

Y 2018 Earnings Call

Company Participants

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

Presentation

Operator

Good morning and welcome to ENGIE Brasil Energia Conference Call, where we will discuss the Results for the Fourth Quarter 2018 and for the Full Year of 2018. All participants are connected in listen-only mode and ensuing this we will open the Q&A session, when further instructions for participation will be given.

(Operator Instructions) Remember that this conference call is being recorded. This presentation followed by slides will be simultaneously transmitted to the Internet through www.engieenergia.com.br/investors section. You can also obtain a copy of the presentation in the Company's Earnings Release.

Before proceeding, we would like to clarify that all 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 condition and the performance and the regulation of the electric sector besides other variables. They are therefore, subject to changes.

With us today, we have Mr. Eduardo Sattamini, CEO of ENGIE Brasil; Mr. Carlos Freitas, the CFO and IRO. And Mr. Rafael Bosio, Investor Relations Manager, who will talk about the company's performance in the fourth quarter 2018 and the full-year. Ensuing this, we will go on to the questions that will be made.

We remind journalists who wish to ask questions, that they can do so by e-mail sending them to the company's press office. I would now like to give the floor to Mr. Eduardo Sattamini. You may proceed, sir.

Eduardo Antonio Gori Sattamini {BIO 16648085 <GO>}

Good afternoon to all of you, it is a pleasure to be with you, once again to release the good results of the company. We're going to try to be briefer and begin with the presentation to have a longer Q&A session. Therefore, we begin on slide number five, when we speak about the highlights -- the financial highlights of the company.

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Speaking about the net operating revenue, with an increase year-after-year, due to three factors specifically, the first, which is an enhancement in our trading activities. There is a trading deficit in our area, we're participating more actively in the market with new operations, once again with the great negotiations and greater invoicing, but of course, with a lower margin. And despite all of this, we have had a very high increase, although we had a drop from 50.2% to 49.7% last year, a minor drop. But if we could increase this, based on operating revenue, there will be 40%. Our EBITDA results increases 24%, because of the trading and the increase we had during the entire year in 2017, with the months of November and December and the result that is significant in the short-term market in the Electrical Energy Trading board, because of our energy allocation strategy and with the non-contracted energy for the current year. Once again, this had an impact on EBITDA and a positive impact on the results of the company, of course the magnitude was not same.

Our growth was financed by debt once again, our purchasers were entirely financed by debt and we also have greater growth in operations for example in Campo Largo that began its operation in December, Umburanas where the operation will come into operation. And all of these debts therefore increased our total indebtedness. The total debt was a BRL4.5 billion, approximately and evidently this had an impact on our financial expenses, part of our debt is laying through the IGPN and we will refer to this in more detail, when we detail the financial operations of the company.

We had a significant change in the amount of energy sold. The average price had a minor increase, showing that the renewal of contracts are under pressure, when it comes to the medium and long-term prices that tends to be lower. Energy is cheaper, not only wind energy and once again this because it is a convention, but we are trying not to have this impact our results negatively in terms of employees. We have had a growth because of growth in our installed capacity and we have new employees in the construction projects only in the Pampa construction and we imagine, it will be coming into operation -- commercial operation, beginning in June of this year.

We go on to slide number six, where we speak about the other highlights. The Campo Largo Wind Complex, reaching a 100% commercial capacity. We have the second phase of Campo Largo that has been made viable through medium and long-term contracts and the Free Contracting Environment. And once again we are pioneers, when it comes to the destination of wind farms for the market. We also improved and increase in capital stock with share bonuses, distributing one out of every four common shares, giving us an increase in liquidity and number of shares in the market and this is positive for shareholders.

We're coming into commercial operations, where the Umburanas wind farm, we have four parks in commercial operations, two parks under operation and we have 10 more that will be deemed operational and our plan for Umburanas is to anticipate our expectation with a budget that is lower than what was foreseen.

We go on to page number seven and continue on with the highlights. We had a new generation record on January 11 and this has become a trend at the beginning of the year. We have a greater affluent -- hydrological affluent. We do have four periods, but this is

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also due to the fact that we have a new output and we are recording generations -- in terms of corporate sustainability. This is the 14th consecutive year that we are part of the ISE, since the inception of the company and very few companies are part of this and have obtained consistent results. Once again this is a reason of proud for us, showing that we have the right sustainability, governance and we have obtained a record in the market.

And in terms of sustainability, once again for the second consecutive year, EBE is among our four Brazilian companies, among the global 100 most sustainable -- among 7,500 companies worldwide. And finally, we speak about the distribution of complementary dividends, to the amount of BRL76.7 million, payout for the third consecutive year has been 100%. In 2018 dividend yield reached 9.2%.

On Page number eight, there are no great change, except for ENGIE Solucoes, which is a subsidiary of the controlling company, acting ever more in energy solutions for industrial clients. It goes from maintenance operations and third-party plants and we're including this in the presentation because of course, it could have an impact of the synergies that we have, with the operation of this unit, which is for generation and transmission of energy.

We go on to a slide number nine and the great highlight here is that we have increased our installed capacity and in the coming quarter, we will have even further growth because of the coming into operation of Umburanas and this thanks to the investments that we are making. We have 45 plants operated by the company and at present, our matrix is made up 79% of hydro energy, 10% complementary energy and the 11% on interest that we have manifested in the market that having coal and thermal plants. In Jorge Lacerda, we have non-binding proposal. We are going to enter into negotiations with the interested parties and we hope that binding proposals will appear until mid-year and we will be able to formalize the process, so that we can go towards the closing at the end of the year.

In terms of Pampa, it comes into commercial operation in June of this year. We understand that the process will only begin at that point, we are in the performance phase at present and we will then set-up the appropriate project finance, so that we can package a process with greater added value for any buyer. We go on to slide number 10 and the message here is our relevant position in the market. We are the largest independent power producer in Brazil.

In slide number 11, here we see the expansion in transmission and our interest of course, in new opportunities, but in a profitable way. Of course obviously, we do want to group up with the appropriate returns. We were successful in the last auctions. We continue seeking out opportunity and in downfield, as well, we're also pursuing some possibilities in the transmission sector. In slide number 12, we speak about our very diversified and balanced portfolio between the regulated and Free Contracting Environment. The Free Contracting Environment is ever more important for us. And our presence in the market has become more and more important and we have grown significantly.

At present, we have 515 clients, vis-a-vis 2017, an increase of 84% and we think, that this will be a trend in the commercial area, where we have a stronger team with embarked

technology, enabling us to work with larger volumes for free customer and selling higher volumes that we sell at present. On the following page number 13, we present you the segmentation of our clients. You can see that there is a large concentration which is part of our risk and we try to avoid this systemic risk. And in terms of total value, we have 2,600 megawatts, average megawatts for free customers with the growth of 18% vis-a-vis 2017, in terms of our share and the Free Contracting Environment.

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On slide number 18, we speak about the energy market, we highlight constantly that there is a structural excess of supply but we do work with the generation scaling factor. At present as we have had no rain, we do have an excess and this enables us to have more costly dispatchers and it creates a great diversity of prices, which is something that is happening in January and February where rainfalls are below historic averages. And especially in the month of February. This is very characteristic of the market but we navigate through this well, protecting ourselves from market risk, with a responsible management of our portfolio. Of course, this would be advisable to have rainfall, which enhances our commercial capacity and our capacity to deliver. But in terms of this favorable hydrology, I think, we have navigated reasonably well. In terms of commercialization, we reinforce our strategy on page 17. In the graph to the left, we have on-contracted energy to be able to absorb these variations of GSF and this favorable hydrology with very resilient result. And to the right, we see that our policy is for a gradual sale of our energy, ensuring that we can decrease the commercialization risk, the timely risk.

On Slide number 18, basically this is geared to the analyst. There are no great changes or novelty. And let's speak about our expansion Jirau. Jirau has come to a standstill when we speak about the transfer. So ENGIE, with an impact on their cash flows and debts. And because of this, we have decided to resolve this problem first and we contracted Itau Unibanco SA, but at present this work has come to a standstill, we're trying to enhance the conditions that have greater clarity. So as not to create lack of security among Energy Investors.

We go on to Slide 22, where we speak about the Pampa Sul project. The expectation is to come into commercial operations in June. We have good news last week. We saw that the boiler -- the steam boiler was operating well. It is generating steam and causing pressure, so that we can cleanout the internal piping which takes sometimes. This enables us to remove the lots of particles, once this is done and it will take some days. We hope that we can connect the steam pipelines to the turbine and test the turbine and synchronize the system to our entire network. This of course, is very important. This will happen in the second fortnight of March, which is when we will begin to have some generation in the system. And this additional generation will be remunerated and could perhaps allow for the inflow of revenues for Pampa Sul. And once Pampa comes into operation, we will work with a financial structuring. And of course, speak with our advisors to put this for sale, and we think, that we will operate with coal until 2020. If we find a buyer that will pay us, for the price. This is not a firetruck, we're moving away from this for strategic reasons.

But this is a cash generator and this is what we would like to maintain, when we go into new enterprises. We also tend to lease from them, if necessary. We go on to the next slide number 23, the Umburanas Wind Complex. As we mentioned, we have four parks

under operations, the expectation is that we will anticipate the operation and 100% of the plant should work until May, perhaps or June. We're working towards this and everything will depend on the EPCs.

Campo Largo Phase II, we approve the contracting of equipment and the civil construction for the contractor that will be working with us, which means that we can begin to think about investing CapEx in this project. The idea is to -- for this come into operation in 2021. Contracts have been signed and the only contract that is missing as far the substation. Let's go on to, Gralha Azul Transmission System project. It is according to schedule and it is our expectation is that we will receive a license for the first lot, which is the Ponta Grossa substation, and we hope to obtain this in the third quarter of -- and begin construction in November. All of this has been forecast and the project will last, an average of 12 months and 15% in terms of the annual forecast. This will enable us to be very competitive with this lot with adequate profitability. We go on to page number 26, we received 50% of the share invested by our partner, ENGIE Geracao Solar Distribuida. This gives us greater tranquility, we now have resources to focus on operations geared to the small and average industry clients and this will leverage the segment with higher profitability in terms of distributed solar energy.

We go on to slide number 27. I think, you are quite familiar with this. We spoke about solar energy, wind energy and gas, thermal energy. It is our understanding that gas is fueled for electrical transmission, we have moved away from coal, from fuel oil and several other techniques. The more contaminating fuel and gas enables us to have an intermittent metrics wind, solar, and others and it's a generation that depends on natural factors and because of this we need to have fueling in terms of energy, and it is our understanding that gas will be that source of energy that we need. We're now going to give the floor to our CFO Carlos, who will speak about our main highlights.

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

Thank you Sattamini and good afternoon to all of you. We will go on following slide, number 29 where you can see and confirm the growth of the company in terms of net operating revenue, EBITDA and net income through time. Now where does this growth comes from, from the evolution of our net revenue. We have three main details here on the next slide.

First, the increase in trading operations adding BRL700-some million in net revenue vis-a-vis, to 2017. And the company strategy company strategy is to more present in trading, not necessarily to make money, but to become more relevant and to be in that market to have a more precise reading of what the energy price is truly about. When it comes to the short-term market, a significant increase in the company revenues of almost BRL500 million. We had a better performance in 2018 compared to 2017, because of a proactive management of our portfolio.

And we got BRL250 of positive EBITDA for 2018. The third important highlight is the contribution of Miranda and Jaguarua. The regulated revenues added up to BRL404 million vis-a-vis to '17. Clearly this reflects the purchase of Jaguarua and Miranda, here we got in

third and fourth quarter of 2017. Basically, these are the main highlights in terms of revenue.

On the next page, we focus on EBITDA. This 5-year expansion of Jaguará and Miranda that have contributed BRL404 million in the regulated part and the increase in the short term market BRL250 million. We have two important effects in terms of EBITDA, first the decrease of our expenses was few than 2018, we came to an agreement with Petrobras in 2017 for the gas of William Arjona plant. In 2017, this cost had already been provisioned.

We had to sell the amount of gas. In 2018, we no longer had this cost. We reverted this provision in 2017 and because of this, we had a comparative reduction in EBITDA in 2018 because of this consequence, both things offsetting each other. And the third important highlight in EBITDA, is on purchases to resale, as in 2018, we have to resort less to the market and buy less energy from third party to complement our selling portfolio. This enables us to save BRL500,000. And we have minor cost here, non-recurrent cost. Some in insurance, that we received in 2018, a fine that we received a small amount. That is to say, non-recurrent events, and I would like to highlight what is recurrent and it's not. So, you don't get the wrong impression.

In net income on the next page, a significant increase for two reasons; one, which is very obvious because of an increase in the company assets, we're financing our expansion in Greenfield and M&A in the case of Miranda and Jaguará. With debt, we're balancing the use of capital in the company, we are at a healthier level with more long-term debt and there was a significant increase in debt as had been planned and an increase in inflation in 2018.

Debt had an impact on mark-to-market, in terms of a concession, we have to pay. Once again, we had four different concessions that we have to pay in 2018, and normally at the IGPN and we have an increase in liabilities because of the increase in the general price index, while in 2017 the IGPN was below this and comparatively between 2018 and 2017, we have an increase in our financial debt.

We have excellent levels of profitability, return on equity, and return on invested capital. We have maintain good investments and good acquisitions, which enables us to perpetuate the company profitability through time. We're maintaining this financial logic of only making investments that will remunerate our capital very smoothly. Here you see the debt -- the stock debt year-after-year, so 9.5% net debt from one-year to the other.

Once again giving us a net debt and EBITDA ratio of 1.6%, a very comfortable level. We're quite calm that our debt can increase further and despite of this will -- we will maintain our raising levels. And with this, of course, we were able to pay 100% payout in dividend. This net debt, we have only two Slides for this -- is a net debt that is spread out through time. We don't have a single-year with great concentration. That's a 100% in local currency, half of this is in the IPCA, the Broader Consumer Price Index, have NTG [ph] which is quite plausible, and in CDI for the short-term. Last year, we issued BRL12 billion in debentures, in the medium-term to fund Jaguará, Miranda and other plans.

And for the future, the forecast for this year going forward, we're on Page 37. We already have an amount that has been decided on and contracted at BRL1.7 billion for 2019, BRL2.449 billion for 2020. And between 2019, the rest of Umburanas that will come into operation at the end of this semester. Pampa that will come into operation until the end of the year as mentioned. And Gralha Azul for transmission where CapEx was very low last year. CapEx will only be allocated mid-year and will represent 10% of the amount of the work for the environmental area and much more. But the burden of CapEx will be in 2020 and 2021 as you see on the slides.

To conclude on the next page, our dividend policy, we have maintained a 100% payout of net profit, aligned with our statements and the company policy, when we have investments to make, we reduce the investments or something that we think. We will generate more value for our shareholders. And at present for example, we are able to maintain the 100% payout of dividend, because we are leveraging the company. I think, that this is a unique profile, enabling the company to grow steadily through time. Our EBITDA sale on revenue indicators show this and we maintain a healthy payout policy of 100% up to present.. With this, I would like to offer the floor for questions and answers.

Questions And Answers

Operator

Ladies and gentlemen we will now go on to the question-and-answer session. (Operator Instructions) We end the question-and-answer session by returning the floor to Mr. Eduardo Sattamini and Carlos Freitas for their closing remarks. You may proceed Mr. Sattamini.

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

I would like to thank all of you for your participation. I'm very happy that there are no questions. Because of our transparency and the ability to explain our results this has led to this. Once again, thank you very much until the next conference call. And without a doubt, it will be very interesting.

I give the floor to Carlos Freitas, who is leaving us, he is on a new mission. And I would like to allow him to say his farewell.

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

I would like to thanks the partnership and the trust of all of the market not these towards me, but towards the company, we have built a relationship of neutral transparency and trust in the long-term. And this translates into the relationship that the company has with the market. I'm extremely proud of being part of this company. I would like to stop here, thank all of you and say farewell.

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.

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