

Q2 2017 Earnings Call

Company Participants

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

Other Participants

- Ezequiel Fernandez, Analyst
- Kaique Vasconcellos, Analyst
- Marcelo Britto, Analyst
- Vinicius Canheu, Analyst
- Vinicius Tsubone, Analyst

Presentation

Operator

Good morning. This is ENGIE Brasil Energia's Conference Call, where we will discuss the results for the Second Quarter 2017. All participants are connected in listen mode only 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 the Internet through www.engieenergia.com.br in the Investors section. At this section, you can also find a copy of the presentation and the Company's earnings release.

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

We have 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. They will speak about the Company's performance in the second quarter of 2017. Ensuing this, we will go on to the question-and-answer session. We would like to remind you that journalists who wish to post questions can do so by e-mail sending them to the Company's press office.

I would now like to turn the call over to Mr. Eduardo Sattamini and Carlos Freitas. You may proceed.

Eduardo Antonio Gori Sattamini {BIO 16648085 <GO>}

Good morning to all of you. It's a pleasure to be with you once again to record a good quarter. We're going to go on straight to slide number four, where we have our financial highlights. The general message is that the results of this quarter can point towards an improvement in all aspects. We had an increase of 180 megawatts this semester compared to that of 2016, despite the drop in prices, we had an increase in the net sales, a substantial increase.

The portfolio management has enabled us to protect ourselves from the Generation Scaling Factor. There was a deficit of 16% vis-a-vis the second quarter last year and this year in 2017. It is much higher compared to the last semester, which aggravates the situation even further. Specifically, due to the hydrological problems in the South, which means that our accounts in terms of energy has dropped compared to last year, representing a challenging scenario, and because of this we are carrying out a very strict management and working with the short-term market.

Another component that had helped our EBITDA is our cost management. We cut down on headcount significantly. We had a reduction of cost in fuel, and because of the lower generation, therefore, we have had less dispatch. And secondly, what we observed is a more efficient management of the resolution that defines the percentages of penalization for energy plants. This year, the percentage was lower vis-a-vis the second quarter of 2016. Additionally, when it comes to materials and others, we have had a stagnation representing a real drop in costs. Once again, these are all of the aspects that have had a positive influence on EBITDA.

When we look at net income, we have an important component, which is the drop in inflation and the interest rates. Once again, allowing us a significant improvement vis-a-vis the same quarter 2016. These are the aspects that have impacted the quarter results and we believe that our share is quite good considering the economic situation of the country.

We will go very quickly through the numbers. Net revenue from sales was an increase vis-a-vis the second quarter 2017. EBITDA was an increase of 3% in the margin, the EBITDA margin. Net income was an increase of 49.4%.

Once again, net debt with a drop of 300 million, which is a small, but an increase of 25.6%, due to our investments. We have a generation of resources that has come from the National Development Bank this year, increasing our flow of resources. We're also going to speak about our dividends and taxes and because of this, our cash has also aided the EBITDA. As we mentioned, a drop in production due to hydrological problems in the second semester of 2016, we had an average generation of 5.6 compared to 6 gigas for this semester.

Energy sold, an increase as was mentioned, a slight drop, perhaps due to the steep prices that were being practiced in 2016, the results of former years, where the stock prices tended to be extremely high. Once again, strongly influencing the sales prices in 2016. We have a slight reduction of 1.6% in the average price sales of the Company.

Number of employees total dropping from 1,183 to 1,125. We have had a significant drop in our permanent employees. With a very slight increase of the employee for our projects that are under construction, especially Pampa that is at a severed labor state. A high number of employees that are contracted on site, so we do have improvements in our security aspects and the number of employees working on the site. As you can see, a very strict management by the team allowing us to have satisfactory results.

FINAL

We go on to the highlights on slide number five. The controlling company has announced the engagement of Banco Itau BBA to prepare the proposal for the transfer of EBE and Geramamore, a company that was created to purchase the energy on behalf of ENGIE Participacoes, it's a controlling company. Once again, the idea is to transfer part of the stake and Banco Itau BBA has been contracted to create the rules for this transfer and to, of course, offer gains for the shareholders at international level.

We also have a Ministry of Mines and Energy publishing a Technical Note proposing improvements in the legal framework, because of some impediments in the electrical energy sector these have been addressed, and presently contribution may be submitted through a public hearing, so that we can have an evermore efficient framework for the market.

At the last meeting, there was the approval of 938.9 million payout of interim dividends, more than 100% of the distributable net income for the first half of '17. And as you can observe, this payout of dividends is the highest, the highest semester payout that we have had throughout our history and -- at a high level.

Another significant highlight is that in Salto Santiago, we have had an additional gain of 7.9 average megawatts, thanks to the streamlining of the machines and the performance of those machines are presented to Aneel, and an increase of 24.2% for the four GUs.

On slide number six, we continue on with our highlights. We're undergoing a process of automating and streamlining the Company, digitization, as you are well aware. We created an agreement with Link Lab, an innovative environment in Florianopolis that has become a significant hub for startup and technology. With the idea to openly begin with innovation and bring in operational enhancements, new business models, so that we can adapt more quickly to an ever-changing world.

Aligned with the digitalization, more of our plants are being operated through our central generation center at the Company's head offices. And this year, we began with the operation of some machines in a redundant fashion with the local operation of the Cana Brava Hydroelectric Power Plant. So this year, we began in Cana Brava, once again, connected centrally to our operation. And Estreito would be the next.

Until the beginning of 2018, we will be operating all of our wind farms and in this fashion only the large plants in the South will be connected centrally. Those plants that are over 1,000 megawatts, so all of these, they are not concern and they will not be part of this process. Aneel authorized the transfer of corporate controls of Beberibe, Pedra do Sal and Areia Branca plant. And this should take place as soon as the National Development

Bank offers its authorization. We expect that in the coming two months, this operation that was announced at the end of 2016 will be concluded.

Another relevant information, the Company received the Top of Mind Award for the Santa Catarina-based companies for outstanding sustainability and then environmental responsibility. Therefore, our crusade of doing good to people of showing our environmental and social responsibility has materialized and this is what any company should present.

In the next slide, slide number seven, we show you our shareholding structure without major alteration. Simply the highlights for the three units that will be transferred as soon as we receive the authorization of the National Development Bank, for the sale of assets.

In the next slide, the diversified asset portfolio. Once again, there are no relevant changes. This is simply as an informative slide for shareholders to see, which is our present international territory and our installed capacity.

In the following slide, we show you our relevant position among private power producers in Brazil. We are the most important and largest independent power producer in the country and we expect to maintain that position. Evidently, we have not grown, but we are maintaining our market share and our intention is to continue to do this with profitability and sustainability.

In the following slide number 10, the diversified portfolio showing you the free customers, the regulated market. In 2017, we have an increase in the trading companies because of the swaps. We have the incentivated sources and the smaller consumers have had to become part of the free customers market and we maintain and balance with the regulated market as this is very healthy for our Company.

The free customers market is important. We constantly speak about the diversification of our portfolio. We do not have any significant concentration. And once again, ENGIE has the share of world-class company in Brazil, and we are doing this with the proper guarantees. We had a minor reduction in our sales volumes quarter-on-quarter if we compare the first and second quarter of 2017, mainly due to the reduction of consumption of some industries. We are still undergoing an economic crisis, a steep drop in industry, more specifically, with a reflection in consumption. Nevertheless, this can help us because it puts our energy available for other contracts.

We go on to slide 13, where we speak about the energy market. To the left and beginning in 2020, as you can see a drop. The demand is increasing, and the growth of demand will be good for that year. Generally, we also have a drop of 300 megawatts -- average megawatts beginning in 2018 forward, due to the review of the guarantees that was carried up by the Ministry and Aneel.

You will see our portfolio for the coming year, a slight increase of capacity in 2017. Our portfolio has been setup to be able to work with a lower Generation Scaling Factor and we're ensuring that we will continue to have good results as we have had so far. In 2017,

FINAL

we have somewhat more energy available, but in our portfolio, at the end of the year, we will have a better view of what will happen in 2018, and thus prepare adequately to be able to maintain a similar situation as this one.

Beginning in 2019, we will have more energy for sales, and we have already began to see some sales movements -- significant movements for the year 2020 of a 140 average megawatts, decreasing our availability of contracted energy. Therefore, in the graph to the right, as you can observe, we sell energy every year as a form of mitigating the risk year-after-year. Part of our portfolio is uncontracted, and we have still contracted to maintain this balance in the free market.

In slide 16, once again, we have information for those who are interested in the Company. As mentioned, no changes in information. In terms of our expansion, while for Jirau, we are under operation with excellent performance. Here, you have the fundamental information for the project and we're working for our financing to be able to conclude the structure that we would like to have in this transaction and was going to create a committee to begin to discuss how this operation can be concluded.

We intend to present this offer to the Board of Management in October, and our forecast is that this should take approximately six months before we are able to come to a conclusion. It is very possible that the closing will happen in the third semester of 2018 if everything runs as expected.

We have the Pampa Sul hydro -- Thermal project, this is a highly complex very industrial project, with a myriad of difficulties, but the project is advancing. Our boiler has already been hoisted, and the work -- the construction work is proceeding as expected.

The wind project that is under construction, Campo Largo, which is within schedule without any great novelties. The Assu V solar project also under construction. Everything proceeding within a situation of normalcy and in this, we will have some benefits from connection and solar-tracking devices.

In terms of distributed solar generation, last month we began to work with the efficient bonus program, the photovoltaic line, where we were selected to install standard photovoltaic systems in residential units. We have begun working with the first 200 units. Throughout 2017 and 2018, the intention is to continue to install this. And we will be installing this throughout Brazil. At present, we have only installed 10%.

And the path is for us to become a very important player in this segment. We do have several projects that are under development. They are crucial for our growth. And all of these will depend on the auctions that will begin to take place at the end of this year and at the beginning of 2018. And, of course, we have looked around for the opportunity that appear in the market. Thanks to the privatization that the Technical Note 5/2017 may bring about. And several of these plants may undergo privatization.

I would now like to give the floor to our CFO, Carlos Freitas, who will discuss the Company's financial performance.

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

Thank you, Mr. Sattamini, and good morning to all of you. I will invite you to please go to slide number 26, where we show you the financial performance of the Company for this quarter. As was mentioned, the net revenue was 7%, EBITDA plus 4.7%, and net income an increase of 49.4%.

In the next slide, we go into more detail the evolution of our net revenue for sales. We got to BRL110 million, half of which due to the price variation and the sales evolution. We had a growth of 4.6% during the quarter, but with a drop in the average price. We recorded net revenues of 4 additional million. This is in the short-term market. This quarter, we had an increase in the revenue market in the short-term and also an increase in prices for the short-term market. The final evolution was practically zero in terms of EBITDA.

Once again, this gives a very complex hydrological scenario. The GSF has become evermore complex that has been explained, and this has had an impact on our portfolio. And this has led to minor variations in EBITDA. The variations has been 7%, reaching 1.682 million.

In the next slide number 28, a change of 14% in EBITDA, almost BRL1 million. This is due to the sales price, a reduction in cost, in royalties, a slight increase in electrical tariffs, a reduction in -- I'm sorry, an increase in tune of 2 million, personnel, and also because of the management of our portfolio and the complex. We were able to carry out very stringent management and the price of fuel as well for this quarter.

So BRL2 million represent a net income for a reversal of provisions, perhaps there has been a bit of confusion. We closed a deal with Petrobras, because of the -- I don't know that we had -- we had increased our cost of gas in 2 million, but this had already been provisioned. The cost of fuel increased BRL220,000 that was almost fully offset in the line of our provisions that were reverted. Therefore, revenues and EBITDA remain almost zero. What you see here is the net effect of this reversal.

In terms of price, we had an increase in the retail price of energy, this was carried out in this quarter. The average sales price throughout somewhat, but the purchasing price increased a bit. And finally, the item of personnel that has already been mentioned with the continuous efforts that we make in optimizing our resources.

In the following slide number 29, the net income changes BRL160 million, of which 104 million of EBITDA as mentioned. And another highlight of their impacts are the financial expenses. It was a great drop this semester, because of the monetary restatement.

As you know, everything is indexed according to the inflation and the remaining amount of amounts payable represents BRL5 million approximately. So the general price index this semester was negative minus 2.7%, last year it was more than 12%. With this variation, we were able to save almost BRL6 million, because of this explanation. So the BRL10 million

FINAL

Bloomberg Transcript

that you see here refer to a reduction in expenses and a reduction in the effective interest rate level.

We had some reductions on the Amazon Development Authority, with a reduction of our income tax for this semester, all of this enabling us to get to a net income with an increase of 49.4%.

To conclude, we go to our net debt, which is quite constant, BRL3.9 million. We have 1.5 billion in cash, more than BRL200 million in escrow deposits with a net debt of BRL1.5 million on the 4% of our EBIT, and this allows us to have a great deal of tranquility, knowing that we will have excellent credit ratings and a stable situation.

Now on page 31, the net debt changes through the semester. Our cash consumption during this semester, we generated 685 million in operational activities. That is to say, we used our cash, because we paid additional payouts BRL4.8 million now for the month of July, besides our very strong investment of BRL12 million. Therefore, even in this scenario with a great deal of CapEx, we have paid our dividends and -- but we have consumed more cash than generated cash. We can still increase our net debt, even though we consume our cash through CapEx and projects.

This net debt on page 32, the medium and long-term debt is quite calm and it is having a drop, it represents only 9.4%, compared to 11.2% in the second quarter of 2016.

In the following slide number 33, we show you a vision of our CapEx. This is a contracted CapEx for 2017 up to 2019. This is for Campo Largo and other projects, and most of this will be financed through our debt. So we will have debentures and that's not used in Company capital.

In slide number 34, our dividend policy, a 100% payout that was approved yesterday at the Board of Management relating to the profit after first semester giving us a debt of 1.4% for this semester. I believe that we're paying dividends, as should be done. When we generate a great deal of capital, or resources, our bylaws states that we should pay out dividends, but alongside with this is to grow in a responsible fashion and this is what we are doing. I think that we have generated a good mix of growth, and debt.

This is the presentation. With this we conclude, and we can now go on to the question-and-answer session.

Questions And Answers

Operator

We will now go on to the question-and-answer session. (Operator Instruction) Our first question comes from Mr. Kaique Vasconcellos from Safra Bank. You may proceed, sir.

Q - Kaique Vasconcellos {BIO 17317373 <GO>}

Hey, good morning to all of you. Thank you for the call. I would like you to go into more details about your growth strategy. You have Jirau, and I would like to know if you have any other projects in the pipeline? And what is happening with your coal cost? And what you are thinking about renewable energy? Which are your plans in this year? Secondly, which will be the prices and liquidity in the long-term, which is your outlook for this?

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

Very well. Let's speak a bit about growth. We have put some resources for sale, especially for the smaller assets that are somewhat far from our plants and those that work with coal. We're thinking of new concessions. Additionally, we will develop our greenfield pipeline and we're considering some assets in the short-term for renewable energy. We actively found out the market and ensure that we will be aligned with the global strategy of the Group, now that we have defined where we're heading to, we're going to focus more on growth, and I hope that we can give the market good news in the short-term in the coming months.

I'm sorry, when you speak about trading, Rafael has reminded me of the second question. The prices for the long-term are at 150 or 160 because of the price volatility that we normally have in the short-term, we're hoping that this will be resolved with a new regulation that will come into play in the coming years.

The prices change a great deal from one year to the other. In 2018, the price will be just close to 200 and some. And for this year, it is between 190 and 250. In 2019, there will be a reduction, and it is somewhat difficult to define a long-term price. With the expansion, it should be approximately at 180, but with the expectation of having a fully supplied market in the future, we end up thinking that the price will drop to 150 or 160. At least this is what we're thinking about the market prices.

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

Mrs. Kaique, in terms of the liquidity, in fact, for 2017, 2018, we have advanced the purchase of energy because of the Generation Scaling Factor. And it has become somewhat difficult to buy cheaper energy this year, but we are also buying energy for the coming year to have sufficient product. We have already purchased energy for the coming years to guarantee our liquidity very similar to what we did four or five years. We were able to increase our sales for 2020, 2021 by 5 mega, sales will begin in 2019. We do not have energy to sell in 2019, the uncontracted energy is reasonable when it comes to 2018. And what we're planning to do is to focus on 2019 and 2020. The coming year, once again, seems to be very interesting. And this semester, we have been able to close the purchase of energy. Thank you.

Operator

(Operator Instructions) Our next question is from Mr. Ezequiel Fernandez. You may proceed, sir.

Q - Ezequiel Fernandez {BIO 17243886 <GO>}

Good morning to all of you. Thank you for the call. I have four questions. The first refers to the public consultation and with proposals for the energy market in Brazil. I would like to know which would be the most positive margin for ENGIE Brasil, and which would be your working plan I believe?

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

Well, in my vision, it would be a market opening, which would pose opportunity and a more stable market. And this would allow us to have a more efficient performance, to be more expeditious. And by doing this, we would be able to capture more value in the market. Market segmentations and market reserves make it more difficult to focus on the most competitive company. Therefore, in my vision, the -- perhaps the most positive aspect of this public hearing would be a market opening during the coming years. The proposals, in general, have been very positive. They are bringing more economic rationality and they work in favor of our interest. We have a very positive viewpoint of this public hearing.

Q - Ezequiel Fernandez {BIO 17243886 <GO>}

Thank you very much. The second question refers to slide number 13, where we see your energy market balance. You have reduced your surplus capacity 2 gigawatts for the year 2019, 2020. If we compare demand and supply, what will happen?

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

Well, there are two components here. We have already mentioned the reduction in supply, a reduction in guarantees, and on the other hand an increase in demand. These are the previous semester.

Q - Ezequiel Fernandez {BIO 17243886 <GO>}

Thank you. My third question. I'm sorry, I did arrived somewhat later the call, perhaps I did not hear this. Your guidance for CapEx for 2019, it was reduced by BRL20 million. What is this view to the reduction in FX and CapEx for 2019?

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

It's due to a review of maintenance that we carried out. We carried out an in-depth of technical analysis and detected that we could push the forecast maintenance until 2019, which means that we have changed the CapEx profile, thus somewhat reducing the figure that was expected for 2019, this would be pushed to 2020. What happens is that care [ph] to complement the answer is that we're being very proactive in terms of our budgeting. We're constantly reassessing the need for maintenance depending on the economic cycle. If we have a specific price scenario, we may have the incentive to carry out maintenance to enhance our performance and availability.

At the moment, if that expectation is frustrated that we need to once again assess what we had budgeted. And we have assessed our possibility of carrying or not the maintenance. These figures end up having a certain dynamism as you can see, and they are part of the general dynamics. This investment has been postponed, but if we have a

price increase, if we have an ever greater need for dispatch, what could happen is that we will once again, revise our figure then increase this figure. But once again, the maintenance that had been foreseen in the last semester has shown that it is economically not interesting for us.

Q - Ezequiel Fernandez {BIO 17243886 <GO>}

Thank you. My last question, and perhaps you have already remarked on this. The information on the portfolio of PTA, and the average price expected for coming years. There is a reduction of BRL70 per megawatt hour. This is the expected price reduction, if you could give us more color on this?

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

Yes. There has been a reduction of 3% in megawatt hour, and the average price expected for mid-year. And in the purchase of energy, there was a drop of BRL25 per megawatt hour. Once again, this is due to the variation of inflation and the situation of this semester, this leads us to reviewing the price, reducing it somewhat, and this is the price contracted for this year up till 2019. And the purchase price will be even lower, which means we have been very proactive, we have been able to buy well, and further reduce the purchase price.

Q - Ezequiel Fernandez {BIO 17243886 <GO>}

Thank you very much for your response.

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

Thank you for the question.

Operator

Our next question comes from Mr. Vinicius Tsubone from HSBC. You may proceed, sir.

Q - Vinicius Tsubone {BIO 20139966 <GO>}

Thank you for the call. My question refers to mergers and acquisitions. Would ENGIE be interested in purchasing plants with operating gas, or electrical energy?

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

For ENGIE Brasil, yes. For ENGIE Brasil Energia, it will depend on the growth strategy and vision, if this would be appropriate for the Group as a whole. We're undergoing a discussion presently to see if certain point in time, we should mirror the situation that exists outside, if energy of services and everything else should be altered. Once again, this is an ongoing discussion. We have not come to a definition so far. Yes, we have discussed gas, gas pipeline, which is the core activity in Europe.

Now, if this will also be done in this listed company, this is a discussion that still has not come to a conclusion. I don't know what is the vision of analysts, but we are going to

Speak to each of you individually as soon as we are able to.

Q - Vinicius Tsubone {BIO 20139966 <GO>}

Thank you. If I could ask a second question, if you could repeat which and when are your next steps and what you expect from the operation?

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

When it comes to Jirau, the process is assessing once again how this process will be carried out and which will be the magnitude of all of this. We're hoping that this will be elevated to the Board of Management in October. Once again, this is the expected schedule. And on that occasion, the Board of Management and the consultancy will make proposal so that they can be sent to the committee, and it is the committee that will hold discussions on behalf of EBE [ph] they will be discussing the transactions and the conditions for this.

The committee will have a budget, they will have an advisor. And once again, all of this process will begin here in October, once it has been presented to the Board of Management. This is a lengthy process, because of the large volume, these are not minor volumes, and we do have to advance at the right pace. So, we believe that this will take a few periods before this has been fully designed. And once again, at the end of the first quarter of 2018, we should have a clear answer to give you. This is the internal schedule we're working with.

Q - Vinicius Tsubone {BIO 20139966 <GO>}

Thank you very much.

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

Thank you.

Operator

Our next question comes from Fernando.

Q - Marcelo Britto {BIO 15393330 <GO>}

Good morning to all of you. This is Marcelo. I have a few questions. One, referring to your sale of your coalfield assets. You had spoken about the expectation of concluding this by the end of July. I would like to know how this process is advancing?

And the second question refers to the Technical Note for the renovation of the electrical sector. Do you believe that these measures will have a structural impact in the long-term, or if it is too early on to know this? And when we think about the Technical Note, will this apply only to the newer contracts, or does this apply to the older contracts?

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

Very well, the sale of our coalfield assets, we continue to receive proposals. These are complex proposals. We're dissipating doubts. We're offsetting and comparing the proposals and the next step would be a definition of some players, a maximum of five -- four or five, that will take part in the second phase. And in the period between September and October, and only then, we'll reselect the actor and then set forth a date and the framework for this process.

Now, if we think about a schedule, I'm referring to the end of September, or the end of October for the binding offers. And when we speak about comparing them, we're selling an asset, perhaps a player will request that we maintain the PPA for some time, or would like to allocate risks differently. Because of this, we need to analyze each of the proposals with a great deal of caution. Once again, they are very complex. At the end of October, at the beginning of November, we should have a definition. We will participate in the negotiation of the FCA, that during this process, we'll already be available.

There are always final conditions and adjustments that need to be made and they will be made during a negotiation. Our deadline is to announce the sale of the assets until the end of the year. This is the expected chronological schedule, but we're not being very stringent, or extremely stringent about this. Although, we would like to accelerate this process. It is important for associates of the plant to know who will be the new owner and of course, this generates anxiety and we would like to eliminate the anxiety of our associates.

And our distributors at present, we do have a lower price, and we're going to move away from quotes to be able to increase the price and this will only happen when we have an increase in the market. And when it comes to energy, and then backing and energy, this is a concern of course and it makes all sense in a more open model, where distributors will no longer have to run the risk of contracting energy.

It is necessary to give way to an environment, where the growing free market will generate opportunities in the long-term and this will have to be done with the right backing, but the question is, if this backing will provide the necessary motivation for growth? That part of energy will also have to be contracted and we do have to have a return on assets. All of these are issues that will be dealt with through this new regulation. And although, the Technical Note is approved, we will have to undergo legal changes and there will be a great deal of regulatory work carried out in future years for these adjustments to be linked. This Technical Note is nearly carrying out consultations at present, and they will need some appendices through time to be able to complement this effort to change the regulatory framework.

Q - Marcelo Britto {BIO 15393330 <GO>}

Thank you very much.

Operator

Our next question comes from Vinicius from Credit Suisse. You may proceed, sir.

Q - Vinicius Canheu {BIO 6300903 <GO>}

Good morning to all of you here. I would like to mention three points and more for a confirmation then as a question. First of all, the Technical Note and the public hearing. The provisional measure speaks about reinforcement for the free market. I understand that you are asked to participating in this. We no longer have the ordinance and you have come to an agreement on the regulated market. Do you have any figures of what this would represent, which are the adjustments that we would need in the future? How much can you recover at present?

And there will be an auction that will take place at the end of the year. Of course, in the first auction this year, you were not able to obtain the loss that you wanted. For the coming auction here, there would be an attempt for you to participate, as you participated at the beginning of the year, depending on the quality of the lots. And how far are you willing to go?

And finally, in terms of growth, you did not mention the privatization of safety and other events. I would simply like to confirm if this is still valid because the privatization should take place in September, October, that is very close.

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

Okay. Let us respond to your questions. The first question referring to the Technical Note. Yes, we would be asked as part of the Technical Note to receive a reimbursement for that part of the energy that was not in the regulated market. What was in the free market? Yes, we would be able to recover the adjustments in the generation, because of the Generation Scaling Factor.

Now, I cannot mention any figures, because we're still discussing with Aneel what to do. For example, the inclusion of Uruguai [ph] will be taken into account, if we're speaking about electrical energy, or just energy, which will be the Fitch. Once again, so far we do not have a vision of how much this would represent. As we mentioned, this will not represent cash for us and even if it does present results. We will probably have a result equivalent to the amount that will come into our PP&E as a regulatory asset.

I believe that I have responded to the first part of your question.

Secondly, we are considering participating in the second auction, we have looked at some lots. We're in a stage of preparation. We're getting ready to work, and our decision was only made in February. The auction was held in April, and we did have time to technically analyze the lots. And I think that for this auction, we will be better prepared. We have designed the line of the lots that we are interested in. Once again, we would be interested in lines that are very close to the projects that we would like to develop, or close to the project, or plants that we already operate.

The third question, about safety. There is the renewal of the concession and in our understanding, this would not be important for the longevity of the Company. We prefer to take part in processes where the consumption is different. Evidently, we were going to

seek the renewal of our concession. We are going to seek those renewals. Now, if our request is not heeded, we will be moving part of our capacity and we will have to look for this capacity in a competitive fashion.

Now, if we do lose this concession, we do have additional capacity that will have greater longevity for the Company and cause a lesser drop in the Company's volume beginning in 2018. As we mentioned in the past, we are not particularly interested in (inaudible).

Q - Vinicius Canheu {BIO 6300903 <GO>}

Thank you. That has been very clear as a response.

Operator

(Operator Instructions) With this, we would like to end the question-and-answer session. We will give the floor to Mr. Eduardo Sattamini and Carlos Freitas for their final remarks. You may proceed, Mr. Sattamini.

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

I would like to end with a message of great expectation for the improvement of the regulatory framework. Once again, we look positively upon that desire of the Mining and Ministry Energy to retrace some of the aspects of the model. And with this improve the regulatory environment, sustainability, so that we can once again resume our growth in a more consistent fashion. This is a message that I would like to leave you with. And thank you for your participation, for your questions, and we hope to achieve good results until the end of the year

Operator

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

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.