

## Q1 2019 Earnings Call

### Company Participants

- Eduardo Antonio Gori Sattamini, Chief Executive Officer and Chief Financial and Investor Relations Officer

### Other Participants

- Maria Carolina Carneiro, Analyst
- Thiago Silva, Analyst
- Unidentified Participant

### Presentation

#### Operator

Good morning. This is ENGIE Brasil Energia Conference Call where we will discuss the results for the First Quarter of 2019. All participants are connected only as listeners, and later on we will open the Q&A session, when further instructions for participation will be given. (Operator Instructions) We should remember that this teleconference is being recorded.

This presentation, followed by slides will be simultaneously transmitted through the internet at [www.engie.com.br/investidores](http://www.engie.com.br/investidores). A slide presentation and the company's earnings release are also available on the website.

Before proceeding, I would like to clarify that all statements that may be made during this conference call regarding business outlook of the company should be treated as forecasts depending on the country's macroeconomic condition of the performance and regulation of the electric sector, besides other variables. Therefore they are due to changes.

With us today are Mr. Eduardo Sattamini, CEO, CFO and IRO of ENGIE Brasil Energia and Mr. Rafael Bosio, Investor Relations Manager who will talk about the company's performance in the first quarter 2019. Right after, we will have a Q&A session. We remind you that journalists who wish to ask the question can do so by email sending them to the company's press office.

It's now my pleasure to turn the call over to Mr. Eduardo Sattamini. Please go ahead, sir.

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

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Thank you. Have a good day, everyone. And I would like to clarify the fact that I have the accumulation of three functions, but we are in the process of decision and we -- our colleague has gone for other challenges and soon we will have good news in relation to the new officers. And most likely, we have some of the internal resources being considered.

It is a pleasure to be here with you again and share solid results for the first quarter 2019, showing the solidity of the company and help renew our businesses. In spite of the hydrological surprises that we had in this period, when January was very dry and prices skyrocketed in the month of February, of course this cause impacts on everyone operating in the market. We had some issues related to some commercializing companies, but somehow this is gone, this is history. And the regulation of the hydrological system as of March and April has been bringing stock prices at lower levels than what we had seen in the past.

Now talking about the net operating revenue. As you can see on Slide 5, when we see the highlights for the company for the period, we can see that the revenue has been increasing quite significantly, especially when compared to the previous year when we started the activity of trading in January for gaining better results and lower margins. And we can see that there is a reduction in the average revenue of the company since it is likely to be diluted longer time after the setup of the trading activity. So we are not likely to be having this exaggerated growth and the discrepancy of one year in relation to the other.

We had 190 million, maybe -- 500 million, soft 40% was related to trading, but we have been having regular activities related to the generation operation in relation to prices when compared to the previous period of last year and also some plans have -- they included to our portfolio. And this all contributed to the net operating revenue. We had small reduction in the purchase for resale, this has affected our EBITDA. So when we look at the information we can see that the results do not consider the trading activities and therefore the result was varied than that of last year in the shorter market in comparison to the first quarter of last year, BRL200 million and short term was BRL100 million, when considering all the fluctuation for the half of the year. We have had positive results in the short term markets.

In terms of GSF, we had a secondary energy amounting to 60% and that made the seasonality by the company had this increase of 50% in the required energy. So the allocation was 60% higher than the seasonality, and in 2019 this factor was 12.5%. In relation to net income, we had the 15.2% increase, this was driven by the increase of the EBITDA level and we had some elements that contributed to it such as the financial results driven by the growth of the company, based on leverage. And the capital structure is leverage and that will lead to an increase in the financial expenses. In this year, we had an increase in inflation when compared to the same period of last year. On the other hand, we had a reduction in the tax burden, in the effective rate, and this has also contributed in a positive way to grow net results. In terms energy generation, we saw growing trends in this aspect. Also in wind energy, we have been increasing our capacity.

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So, we can now move on to page 6, in EBE has very important highlight. On April 1, we had the confirmation of successful operation of acquiring the Transportadora Associada de Gas, when we purchased -- when we take as part of consortium of Canadian funds called CDPQ and where we held 32.5% [ph] and we also acquired 70% stake in Transportadora Associada de Gas.

We had the subsequent events, Umburanas increased its commercial capacity adding 360 megawatt into the generating complex. This has been a great achievement to us and this was achieved in record time in terms of construction deadline. We started in the end of 2017 and in less than year and a half, we had the complete park fully operational as a consequence of our acquisitions.

We mentioned that this would be a leveraged purchase and it is an equity with leverage. And in spite of this additional leverage of the company, the Fitch rating reanalyzed our level and they confirmed our level as AAA, now has BB. And so there is breaking has been maintained solely we have a stable outlook, and still one notch above the sovereign rating.

On page 7, we talk about the accrued debenture issue that will provide working capital to finance implementation of the company's business plan. And in the general meeting, we approved the distribution of the complementary dividend in the amount of BRL76.7 million. So the total payout of 2019 was to reach 100%. On May 7, we will trade the ex-dividends and the payments will still be decided because this will depend on the business unit side Executive Board. So, we are likely to make the payments on the second half of the year.

On Page 8 of the presentation, we can see that the main highlights would be the inclusion of the consortium, with 90% and the other participation continue as they used to be. On Slide 9, it is important to say that we have 55 operated plants, with installed capacity of 8,276 megawatts and we are going to continue growth as shown with all the data and adding new capacities for the years to come. We expect that the commercial assets we shared with you during the presentation. We have 1,000 kilometers of transmission lines, which are under construction in Parana and once again we have the matrix -- we start to have a matrix with electrical energy and complementary sources of energy.

On Slide 10, we maintain our leading position in the market. As you can see from the data related to the energy sector, and we have 9.8 of installed capacity and now with the entry of couple of large projects (inaudible) that would add 0.8 of installed gigawatt and adds to transmission. We'll provide more details.

In relation to natural gas on Slide 11. We have characteristic that TAG is made up of 4,500 of high pressure gas pipeline. 3,700 on the coast and 800 kilometers in the Amazon. And contracted capacity is more than 70 million cubic meters a day. We have 12 compression stations and so that you can understand what is the extent of all this project And we can see that there are lot of the new stations entry and (inaudible).

On Slide 12, we show the contracting level, 100% contracted for the next 12 years and with all the contracts, which are valid as of today. And the maturity date is November '33,

December '25. These are contracts which are long debt will provide cash and stability to those asset in the first year and we will be able to have the freedom to discuss the competitive mix of the company and we hope to perform as we have in the energy sector in 2019, and we understand that we are going in modernization process and we're likely to have good results considering the scenario.

On Slide 13, today we have a small share and we expect to grow in this market. Preferably using greenfield projects and there is also, we are going to consider the possibility of other acquisition providing they bring about value to our investors.

On Slide 14, we can see the distributed solar generation and it's still a small share of our business, but are beginning to see positive results already. It's still that depends on volumes for an exponential growth and we hope that in the years to come with solar activities we'll provide more stability and generate value.

On Slide 15, we felt again conventional and (inaudible) energy, this is the portfolio of energy. We still had the strategy to strike a balance between the regulated and free market to the degree possible and going about with good results in this market. In terms of the data, the coast would be more polarized. Some 326 clients in the first half to 523 in the first quarter of 2019, growth of 60.4% in the number of clients. Of course, we have applied a different dynamics, we are modernized and increasing our sales force, modernizing the way we do business, bringing automation through business, segmenting and with that we are going to operate much closer to the client and offering much value to them.

On Slide 16, we show that the free market is ever more important to us and there is a concern of diversifying risks. We do not have any major concentration in any of the factors, that we always optimizing the management of our portfolio. So we are going to try to mitigate the risk, so that the results can be perennial.

On Slide 18, we talk about the energy market. So, the hydrology is not very significant. The hydro -- from the hydrological viewpoint the year has not been favorable. So we have a very high volatility in terms of stock price and this is our intention, what we tend to show on Slide 18.

On Slide 20, we talk about the commercial strategy. The level of contracting is very high for the next year. We are effective on the sales of future contracts, with the purchase in order to form our portfolio so that the portfolio will have products longer duration. This is how we have worked and with that, we decreased the risk of contracting, energy contracting for the future.

On Slide 21, we can see modeling, we can understand that we had reasonable gain in terms of bilateral sales. We had results of 150 megawatt considering this period of we had with higher amount in 2020 and 2024, where we have a large concentration of energy, which has not been contracted yet. So we work with the renewal of contract and client who renew the contract every four years, we going to focus on that.

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Talking on -- about expansion. We still discuss Jirau, the project. We are concerned with the GESF issue and we expect solutions to come about by means of refinancing the development bank the MDS so that we can negotiate with the controller, so that we can transfer this asset to our operational base. Good news is that the purchase is nearly completed, they have been commissioned already.

We have been out provide by (inaudible) to run the tests and this information was looks fabulous. Yesterday and official journal and next week, we are likely to be synchronizing the machine. So by next week, we are likely to be including energy in the system. And when pads and load drove the disconnection to correct some adjustments our all activities expected, but we plan to be ready to deliver energy up to the June 1, because our obligation is daily related to Rio de Janeiro area that since we had some issues related to the deadline. We now have the obligation to deliver the energy as of the second half of the year. So we expect the commissioning to happen normally, as expected in May and June. So that's the lines can start operating in the middle of this year.

On Umburanas, we started full commercial operation in this -- of this park at the end of April. And as of the next half of the year and also on Page 27, we see the information related with Campo Largo Wind Complex. All those projects will amount to nearly 1,000 mega of installed capacity in the region of Bahia.

On Slide 28, we talk about Gralha Azul, there's not a lot of news to share with you. We are in the process of negotiating right of passage, using the way. It's assumed that there is not a lot of news, except for the regular business in the field related to the requirements of the social and environmental aspects. So the substation is likely to begin for the transmission. So, we separated this into different lot so that we would be able to start to the construction works at different times and so that we can start collecting revenue as soon as possible. This is the strategy that we adopted.

On Slide 29, we talk about our pipeline. So there is very vast pipeline of wind energy, an important capacity being developed in Bahia. So we have nearly 1,500 in the State. We include other projects, which are being included and we may reach 2,300 megawatts of installed capacity to wind energy. Photovoltaic is also being considered for the site of Alvorada in the State of Bahia. And we also in Rio Grande do Norte, Santo Agostinho and we also have other projects for Norte Catarinense at which we are evaluating the possibilities of increasing the capacity so that we might increase to 1.2 and the support for the liquefied natural gas in that region. So there is the need to install new thermal energy capacity. And we intend to increase the demand in that region.

As to financial performance, we have been showing solidity in our results in the past three years. So the net operating revenue increased by nearly 17%. EBITDA has been accompanying this upward trend and for net income, we have increased 22.3% in the past three years. So we can see that we have been adding profitability and adding value to the shares and that's why our shares have been performing so well in the past year.

So on Slide 32, related to net operating revenue. We can see that the trading operations are included in the short term market with a higher volume and there is higher volume of

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sales is associated with the organic activities. So we reached 20% of growth in the net operating revenue. Now moving on discussing EBITDA, we have already mentioned what the main factors were and we said this is associated with net operating revenue among other factors and some other elements that make our EBITDA to perform 15% higher than the first quarter of 2018.

On Slide 34, net income change. We had EBITDA reaching BRL565 million [ph]. We had an increase of interest and also the depreciation and amortization have contributed and also small impairment and increase in income taxes and the impairment is related to the plant which had been deactivated and the effort could give to a small loss. And the net income for the first quarter 2019 amounted to BRL565 [ph] with 16% growth.

On Slide 35, we talk about our return on equity with significant growth. We had been investing and we have been reporting some growth without the return. Now it has become clear in 2019 and the capital employed as you can see here, has been stable at very high levels. We can see 23% as return on equity. In the first quarter we deficit number as the previous year and this was affected by environment, which contributed to a small improvement of this number. In relation to net debt, we had an increase of 1.8. We still have a very comfortable level in terms of net debt and we're going to have leverage purchase and this was going lead to figure such as 2.5 times EBITDA, but considering the contributions from different projects along the year this is likely to be reduced and also there are new projects that are going to come into operation. So this figures are likely to be reduced. So there's room for growth in organic section by means of acquisition. In other words, we have now decreased our appetite with the profitable growth for the next year.

On Slide 37, there is some information about how the net debt has changed. And this is a consequence of the investments of the period and also the 100% of the dividend payout. When we look at Slide 38, we see the debt profile and we can see that has been concentration in 2020-2022 that is bridge loan that we made to our project and they will -- so the resources have not been approved by the development bank (inaudible). And the bridge loan -- and we also have also considered international cash that have a very low cost considering the CDI -- 102% of the CDI. So that we can bring or we can find longer-term solution that we are considering restructure and other discounts that we will make this investment of the next three years to be extended to a more complex flow profile to our cash generation. It's not a volume that's we are concerned, but our idea is to expand this profile and continue growing with very significant payout to our shareholders and investors.

When we look at Slide 39, we can see why our strategy now materialize. We can see in 2019, we have negative figures when we added resources by means of receiving loans from the NTS and included to our cash. Though we are recovering the investments in our cash. Total of the investment for the year is 5.537 billion [ph] as to CapEx and 3.6.

On Slide 40, EBITDA and dividends. We offer a payout of 100% whenever possible and there is a moment which are more stressed such as that when we had in 2017. But in general, we try to pay 100% and whenever, it's not possible we go to -- that we would consider to be a minimum payout level as considered by the markets. I don't mean to say

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that we are never going to go below that, this is not what we have been applying. That if any problems occurs, we are going to announce it to the market, but we do not see any reason to change this policy for the time. And the payment of dividends as planned and we reached 2.8% of dividend yield, which is higher than the market, great. And we lookout for a larger number of investors with this.

And then I come to the end of the presentation. And I would like to open the Q&A session and Rafael who is in our office in Florianopolis will also answer your question.

## Questions And Answers

### Operator

Ladies and gentlemen, we are now going to start the Q&A session. (Operator Instructions) Our first question comes from Mr. Thiago Silva from Santander Bank. You may proceed, sir.

#### Q - Thiago Silva {BIO 17655676 <GO>}

Good morning, everyone. Thank you very much for the call. My first question is related to investments. You have been saying that you have been growing inorganically and organically. Recently, we have seen that the company invested in TAG with the gas transportation and also in the past for transmission of electrical energy. Do you consider also the distribution sector or are you going to stop generation, transmission or is there anything different, that you intend to do?

My second question is related to TAG. Could you provide some more color that in addition to the existing contract what do you see as growth potential and the creation of value to the company? Thank you.

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

The first question relation to distribution, we do not -- we are not considering doing at the moment, still start operating and distribution. We decided to be out of the segment, why is that? Because there has been consolidation in this market. I'm not saying that we would never consider this, but it seems that the market has dominant players and with the competitive advantages in relation to the new entrants. This is our point of view, in relation to distribution.

In relation to TAG, we see a modernization of the market of gas is one of the intentions to add value, we want to compete -- to be competitive. We want to increase the gas generation. We understand that there is gas generation capacity, which is not exploited. Because there it basically concentrated in one dominant player, but we understand the volumes are going to increase and we foresee possibility to grow with new substations and new points of entry and exit and new investments that can be crafted in a satisfactory way. So that would be the first step and obviously we look at the gas market not only as an operator, but as group maybe the company itself may not be allowed to operate due to the verticalization and the steps of the chain. And we may operate in the distribution of

gas, commercialization of gas we understand that there will be divestment by Petrobras as to the gas pipeline. So Investments may also happen in the market, even in the distribution market, which is a natural (inaudible). So we foresee opportunities and we have to be prepared. The business in itself is a profitable business because it brings about net adequate return and there are some upsides, the upsides have not been valued in the proposal, but we understand that we have capacity to capture synergies at the right moment.

**Q - Thiago Silva** {BIO 17655676 <GO>}

Okay, thank you.

## Operator

Our next question comes from Maria Carolina Carneiro from Credit Suisse. You may proceed.

**Q - Maria Carolina Carneiro** {BIO 16342681 <GO>}

Good morning, everyone. Thank you very much for the call. I have two questions. The first is related to TAG. Could you let us know what was the step by step process, but for the liquidation of the operation and also for the signing of the debt. Because the call of acquisition of TAG, you said the conditions were closed, but at that time we did not have the cost of the financing. So just to know if there is any update in relation to the capture if it is in the -- it's in dollars or in local currencies so that we can expand the cost?

And the second question, the call was not very clear, and I'm not sure if you manage to give information about the possible participation in the next auction of renewable energies A minus 4 minus 6 that you could shoot up the one of the phases of the projects in the auction? Thank you.

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

So I'm going to start talking about TAG and then Rafael will bite more details because he has been following very close all those activities with our finance team and discussing all the phases.

So first, TAG. Financing is done in the consortium that comprises the two vehicles of energy and this is going to be leveraged and then merger, reverse merger is likely to be done so that the financing would be and source that generates the wealth so that we would have no fiscal loss in this operation. In simple way, the funding is done with the shares that are connected to part of the -- in part in foreign currency, which would be 70% of the value of the possession and this is structure -- this is the structure of the funding. The Brazilian part of the National Guard includes major local banks, BRS is being responsible for the funding by means of the loans and with that we would complete the capital structure for TAG in relation to energy, the idea is to leverage we have been leveraging the acquisition and the progress has ever been done. We are still waiting for the final schedule, which is the approval by the CADE and recently we sat the running the 15 days, so that the CADE can continue the process that will allow us to complete the



business by the end of May and beginning of June, we are likely to have the closing of this operation. And from then on we are going to transfer the benefits of the property of the asset TAG. So in general terms this would be it.

All the details related to the cash and I will share with you only when the deal was completely carried out. I do rather share this information only when the agreement is already signed and the releases also had to be adjusted considering that the part of the financing is made in foreign currency. So adjustments need to be made. So the possibility of the transaction is not going to be affected in dramatic manner considering all those adjustments.

Whenever we take part in renewable energy auctions, we consider the amount of that going to be in the auction. And then to say it is going to very low. So the competition is going to be very fierce, most likely, and we might not have the appetite that some of our competitors might have considering their need to grow or the competitors division as developers of projects. Considering our project, what we want is to have project that brings significant profitability. So we imagine that the competition is going to be high, but we going to take part anyway because we have to be there, giving the best possible offer and to see if there is any technological news that might benefit our company. Only to add to the answer. We're going to try to be present in the next auctions, but we're going to continue developing our start in the projects in the free market, such as Santo Agostinho as it so happened wind farm of which we going to start building in the second half of this year.

**Q - Maria Carolina Carneiro** {BIO 16342681 <GO>}

Okay, thank you.

**Operator**

(Operator Instructions) Our next question comes from (inaudible) from Banco de Brasil. You may proceed, sir.

**Q - Unidentified Participant**

Good morning (inaudible). In relation to the allocation of 3.5 billion for the acquisition. In addition to this volume is there going to be any guarantee. Is Banco Brasil going to provide any guarantee?

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

It's temporary not permanent. All partners at first have to ensure consider how the loan is very effective variation but the idea is to have it all well structured, well defined which is alliance, we have the flexibility during the operation together with our partner to have a reserve account or replaces reserve account by a collateral guarantee and then invest in other activities in (inaudible) manner we will consider other types of guarantees, the idea is to work on the traditional way.

## Operator

(Operator Instructions) We complete the Q&A session at this time, I would like to turn the call over to Mr. Sattamini for his final remarks. You may proceed, sir.

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

I would like to thank you for attending our conference call. We are in a very delicate moments in the electrical -- electric sector with default rates high in the short-term market and we understand that there is a solution that are being defined by the agents and due to political reasons the solution has not been implemented. So I would like to say that we have to talk to the Brazilian legislators. We have to provide the solution to our sector and consider all the regulatory framework. So the sector has to work more freely in the short-term conditions. So this is the message that I would like to leave to everyone. We have a very nice level, but what we see is that concentration of lack of public interest and we do not want to see this kind of process in the market. I would like to thank you all for attending this call.

## Operator

The conference call of ENGIE Brasil Energia has come to a close. I would like to thank you for participating and thank you for using Voitel.

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