

## Q2 2016 Earnings Call

### Company Participants

- Eduardo Antonio Gori Sattamini, Chief Executive Officer and Chief Financial Officer and Investor Relations Officer
- Rafael Caron Bosio, Investor Relations Manager

### Other Participants

- Maria Carolina Carneiro, Analyst
- Unidentified Participant
- Vinicius Canheu, Analyst

### Presentation

#### Operator

Good morning. Welcome to ENGIE's Conference Call, where we will discuss the results for the Second Quarter of 2016. All participants are connected as listeners only, and later on we will open the question-and-answer session, when further instructions to participate will be given.

(Operator Instructions) We 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), Investor Section. A slide presentation and the company's earnings release is also available on that site.

Before proceeding, I would like to clarify that the statements made during this teleconference regarding the company's business outlook should be treated as forecast, which depend on the country's macroeconomic condition, on the performance and regulation of the electric sector and other variables, they are therefore subject to change.

With us today, we have Mr. Eduardo Sattamini, Engie's Chief Executive and Financial and Investor Relations Director, and Mr. Rafael Bosio, Investor Relations Manager, who will talk about the company's performance in the second quarter of 2016 and present an update on the developments in the Jirau Hydro Power Plant. Ensuing this, we will have a question-and-answer session.

It is now my pleasure to turn the call over to Mr. Sattamini.

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

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Good morning to all of you. Another call to speak to you, a quarter that is much better than the previous quarter albeit we continue to feel the impact that has fallen upon the sector in the last two years with an impact on our results this quarter.

Once again, the impact has been mitigated as the Price of Settlement was lower compared to the previous quarter, but with an impact, nevertheless, we will speak about the revenue, which was 1.7 higher vis-a-vis the same period last year. We had a positive impact in terms of prices, although we did have a price increase that fell below the inflation.

There was a reduction of prices in market beginning this year, and once again this is reflected on a reduction in the growth of prices. We also had a reduction in quantity, because some of the contracts in the regulated market and because of a reduction in the amount set aside for sales. Because of this, we only had an increase of 26 million, representing a low percentage of growth compared to the previous quarter.

In EBITDA, this is an important factor because it reflects our costs. We had a reduction in the short-term cost of 7 million in the second quarter of the last year and compared to this quarter. This is because, as I mentioned previously, we have this price difference settled in the market at lower prices compared to the average prices that we had speculated in the market in 2015.

And during this quarter, the price was approximately R\$60 compared to R\$87 in the past that had a reflection on our EBITDA, which is 751.7 million compared to 586.0 million in the same quarter last year, with an improvement.

And net income was a better financial result due to our reduction in net debt that has to be compared quarter after quarter. We observe a substantial reduction in net debt of 2,079 million to 1,202 million, thanks to our strategy to retain profit, to be able to have provision for eventual cash problems and because of the financial cost. We're also very concerned in terms of our financing product, because of the slowness and because of the fiscal balance of the government, we have already expressed our concern. This has reflected in a much lower net debt, and with this our financial expenses have also had significant drop.

When it comes to the power production, we had an increase of 15%, a substantial increase in the hydric production, and we have improved the hydrology. There was a drop of 84% in the price of hydrology, and we have been able to maintain the same level of generation, perhaps 2% below what was observed in the past quarter.

In the previous semesters, we had a reduction in our number of employees. This, because of our retirement and voluntary programs that we had in the past. In 2016, we have prepared, therefore still have people retiring or being replaced. We have worked with an integration period where the old and new employees have worked jointly. We are now going through two ways for the reduction of number of employees in April and November, and our number of employees should be reduced even further at the end of this year.

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We go on to slide number five, where we would like to speak about our highlights. We concluded the concreting of the pedestal of the Pampa Sul 340 megawatt turbo-generator. We required around-the-clock labor for 42 hours. Pampa Sul is evolving in a highly satisfactory fashion and we hope to give you a permanent news in terms of this work.

The company has received a regional award sponsored by the newspaper A Noticia as being the company with great sustainability and environmental responsibility. We also ended the operation to issue non-convertible infrastructure debentures in two series of seven and ten years, with an IPCA plus 6.26% as an average cost, and this has increased the equity at Pampa Sul.

We received the good news this semester that we will receive 353.5 million from the Brazilian Development Bank. This has been approved by the Board, and we still have a stage for the adjustment of contracts, signature and registration. We began to include this in our systems. We have carried out the adjustment of the first machines in the Santa Monica part on Wednesday. This is a very good news for the company.

We continue with our highlights on page number six, where we held a General Assembly on July 14th, the Day of the Bastille, the Fall of the Bastille, and we have changed the name of our controlling company. Well, we have changed the name of the company to ENGIE Brasil Energia S.A., and the shares will have the ticker EGIE3, while our ADRs will be ENGIY. These are the minor changes in the ticker and in our company name.

In terms of ADRs, another good news, the Board has approved the 645.2 million as dividends, representing 100% of our net profit, and this will be done during the semester. The company was awarded once again because of its transparency by Experian. This was the sixth time in the last seven years. This shows the quality of the information that we are rendering to the market.

In slide number seven, there are no significant changes in terms of the shareholding structure simply but ENGIE appears in the company logo at present and where we mean it as a shelter.

Going on to slide number eight, no changes in terms of our energy park [ph]. This semester we have had more plants coming into operation and we continue with 7,008 installed megawatts.

Our leadership among the private players, we do have new players that are growing in the market, so we continue to seek to be the leaders because of the importance that our company has in the generating market in the country, and because of our ability to have internal fusion with the government.

This is the new vision we have on acquired growth, which will allow the company to have sufficient capacity in the coming years. We have Pampa, Campo Largo with 30 megawatts, Santa Monica that will come into operation totally with 97; the Jirau unit that we will begin to discuss the transfer, and Assu which is our solar plant with 30 megawatts

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as a peak. And this represents 2.3 gigawatts of growth in terms of our 14 capacity that will be added to the 7,000 that I mentioned in the previous slide.

We continue to be the largest private player, and we intend to hold on to this position taking advantage of the business opportunities that appear in the market. Our diversified portfolio, what stands out perhaps, is an increase in the stake of the commercial plants in our portfolio. From 2015 to 2016, we go from 3% to 6%.

What is important is that, we have worked with some energy swaps to be able to set up our portfolio. And, we're not working in the commercial market. Once again, as we did in the past, this is not the case. What we're doing is a swap or exchange of energy to be able to work with the right projects for the market. We're exchanging the energy we have in the future to cover the needs we have in the present, or we will change energy sources from conventional to non-conventional energy to be able to work with the growth of demand in the non-conventional market.

As a true customer in market, it is quite diversified. We work with this. It has an ever-growing importance. We're extremely careful when it comes to the risk that this might pose. These are complicated environments with an economic and financial crisis, but we have been able to maintain a good default reality. Evidently, they are delayed because of the guarantees that end up being executed. We attempt to maintain a good relationship with the client, but this credit policy that we have has enabled us once again to have that zero default reality. And, we're attempting to diversify among different industries to avoid any systemic risk for specific structures in the economy.

We're going on to slide number 13 to speak about the market. We have excess supply for the coming years, and this surplus stays in the hand of distributors generally and this has created a different situation in the market where we have a great deal of supply, but not sufficient liquidity.

Because of this, the free market prices have changed in the last week. So, in the last month going upwards, this has enabled us to have an impact in hydrology. We have had a drop of prices. There has been some liquidity appearing in the market. But most of this energy will be uncontracted, and it is surplus as it is in the hands of distributors. This is a situation that we're dealing within the market, a relatively novel situation.

In the medium and long-term, the trend is to have a price volatility and we will still have expensive energy in the system. The average price therefore will tend to be steeper. This does not happen at present, but when we look towards the future, the expansion has come at relatively high prices and the operation of the system is ever more expensive with a great deal of variable unit cost that also tend to be high, especially in the short-term and when we're speaking about medium and long-term contracting.

We go on to our commercial strategy. We have a rather comfortable position for the coming years with good future availability. Our uncontracted energy will tend to be growing. Our contract on the average tend to be for three or four years, and we are now renewing our contract portfolio in the next four or five years with a 25% turnover of the

contract. When we look three or four years ahead, we see that 70% or 75% of our energy will be uncontracted in the free market. Evidently, when we look -- like we have a 50 -- 50% share. What we're saying is that 60% to 70% of the energy in the market will change to 30% or 35% of our total energy. This is what we can see when looking at the graph to the left. To the right, we are showing you that energy is contracted step-by-step, year-after-year when we renew our contracts or when we capture new clients, but this is done very gradually.

In the next slide, you observe our energy balance. This is what we are making available to allow analysts to work with their modeling for the company. Once again, there are no specific details or operation that required being highlighted at this point.

When it comes to our expansion, I would like to give the floor to Rafael, who will speak about Jirau, and I will continue speaking about the other projects in Brazil.

## Rafael Caron Bosio

Thank you, Eduardo. A good day to all you. As usual, we include in our presentation of results, a presentation on Jirau, where controlling company has a stake of 40%. It is under construction in Rio Madeira in the State of Rondonia.

In slide number 18, we can see that 72.2% of the energy has been contracted under a 30-year PPA index to inflation, and the remaining amount at present is being commercialized with the shareholders in the Eletrosul and credit [ph] Chesf. When it comes to the discussion on the responsibility for the acts of vandalism that happened in 2011-2012, this process is still under analysis in the Second Instance, and the financing conditions had remained unaltered.

We go on to slide number 19 with more information on the work. We can expect greater capacity. We have 75 megawatts synchronized and operating under test, which should come into operation in the coming weeks. This will allow us to have 3,225 megawatts in the commercial operation. There are 42 units installed up to date and the full assured energy of the project has already been obtained with the coming into operation of unit 33 that's happened in July 2015. In the second quarter of 2016, the total production was 1,489 average megawatt, with an uptime operating factor of 99.6% shows you the excellent operational conditions of the project. And you can observe the picture on slide number 20 showing you the conclusion of the project. This project will be concluded in the second semester of this year.

I would like to return the floor to Mr. Sattamini who will speak about our thermal project under construction.

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

We'll go back to Pampa Sul that we mentioned at the beginning of the presentation. On slide 21, we see the foundation for the chimney that is a relatively large and important work for us, and it begin to show signs of existence. Formerly what we saw was the

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project we were following up on the manufacture of parts from suppliers. Now we have received some of these parts, and we're beginning to lay the foundation to be able to set up the assembly.

This project had 2094.5 average megawatt commercialized in 2014 at a contracted price of 201 average megawatt. This price should reach 220 some. You can see the summary of our contract to the right in greater detail. And this plant will come into operation in the second semester of 2018 to be able to comply with a 25-year PPA that begins in January of 2019.

We are also working under construction with the Campo Largo Wind Complex with 157 megawatt. We had a commercialization strategy divided into two parts. One part geared to the regular market. There were six parts with a total capacity of 178.2 megawatt that is to, say 82 megawatt on the average commercialized at a price of 179 -- R\$139.29 at that time. At present this price is somewhat higher, of course. We would like to remind you that at that time, for this project we were seeking equipment. Now this equipment come from imported companies and the price was totally hedged, not pegged to the exchange variation, which happened after this period.

The Santa Monica Wind complex, which you will find on slide 23 is beginning its generation at present and this process will continue on until very first quarter of the coming year. We will have several generators coming into operation and the price of the auction held in August 2015 was 78.45 [ph], at present it is at 200 megawatts per hour. This park is made up of 36 turbo generators and divided into four parks; Estrela, Ouro Verde, Cacimbas and Santa Monica.

We'll go onto our solar project Assu, which is the fifth Photovoltaic Central, one of the five parks that we bought from the auction in 2015 in November. We sold at a marginal price at this auction that is why we were unable to sell the other two. The price is 302.96, at present it is at 319, perhaps a little less. And it should be beginning operations in 2018 according to our forecast.

With still a project under development, in the second quarter of 2016, we signed a partnership with Araxa with -- well, that has 50% capital stock now denominated ENGIE Geracao Solar Distribuida, and we will offer generation for roof-top, for residential, commercial, industrial and small sized client, also hoping for the development of this segment in Brazil, which is a segment that could undergo quite a bit of evolution, and of course, we will have to be present in it.

Other projects that we have in our pipeline, we have the Assu Photovoltaic Central to complement the one from Assu that we had took place in the auction. We have Santo Agostinho with 600 megawatts of installed capacity. It will also take part in the coming auctions. Campo Largo Phase II, where we will have a greater synergy with 330 average megawatt and we got capacity.

The Alvorada photovoltaic complex in Bahia with 90 megawatt, as our wind complex there. And Norte Catarinense, a thermal power plant which is a project that we have still

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on the shelf, and whenever the market is unlocked, we will be able to offer electricity based on gas, natural gas.

We go on to our financial performance, we show you our main financial items. Last year we had a good growth, we hope to be able to show you good growth compared to 2015. We have had significant growth between the quarters in terms of EBITDA and net income. And this shows you that the delta level prices that is to say improving the supply condition has been a benefit. We still have the generating scaling factor still in operation and we have faced other problems in the systems that have an influence on our clients. The financial supplies or surplus has had an impact on EBITDA. This is because of the different prices being practiced in the market, and this has also had an impact on the first semester of this year.

To speak about our revenues, we have already referred to the revenues at the beginning. We have two components basically; we have 94 million with a price increasing to 180 megawatt per hour and we also have another component which is the reduction in amount. The average megawatt that has dropped because we have stopped having bilateral contracts and a reduction in the consumption of some commercial and industrial clients. All of this impacts the levels of consumption and our levels of contracting. We of course, have to work with a great deal of flexibility and this is one we intend to be more flexible in moment of economic slowdown. Our revenues increased 1.7 to 1,571.

In slide number 30, we speak about the EBITDA evolution, especially for the short-term market and the main component that we have here is a reduction in our expenses and the PLD. We went on from expenses of 470 million to expenses of 60 [ph] million in the second semester -- to 16 [ph] million in the second semester. That is to say 70 million less of expenses in these periods compared, while the revenue has had some evolution of 14 million as you can observe in the release. Our revenue went from 16.4 to 30. We also have a difference of 14 [ph] million in the contracted energy and all the other factors are of minor importance.

We go on to slide number 31, where we speak about our net income as a component of EBITDA. Taxes are debt, more taxes and therefore, our net income went up to -- from 209 million to 329 million, if you compare the semesters.

We go on to slide number 32, where we speak about our net debt. Our net debt remained at BRL1,203 million with a very little evolution. We will see the evolution in the coming slides. What is important is that our indicators have remained stable and some of them have had an improvement. Net debt over EBITDA is at four times as already shown. And if we speak about the total debt, it is one time that is to say, compared to 1.2 at the end of 2015. In terms of our cash flow and operations, they went from 0.78 in 2015 to 0.66 [ph] in the second quarter of 2016.

When we speak about the evolution of net debt, we had an increase of 11.9% as we mentioned. The main factors here, once again, were the investments that we carried out. The results on the investments that we have made in Pampa and Santa Monica, we still don't have large volumes of investments in that case.

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We had a hedge operation which had a negative effect and I would like to remind you that this is a reflex of the reduction of our obligations with suppliers, and because of this all of these components added together have led to a variation. We have also had significant exchange variation due to the very high inflation that we have on some of the accounts that we have to pay, they are either based on IPCA or other factors and they have had a strong variation in our operational cash. And these components have generated a debt of BRL1,203 million.

In slide number 34, we refer to the debt profile with a strong concentration at the end of 2016. We have operations that we carried out at the end of 2014 based on CDIs and we had a negative carry over CDI minus something and we apply that to (inaudible) CDI plus something, so that we could go through that very difficult period of turbulence that we were expecting in 2015-2016. It was a highly ascertained [ph] decision, but once again we will see our scenario in 2016 where this amount still has to be settled, but this amount has been guaranteed in our cash and we have several operations that will contribute towards this cash, especially the signature of the financing of Santa Monica with the National Development Bank.

This work should be concluded at the end of the year and we are using some of the capital of the company, they get substitutes beyond capital that was applied in projects and also because of the infrastructure debentures that we have issued.

Our debt profile once again is very stable and it is based on the financial results of the BNDES [ph] that represents a large majority of our debt, almost 66% as you will see in the pie graph, that we have to right. CDIs representing 21% that will be settled at the end of the year. The IPCA with -- for the debentures we issued at the end of 2014, set the construction of the company part and an increase of the IPCA, as we settle our financing in the Pampa project that is also hedged to IPCA plus 26%. Once again, which was already mentioned in this presentation.

In terms of our investment plan, we have a strong investment plan that you were all familiar with. We have presented this in former calls. We have 2.2 million something that has been carried over since 2010. And this amount has been brought in for this year and we will publicly settle an operation with ENGIE that will -- for an operation that will happen in 2017.

So once again this is the situation we find ourselves in. If we don't settle it this year, we will do it in 2017 and this is the transparent way that we have shown in the use of debt.

We have very strong investment for this year, strong investment for the Pampa thermo electric plant for the coming year, 1,160 [ph] million and this is when the Campo Largo project will begin to grow and because of this in 2018, we will have a division as you can see and the CapEx up to 1,000,100,000 [ph].

In terms of our dividend policy, we have distributed a 100% And this shows the trend that we have towards the balance. The macro economic scenario is beginning to show a slight improvement, at least in terms of growth. The slowdown instead of the 3.6 have

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decreased towards speaking of a better scenario for the coming year was a drop in inflation. And we believe that we have reached a balance, we are in a calmer situation and we can go back to paying 100% of the dividend as we did in previous years when the situation was much better.

This is our presentation, we would now like to open the floor for questions and answers.

## Questions And Answers

### Operator

Thank you. And we will now go on to the question and answer session. (Operator Instructions) Our first question is from (inaudible) from Citigroup.

### Q - Unidentified Participant

Hey, good day to all of you. Two very quick questions, an update on your commercialization strategy, which is your outlook of the market, the evolution of the free market prices and what is happening with consumers? A second question, we see a potential sale in terms of generation in the market. Is there any outlook for M&A versus January [ph] value because of the market conditions at present?

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

The market, as I mentioned, is in a fully generate situation. It has quite a bit of supply, but very little on liquidity. We have seen that the prices are behaving in a rather irrational way. There is a great deal of supply, but the prices began increasing in the last month-and-a-half or two months. There is a great search for new entrants in the free market, coming from distributors and what we have observed is that the price of distributors increased considerably.

And at the counter part, they dropped in the free market and that is why the appetite of those players that had not migrated to the free market has now increased. And there is a search for conventional non-renewable energy, which is a market with potential, it needs to be unharnessed and of course, what we see is a demand that is very typical to perform [ph].

We have a rather contradictory situation, where we have supply and a demand that is truly not being satisfied. We have to wait and see how this will play out in our conversations with the regulator. In terms of an M&A, yes, quite a bit has taken place. We have been observant. We have attempted to analyze some opportunities in greater depth, but as I mentioned, our appetite is there, but we're acting in a very conservative way. We don't go out acquiring companies at any price until we're able to align interest and that is why we have not carried out these operation.

We have considered some assets, it is possible that we might have a very good surprise, but we're truly not desperate in terms of acquisitions, the prices are not very good at present.

And because of this, we are going to have to create a large shopping center at present. As I mentioned, our interest exists but we're being very cautious.

## Q - Unidentified Participant

Thank you very much.

## Operator

Our next question is from Carolina Carneiro from Santander.

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

Hey, good morning to all of you. I have two questions. The first is a continuation of the question mentioned before. Mr. Sattamini, you mentioned the irrational behavior, I would like to make sure that I have understood it, is it due to the supplier to the level of prices that you have observed; the prices were between 320, 330 in the first quarter, have the prices gone beyond that level in the second quarter or is all of this due to that supply?

And the government is announcing an auction minus 3 for this year, which doesn't seem to make very much sense considering our conversation, which would be your outlook of this auction minus 3. Would it be more appropriate to have more thermal plants to make adjustments in your matrix or is it that the market is truly in line [ph] having a good vision of this (inaudible) contracts?

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

I am not sure if I used the wrong words or not, I perhaps did. What I would like to say is that we have contradictory in times on excess of supply, and an increase in the level of prices instead of having a reduction, the expectations in the case of surplus demand should lead to a drop in prices. But the problem is there is no liquidity with excess supplies is trapped in the hands of distributors. And this is what is creating that situation where the prices are increasing. They increased some above that price of 325, 330, it was not a substantial increase, but perhaps this is the result of the perception of a lack of liquidity. Perhaps irrational was the wrong word, contradictory is more appropriate.

We have an overshoot in terms of prices, they dropped excessively, they are now perhaps returning to normality, but all of this due to the lack of liquidity because of the excess supply. Some measures will be taken to release this.

There is a possibility of a bilateral discussion among distributors and channel areas. All of this has been stimulated by the government so that we can go back to a more normal situation in terms of the minus 3 auction. We are not sure if this is for contracting purposes or otherwise, I do not think there is a need for this minus 3 auction unless we have a sound improvement of our economy in the coming two years.

I don't think there will be an enormous demand. There could specific and marginal demand, but I do not see great needs in terms of (inaudible) government seems to be

feeling obliged to fulfil that possible demand. This is simply a protocol that the government is following. I don't think there is a need for this auction.

## Operator

(Operator Instructions) Our next question is from Vinicius Canheu from Credit Suisse.

### Q - Vinicius Canheu {BIO 6300903 <GO>}

Good morning, Eduardo. I have been listening to your comments on the results when you spoke about the Electric Energy Board. It wasn't clear if the total allocation was major, long or short, in the second quarter that has just gone by. The expectation is to have a significant increase for the rest of the year and I would like to know if you can show us your outlook for -- what you can expect from the electric energy trade board for the rest of the semester?

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

Well, I think you are used to us, you know that we don't normally respond to these questions in terms of allocation. That was in the past that continue to hold true for the future, we're not going to respond to the question.

### Q - Vinicius Canheu {BIO 6300903 <GO>}

Okay. Very well, thank you then.

## Operator

We would like to end the question-and-answer session by giving back the floor to Mr. Eduardo Sattamini for his final remarks.

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

I would like to thank all of you. We will return to a certain normalcy, of course, there are still problems, and defrost [ph] and turbulence in the market, problems in contracting from distributors. So we do see the goodwill of the government when it comes to resolving these issues.

We hope to have a calmer scenario, one that is more stable in this sector and as investors and analysts, I'm sure that you have already perceived what is happening and that is why the electrical sector has had a new boom. I hope that you agree with our opinion that we should return to a scenario with greater stability, perhaps not in the very short term, but in the medium and long term, which of course will be positive for investors and for ourselves who are in a long-term business.

I would like to express my thanks once again and we are open to any need you may have in terms of information. Thank you very much.

## Operator

The ENGIE's audio conference ends today. We would like to thank all of you for your participation. Have a good day and thank you all for using Chorus conference.

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