) an offer and if we can do the closing before, we will do this in 2019. But being very conservative, I can say that until 2020, we can conclude the sale of this asset.

## Q - Analyst

Thank you very much, Sattamini for your response.

## Operator

Our next question is from Andre Sampaio from Santander Bank. You may proceed sir.

## Q - Andre Sampaio {BIO 19422379 <GO>}

Good morning and I would like to ask a question about the future transmission options which are charge your expectations in this field? And another question on TSF, the generation scaling factor. What do you expect from the discussion that is being held in the Congress? If you believe that this will be approved this year or if you will have problems if it is denied or turned down?

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

The transmission auction which was the first question, we're expecting that we will increase our investment based on what was carried out in the auction and we will have another auction in December. And this is an option that will pose good investment opportunities. And it will allow us the opportunity to compete. As you know, we're very aware investor, they carry out their calculations and they offer an amount that will be compatible with the return of the project. We will be there of course because we're interested and we are going to participate to be competitive. We're already working towards this. We do have some specific interest and what we want to do is decrease the level of contingency and uncertainties. And GSF, the generation scaling factor, there was talking about fines for energy but there will be a new amendment that will be sent to Congress and we understand this as being a signal that this was not voted, because it was part of a document that refers to privatization that was not the right moment. This during the first round of election and I think that we will have cost and a consensus, some new measures were set for us to be able to resolve this situation to perhaps focus on the short-term market and we think that there's a good opportunity that we will be able to get to a consensus quickly among the House of Representatives. Now (inaudible) is looking forward trying to resolve the exposure of the hydrological risk and I think this will end up being a novelty, something that will give greater stability to the energy market in the future.

## Q - Andre Sampaio {BIO 19422379 <GO>}

Thank you very much. Simply to complement this, the new items that was included in the PEC for fines, the fact that it will go checked it as part of the (inaudible) distributors is -- this could lead to a legal impediment that including it with a very similar opinion, within this

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new project, I am not an expert in this type of process, but my perception is that Senator (inaudible) is not betting on this and there must be a legal basis to be able to proceed as you explained. Thank you very much.

## Operator

Our next question is from (inaudible) from UBS. You may proceed.

## Q - Analyst

Good morning and I have a question on the resolution of GSF. The discussion I believe will be according to the same format as was described in the PEC. And if this is case, a comment or some news that has come up that the government would have to pay BRL4 billion of the leak to the plants that have already been returned. If you can comment on how this solution will worked out? And another question refers to using where reserve volume, it wouldn't make very much sense as the cost has been Collister Brazil would be of 20 -- and here would make more sense to buy with a hedging in the market. In truth that company would end up losing because they would gain something in the price, wouldn't they make more sense for each market to buy based hedging?

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

Well, you have to made several topics here. The first thing is that the solution for the GSF is -- well. it contains the transition. It still release the account now and so we cover them going forward. And regarding that specific article for those plants that have concessions retained, they will no longer be included in then there's no amendment and this is what is different compared to the previous PEC. Now, which were you are questions? In terms of the Aneel solution, you're right. Now this discussions are still under way. And we agree that to protect yourself, the hedging will end up being cheaper using our own energy, our own volume, our own capacity, this of course will be cheaper. So, once again this discussion is underway and there was an invitation to present a counter proposal that will have the same content, but of course will end up being an advantage for the market as a whole. Once again, this is a good question that is underway and we can see that Aneel is concerned in finding solutions for these risks. Always that go beyond the normal operation with the hydroelectric plant.

## Q - Analyst

Thank you very much. Well, a large amount would have to be disbursed or signed out by the person who is entitled to receive this credit or would this be financing offered by the consumer and this would have an impact?

## A - Carlos Henrique Boquimpani de Freitas {BIO 18638688 <GO>}

We're now thinking of this discussion, because all of our accounts are up to date. I think that most of the companies do have resources and cash, they would have no problem in raising money for these payments. And I do believe that this will be analyzed case by case and the government does have a favorable position and it is attempting to help these companies to fulfill their obligations. As far as I know, there is nothing in the discussion that refers to a generalized action. And I think it will be case by case. Now in your case, as



you've said you have no pending account, do you understand that for Engie this part that refers to a pre-contracting market would also be entitled to this concession or would give supply only to those companies that have (inaudible). I think that we have gone beyond this discussion, well, we're talking about the pre-contracting environment and for those companies that have made an agreement, there will be a different treatment. And one of the points that we discussed in the past was this one and the amendment to the PEC that was presented recently, already dealt with this issue in that fashion.

## Q - Analyst

Thank you very much. Thank you for your response.

## Operator

Our next question from HSBC, Vinicius, you may proceed sir.

## Q - Vinicius Tsubone {BIO 20139966 <GO>}

Good morning and thank you for taking my question. Recently, there was a report that ENGIE is starting projects to store gas in Brazil in the North East. I would like to know if ENGIE Brazil Energia would participate in the project or this would be restricted to the parent company?

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

We do have a project that is under analysis, this is true. It's in San Francisco (inaudible) and this along with the company that offer a storage facility as an anchor for one of our plants that has been brought over. So this is what is in our pipeline and perhaps there would be a cross participation, we as the terminal and then at our plant. Now, ENGIE Brasil is going to work with terminal operators and storage operators, if it makes sense for us, we still have to work that out in the market. And of course, we would do this through ENGIE Brasil Energia and perhaps ENGIE will enter this market directly. And ENGIE might make a decision to work for this either inside the company or externally. I don't know if this responds to your question.

## Q - Vinicius Tsubone {BIO 20139966 <GO>}

Yes you did. Thank you. Simply a follow up. So for this project to go forward, we would have to have an auction. And in that case you will enter and entire project will then get developed?

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

Yes. Unless we have a sale in the regulated market it, doesn't make sense to work for the pre contracting market. We wouldn't have competitiveness, and we need to have the capacity to maintain this and so it should be feasible and viable. Thank you.

## Operator

(Operator Instructions) Our next question is from Mr. Marcelo Sa from UBS, Thank you you may proceed sir.

## Q - Analyst

Thank you for taking another question of mine, I would like to know if you have a forecast for they're going to charge the ordinance of (inaudible) just refers to this year or about coming years. And the (inaudible) you have created with the funds apparently offer a proposal what I understood from the article is that the other competitors also have the possibility of winning this, but you would have provide (inaudible) trends. If I could understand what your reading is, and what is happening with the ordinance now, this process is a process that was won by Petrobras where the (inaudible) has the right to negotiate the terms, the term of validity and of course due amounts that the case. And once it is done, the condition will be presented to all of the other offers and this will be (inaudible) once again with the preferential buyer within the hands of Petrobras, so ensure that this process goes forward in the coming months. And we're not sure when this will take place since it will be legal action or not, once again we're not sure when this issue have been -- will be resumed. As far as I know the contract or conjunctions are well advanced and then there was the deadline to present is to all of the other competing offers and this should lead us to having a transaction not before February or March of 2019.

Once again if we are able to resume this discussion in the month of November -- would you like to had anything when this discussion is resumed it will take at least three months until is to discuss the extraordinary general assembly here as well we need to hold this extraordinary general assembly and when it comes to the amount of partners and so on this has not been defined.

We truly have nothing to say and will not be able to say anything now. The size of society is impressive there had EBITDA

of 4,000 and a group of companies the idea is for nobody to control anything. We're not going to have a deposition of the control or we're going to all consolidated in -- this is also we can say for the time being. If you could anticipate one of my doubt of this company was -- of says tension and Of course the whole situation was -- has not been made very clear now the contract are they have what the gas lines or different contracts with different prices and with different very different capacities as far as I know there isn't a single line in terms of how this contract will be made and there are great uncertainties about the company's EBITDA in the future.

Now if eventually you will come into this or -- will be very clear line in terms of how all of this will be renewed or will this be defined going forward. There are several contracts for the transportation of gas. We have very short one that expires, now that is not considerable. And then there is another medium and long term contract perhaps the shortest one expires in 2025. And there are based on fixed prices based on gas volumes, these are old contracts made up for Petrobras. And now they are being handled in-house but they already have a legal framework for their renewal and for any future business, because this is a regulated business. And the ENGIE will decide how this process will be

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carried out. There will be a discussion on the WACC and this discussion is already under way (inaudible), we're discussing this that brings in-house from Bolivia and there are eight contracts at GLT that expire at the end of 2019, which means that throughout 2019 there will be an regulatory process to redefine what is happening with GLT and already is a public hearing to be able to do this.

Now if you compare this with electrical energy, where we know what the WACC there is an economic logic that prevails and Central, this is something that will be contracted only in seven years, but the regulatory frame work, because already been clearly defined and who would do the regulation, this is one of the question. And the other question is looking forward to doing some simulations of the WACC and the amount of the access on the discussion if you see the possibility of downsizing, the average cost of the contract will be more similar, while we normally do. Simply a reference for us during the renewal of contracts. The regulator is empty, and we have a very conservative way our own way of evaluating contracts I can't share with you, how we do this, how we increase prices or not. But I would say that this is something that pertains to the controller and the company. Now look at the regulatory (inaudible) they however put together. And this will give you an idea of how we're going to model all of this.

Thank you very much.

## Operator

(Operator Instructions) At this moment we would like to end the question and answer session. I will return to the floor to Mr. Eduardo Sattamini and Carlos Freitas for their closing remarks. You may proceed.

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

I would like to thank all of you for your participation. Thank you for your question that has enabled us to clarify our operation and the main projects that we are involved in and would like to remind that at the end of the year we hope to have some (inaudible) for you. Thank you very much.

## Operator

The ENGIE Brasil Energia conference -- and here we would like to thank all of you for your participation. Have a good day and thank you for using (inaudible).

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