

Y 2017 Earnings Call

Company Participants

- Carlos Freitas, Chief Finance and Investor Relations Officer
- Eduardo Sattamini, Chief Executive Officer

Other Participants

- Andre Sampaio, Analyst
- Ezequiel Fernandez, Analyst
- Giuliano Ajeje, Analyst
- Marcelo Britto, Analyst
- Vinicius Tsubone, Analyst

Presentation

Operator

Good morning. This is ENGIE Brasil Energia's Conference Call, where we will discuss the Earnings Results for the Fourth Quarter 2017 and for the Full Year. All participants are connected in listen-only mode and later on, we will open the question-and-answer session, when further instructions will be given for you to participate. (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 Investor section.

The slide presentation and the company's earnings release are also available on that website. Before proceeding, I would like to clarify that any forward-looking statements made during this conference call resulting the company's business outlook should be treated as forecast that depend on the country's macroeconomic condition, other performance and the regulation of the electric sector, besides other variables. They are, therefore, subject to change.

With us today, are Mr. Eduardo Sattamini, CEO of ENGIE Brasil Energia, Carlos Freitas, Financial and Investor Relations Officer and Mr. Rafael Bosio, Investor Relations Manager, who will talk about the company's performance in the fourth quarter and full year 2017. Ensuing this, we will have the question-and-answer session. We remind journalist, who wish to ask questions, that they can do so by email sending them to the company's press office.

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

Eduardo Sattamini {BIO 16648085 <GO>}

Good morning to all of you. It is a pleasure to be with you to speak about satisfactory results for the year 2017. We can see on slide number five, where we speak about the main highlights that we have had significant improvements in the financial sector going beyond from historical barriers, in terms of net revenues and other. To speak about the figures of the year, we achieved a net operating revenue of BRL7,010 million [ph] with a growth of 8.8%, this thanks to the greater activity in sales and purchases and because of the short-term market sales, which also had a reflection on an EBITDA that is 10.8% higher going beyond that barrier of 3,500 million, [ph] we got 3,519 million, representing a significant evolution vis-a-vis the previous year.

Margins had a growth of 0.9 percentage point, going to 55.9 [ph] points per year and a substantial growth of 29.5%, reaching 2.005 billion approximately. Return on equity almost 6%, going from 29% to 23%, improving our performance and return on equity. This thanks to a better leveraging for the company. We increased the net debt substantially and there is still has not been wholly reflected in our results and our EBITDA basically this is because of the acquisition that we carried out at the end of the year.

We have had only two months as the owner of this company. And we participated on December 29th. We had an increase in the net debt, which once again still has not been reflected in the increase of EBITDA that we will see only at the end of the year of 2018. Carlos Freitas will refer to this more at length during the presentation, when we speak about our financial results.

In terms of power production, we had a decrease because of the unfavorable hydrology, the energy sold at 3.1%. Average net sales price with a minor decrease, once again, because of some of the contracts that have matured with a renewal at a somewhat lower price. The number of employees, our own employees with a minor growth. Despite the increase in activities, we have employees in the construction projects that has increased because our construction pace continue to increase. And we believe that in 2018, the number of employees will increase even more.

We have major works that will be accelerated in terms of construction in Campo Largo that is beginning to setup its towers and that will begin operation soon. We will go into more details about this in August. And Umburanas as well, that we acquired at the end of last year and we began the construction in November of 2017.

Let us go on to some of the highlights, some of which have already been mentioned here. Well, the first highlight is the success of the transmission auction inaugurating our entry into this segment, which means that we will have a greater number of lines and works in the future. We do have the capacity of acquiring new transmission lines, so that this business segment can become ever more representative in our operation.

We bid a Lot that has a 1,050 kilometers and five substations stretch with a concession term that begins in March, where we will have an important event that will be concluded. Energy Brasil concluded the acquisition of the total capital stock of the companies that

comprise the Umburanas Wind Complex at an adjusted market price of 16.9 million. And as I mentioned, work began in November of 2017 and the coming into operation of this plant should take place in mid-2019.

In the fourth quarter, we had the company transfer the effective management of the Jaguara and Miranda Hydropower Plants. And we will have the availability of the plant. And once again, these are already part of our portfolio and will be part of our power balance beginning this semester already. At the very end of the year, we luckily enough, we were able to put Assu V Solar Plant into commercial operation with 30 megawatt of installed capacity. And the intention was for these plants to come into operation at the end of 2017 and this will enable us to guarantee the profitability of this in 2017.

In the fourth quarter as well, we had the closing of the Beberibe and Pedra do Sal wind farms and Areia Branca solar plant for total amount of 322 million. Once again this is why we received because of the sale of these assets and this consolidates our strategy of rotating and optimizing our generating complex in another two years. We will end our negotiation process. We did conclude this negotiation process with very positive results for the company, enabling us to transfer resources from these plants that were isolated to the clients that we are developing at present.

Especially in the state of Bahia in February of 2018 at the request of the company Aneel revoked the authorization for operating the William Arjona Thermoelectric Power Plant we have. This plant had come to a standstill already because of the difficulty of purchasing gas. The gas that we obtained from Petrobras did not make feasible the commercial operation of the plant and because of this, we decided to discontinue operations at this plant.

This year we made an agreement with Petrobras of doing away with the shares in court [ph] and we will see that we have a component, where we are eliminating the provisions that refer to the contract for fuel. That is to say the line item that refers to fuel in the fourth quarter and the acceptance of Aneel of this, where the rotation, led the score to have an impact on our results of approximately 90 million referring to this agreement.

And other of the highlights of the fourth quarter, we have our inclusion in the corporate sustainability Index, the ISE for the 13th consecutive year. And we are one of the few Brazilian companies, if I'm not mistaken, we have simply a select growth opportune companies that have become a part of ISE since its inception.

The company was awarded as one of the five Brazilian companies that are more sustainable in the Corporate Knights Magazine in Dallas [ph]. And we approved the proposal for the distribution of complementary dividends, that will be ratified by the Annual General Shareholders' meeting in the amount of BRL637 million approximately. With this our payout for 2017 will go beyond BRL3 per share, which is a significant level for the year.

Let's go on to slide number eight, where we have the inclusion the Jaguara our plants, as part of our shareholding structure and we have sold that asset practically. These are two

of the minor changes.

In the slide number nine, now we will speak about our consistent expansion with movements in our installed capacity through (inaudible) and with the withdrawal that we have and this gives us an increase of 7,678 megawatt installed. With an increase of our share and renewable energy 7.6% compared to 7.9% , if we look before the inclusion of the Jaguará, the hydroelectrical plant and the thermoelectric plant represents the 11% and another 6%.

On slide number 10, you can see how relevant our position is among the private power producers. We're one of the largest independent power producers in the country with 10.2 gigawatt and part of this 10.2 gigawatts, refer to Jirau. And we still have part of this in the holding company. Now this year we will be discussing with at the board of administration, we begin to appear now as one of the transmission player after the auction of 2017. This is our first entrance or debut into the transmission sector. And this, of course, will be a segment that will bring to us very profitable investment possibilities and of course additional revenues.

We go on to page number 12 as we tend to mention, we have a highly diversified portfolio in the unregulated market. The regulated market now contributing with 50% -- 30% in the free contracted market. And we are increasing our share as a distributor in our portfolio, which shows that we have a balance of 50%/50% in the regulated market.

I would like to highlight that we have increased the number of our free customers from 228 in 2016 to 280 in 2017. This thanks to the migration movement of the smaller consumers that are now participating in the regulated tariffs and they are benefiting from lower tariff and we're working directly with generation.

In slide number 13, we show you our positions in the free customer industry. We always attempt not to have a concentration. This is a sector that despite having suffered by a bid because of civil construction, continues to keep itself sound. And we have never faced any problem of default in this sector.

To speak about the truth, the problem of default has not been a problem for us in the free customer market. We have a stringent credit assessment policy analysis of guarantees and we have maintained an excellent record, when it comes to maintaining zero default reality. This of course does not mean we do not have minor delays in payments. The delays are due to flow of cash or market situations that we have warranties that will cover for these delays. And once again these customers tend to pay for the interest rates and payout their bills and business goes on as usual. This is an extremely well-drawn out process and you can see there we have a zero default reality.

We have gone through what is perhaps the worst period of the crisis. At the end of 2017, that country is once again resuming its growth. And, of course, this will decrease our concern with the problem of default in the free customer industry.

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We'll go on to slide number 15. And what has characterized the market is a surplus of supplier at least a theoretical one until 2021. But the supply is an intermittent one that ends up dropping to zero due to the daily demand and this of course leads to enormous volatility. This is what we have observed and with a weaker hydrology through time, we end up having a short-term market with higher prices and of course surplus of supply.

We go to slide number 17 to speak about our strategy to face this volatile market for 2018. We have a reasonable comfortable position of 11.6% in terms of uncontracted energy. What favors our results in 2017 was our comfortable position in terms of uncontracted energy and the movement of our portfolio management, because we carried out sales at the end of 2016 and in June of 2017, when we had a drop in the PLD and the expectation for the year was that the tariff would be lower. This ended up not being confirmed, but we did carry out purchases to cover specific position and what we did was to optimize our generation capacity.

As we have this strategy of keeping part of our energy contracted to protect our portfolio, and what was not contracted was reacquired by us, you also know that our sales policy, our sales strategy is a gradual sale of future availability. And because of this, we are able to mitigate the ups and downs in our portfolio, guaranteeing greater stability.

We go on to slide number 18, where we show you our energy balance as of December 31st, 2017. This energy balance simply offers you more detailed information enabling our analysts to model or to work with financial models in terms of the company funding.

We go on to page number 20 where we will speak about expansion. We have already referred to Jirau. Jirau is operating with full capacity since 2016. The expectation is for the holding company to grant to us for management during the year 2018, where what happened last year was that we hired Itaú Bank as an advisor for ENGIE Brasil Participações to assess the best way and the best moment to bring in this asset to ENGIE Brasil Energia. We have been holding conversations with the holding company to be able to create the best structure for this transfer and the best timing for such a transfer, and therefore we are now waiting to be able to resume this negotiation. And I think that this will be done by our independent councillors that will take the leadership in the negotiation with the holding company.

In slide number 22 we have the expansion of distributed solar generation. This is a market that has been growing strongly and in exponential fashion. And we are concluding the period of investment with our partners and we should begin to see favorable results now in 2018. There were two years, 2016, 2017 of investments, where we gained critical mass, we worked with fixed costs and it is our understanding that in 2018, we will have a very successful follow-up, of course, keeping in mind the magnitude of this operation.

In slide number 23 we refer to our transmission line that we were bid at the annual auction. We have 13 transmission lines of approximately 1,050 kilometers and five substations. The location is in Paraná where we have other synergies with Salto Santiago and Salto Osório. And this will help us in the works. And we're following up on this along

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with our local teams and presently, we're beginning the environmental licensing process. And we will define the basic project and the execution project for the work.

Our, well suppliers, of course, are from the transmission line. They have full knowledge of what is happening and they will become the main suppliers in our contracts. It is important to inform you that the RAP is divided by sections by Lots and the largest Lot, is Lot number one, where we have at the place that we show you here on the map.

In slide number 24, we speak about Pampa Sul, our thermal project that is 77% complete in the fourth quarter. We worked with the civil work on the chimney stack and we have already positioned the turbine and the generator. Now the work on the coal conveyor belt and dam are practically concluded, and we're hoping that we can begin in the month of May, that coming into delivery.

Once again, we're simply concluding our final connections, enabling us to have between April and May. The test and the startup of the boiler, and we should come in for full delivery in the first semester 2019, without any further changes.

We go on to slide number 25, where the Campo Largo Wind Complex. This is the startup commissioning of the 3 of the 11 wind farms scheduled for the second quarter of 2018. The six wind farms that were sold at the A-5 auction in November 2014 and five wind farms. We have finished out the earthmoving, surfacing of internal accesses and concreting of foundations. And in the transmission line, 70% of the work on assembling and 73% of tower earthing has already been executed.

We go on to the Umburanas Wind Complex on page number 26. It is one of our projects in Bahia. And of 360 megawatts that are under construction, 257 megawatts will be allocated to the free market with high contracting level in the medium and long term, and 102 megawatt was sold at the A-5/2014 Auction and we need to begin to deliver this beginning until '19, this is our goal. In the fourth quarter of '17 we began civil construction works and the installation of internal accesses. And all of the environmental licensing has already been regularised. We will work at a fast pace and we will be ready to operate in the first semester up to '19.

When it comes to our projects under development, we have a difference between the last quarter and the present quarter. The inclusion of the opportunity of expansion of Umburanas was 245 megawatts of installed capacity, which will add to the same regions, 330 megawatt of installed capacity in the same region. And we should get to 575 megawatt of installed capacity in Bahia. We also have others in the North of Catarina, the Santo Agostinho Complex and the Photovoltaic Centrals I, II, III and IV, the Assu Centrals that will be sold in future power auction.

We now would like to refer to our financial performance. I will give the floor to Carlos Freitas, so that he can lead you through our solid financial results for 2017. You have the floor, Carlos.

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Carlos Freitas {BIO 15364136 <GO>}

Thank you, Eduardo Sattamini. Good morning to all of you. We are now on page 29 to take a look at the broader figures of the company in terms of net operating revenues, EBITDA and net income. You can see that we had significant enhancements in those three criteria. Net operating revenue, we went beyond the BRL7 billion. In the previous years, we had remained at 6.5, we have now gotten to 7 million in net operating revenue. In EBITDA, we were at 3.1 in 2016; we have gone beyond the 3.5 barrier. And in net income, we were at 1.5 as the company's net income; we have now gone beyond the barrier of 2 billion (sic). All of our growth and commercial strategies are now reflecting a positive performance for 2017.

I would now like to go into greater detail on page 30, the evolution of our net operating revenue. The first important factor, very clearly is the short-term market. We can observe here the proactive management of our company portfolio. We were very efficient, very fortunate in our management during the year when it comes to our portfolio. We carried out purchases at interesting moments in the market. We purchased energy in 2016 and in May or June of 2017, so we also efficiently allocated this energy during the year. We were able to have good operations and to work well with trends and we have resulted a 330 million greater vis-a-vis 2016. The increase in volume was also significant representing a BRL175 million in terms of volume and price. As mentioned before, the price was flat with a minor increase of 3%. In Jaguará and Miranda we also had a contribution in a little more than two months since we have that concession between November 10th and the end of the year, a contribution of BRL48 million. And throughout the year, of course, the contribution will tend to increase in others enabled us to reach BRL7 billion.

In the next page we speak about the EBITDA changes. Besides the short-term market changes, we had a change in the royalties; thanks to the Generation Scaling Factor 20% last year and compared to 13% we had non-recurring revenues in the sale of two assets, wind farm and Areia Branca of BRL74 million. Jaguará and Miranda once again reached 48 million. The operating cost will only begin this year, because we will take on the -- we took on the operation of the plant only at the end of 2017. In November, we had a slight increase in the cost of fuel, especially the cost of gas, because of the agreement that has already been mentioned. And on the other hand, we had a reduction in the cost of coal. The cost tended to be somewhat lower vis-a-vis 2016. And the purchases of energy to mitigate the generation scaling factor represented a BRL103 million additionally, but we had a significant increase in our EBITDA of 3.5 billion.

In terms of net income, besides the EBITDA variation that I have just mentioned, there are some significant points here. The main point refers to the net income financial results. In financial results, an improvement BRL128 million and a large part of this due to the decrease in inflation. We have concessions that need to be paid, there are index to inflation, the IGPM, that represent BRL2 billion, at the end of 2017 and debentures that are also linked to the broader consumer price index.

We have financial debt that is linked to inflation that was low last year. It was negative. It went down to 3.5% with the weighted average of 1% approximately, which means that for each percentage of variation, we have BRL3.5 billion, additionally, in terms of our result. If

inflation instead of 1%, were 3%, which is what we're expecting for this year, this figure for 2018 would be approximately half.

Another important effect refers to impairment. In 2016, we had worked with impairment. The main one was in the old plant at Charqueadas and another in William Arjona. As has been mentioned, we have decommissioned this plant. In 2017, there are impairment line is somewhat lighter vis-a-vis 2016.

In the following slide, we see the translation of this performance and financial indicators, the creation of shareholder value, the return on equity and return over invested capital. Very clearly, we will see a jump of 23% to 29% in return on equity as a whole, including our reserve and profit and a return over invested capital of approximately 23%.

Here we include the capital invested in Jaguará the (sic) 3.5 billion, but we have not included the annual effect of Jaguará and Miranda. We have only the BRL48 million that I have mentioned shortly. This, of course, will tend to increase during this year and the asset base for 2018 should be much higher.

On page 34, we see once again a leap in terms of indebtedness. You are quite aware of the fact that we finance a 100% of the value of the grants of Miranda 3.5 billion and the net debt of the company went from 3.1 billion to 3.7 billion at the end of 2017. We are still at a very comfortable level, when net debt is quite low, it is comfortable. Our debt has always been a long-term debt. At present we are contemplating it more in the short-term to be able to roll our obligations for the coming year.

On page 35. Here you see the evolution of net debt. Here we have the 3.5 billion of Jaguará and Miranda. BRL500 million of other projects. Those that are under construction for more than one year such as Campo Largo, Pampa and Assu. And here you'll see the main effects, the company's cash generation, which is the great bar [ph] of almost BRL1 million was not sufficient, in terms of all of this investment, and that is why we have funded most of our growth as was expected.

We have always mentioned to the market that what we wanted to do was to optimize the company balance through growth to find a way of growing in a profitable and in precedent way and finance our growth through debt. As you can observe here, we are financing our growth through debt and a better leverage.

The debt profile and composition, you will see on page 36. Historically, the volume was flat at BRL300 million of debt for every year. We have a timely concentration at 3 billion, most of Jaguará and Miranda was funded through a promissory note. And now once again, we are going to lengthen the date, to go back to longer and more normal long-term debt. The cost of the debt has also dropped. At the end of 2016, the average cost was 10.5%, at present it is at 8.1%.

On the next page number 37, our investment plans, our CapEx. Here you can see the amount invested not only in 2017, but also what we expect for 2018, we have 5.5 billion, which is the amount invested last year, most of it in Jaguará and Miranda. For 2018, most

of our investments will be in Umburanas and Campo Largo. The main investment for 2018 will be in the wind farm. Campo Largo will come into operation in August and Umburanas should come into operation throughout the first semester of 2019.

On page 38, our dividend policy. We, yesterday, at the Board, approved a payout of 100%. This will be ratified at the General Assembly. And through this, we are maintaining, what we promised of paying out as much as possible. Even in a period, where the investments have been enormous, we continue with 100% payout because our intention is not to accrue cash. We're looking for a lucrative way of growing. And if we do have profit, we pay it out to our shareholders. We're trying to maintain this balance and our debt is 8.6% for last year.

With this, I would like to conclude the financial report, and I would like to offer the floor for questions and answers.

Questions And Answers

Operator

Ladies and gentlemen, we are now going to go on to the question-and-answer session. (Operator Instructions) Our first question is from Mr. Vinicius Tsubone, from HSBC. You may proceed, sir.

Q - Vinicius Tsubone {BIO 20139966 <GO>}

Good morning and thank you for this opportunity. I would like to hear greater detail on the process that is happening at Jirau. How you're going to define the best timing for this? And I would like to gain a better understanding of how a better hydrological situation could sit at this process? Thank you.

A - Eduardo Sattamini {BIO 16648085 <GO>}

Vinicius, good morning. And first of all, to speak about Jirau, we are forbidden to take part in the process, because of the related parties and it is our understanding that there are fiscal and company evaluations and the control that needs to be carried out. Now how this transfer is going to take place. So, as not to decrease or so as not to cause problems, so that we can have a win-win situation is what is being worked out through the team, with the holding company.

Basically this is the information that we have and this is what will define the timing, we enter discussion with the third parties, and enabling us to get to a proposal and the prices for this transfer. Once again, we're thinking of having a well sought out and very structured transfer to obtain the best benefits.

When it comes to the hydrological risk of Jirau, Jirau does have part of the energy with a risk contained by insurance. We have carried out insurance with a coverage of more than 90%. This is part and the other part is in the free market. We have discussed this with the National Development Bank, so that they can help us with part of the portfolio for the free

contracting environment. I do not have any details at present. This is the information I can give you.

Q - Vinicius Tsubone {BIO 20139966 <GO>}

If you allow me another question. On the assets that are linked to Petrobras, who is analyzing these assets? Is it ENGIE Brasil Energia, or another group from ENGIE?

A - Eduardo Sattamini {BIO 16648085 <GO>}

I would like to discuss this information as being confidential. We are debating it internally and we cannot speak about it at present. Thank you.

Operator

Our next question comes from Mr. Andre Sampaio, from Santander Bank. You may proceed, sir.

Q - Andre Sampaio {BIO 19422379 <GO>}

Hey, good morning. And I would like to know if you can give us more details on your strategy going forward, especially in the transmission sector.

A - Eduardo Sattamini {BIO 16648085 <GO>}

I'm sorry I did not hear the last part of your question.

Q - Andre Sampaio {BIO 19422379 <GO>}

Especially regarding the transmission sector.

A - Eduardo Sattamini {BIO 16648085 <GO>}

When it comes to our growth strategy, I think, that we can capture value through our way of being very entrepreneur. We are going to maintain our growth through constant work. We're trying to gain critical mass. And in terms of transmission, we have a strategy. We're going to seek for transmission lines that will have a different type of energy compared to what we have in our portfolio in regions where we have a strong presence, where we have good knowledge of the regulators and the rules.

So, that we can adequately dimension the environmental risk. These are critical processes to be able to determine becoming into operation date and the lines. And we're going to continue working with our asset to be able to have the proper outflow capacity. It could be accessed that are under operation. And this will define what we will do with the transmission line and our interest in new assets.

Q - Andre Sampaio {BIO 19422379 <GO>}

Thank you. Thank you very much.

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Operator

Our next question is from next Mr. Marcelo Britto from Citibank. You may proceed, sir.

Q - Marcelo Britto {BIO 15393330 <GO>}

Good morning, Eduardo Sattamini, Carlos and Fabio. I would like to hear a top-down discussion.

A - Eduardo Sattamini {BIO 16648085 <GO>}

I'm sorry to interrupt you, Marcelo, but the sound is extremely low. If you could speak closer to your telephone line. I did understand the question, the call does not have good quality. You are referring to our indebtedness capacity. Nowadays, we do not foresee any problem and this should be 100% of the dividend. With the indebtedness that we have at present that at any point in time, we signed that the payout of dividends will block or increase the cost of our indebtedness and hamper our growth.

We do have the possibility of reducing the payout of dividends to 35%, which is why we have negotiated with the market and enhanced our possibility to grow. And, of course, it is depends on how attractive the market will be, and therefore you find attractive investment. If we find attractive investment, we will request from our shareholders and buyers the possibility of returning to a policy that will payout less dividend. We do have this possibility, of course, and we have always made news of this possibility during moments of growth and investment and during moments of stress in the financial market. I hope that this has responded to your question.

Q - Marcelo Britto {BIO 15393330 <GO>}

If you could give me an idea of which will be a comfortable leveraging level as part of this growth process that you are undergoing, which would be a good leverage, and waiting your perception of credit risk, which would be your target and your ideal leverage at this point in time?

A - Eduardo Sattamini {BIO 16648085 <GO>}

We have already mentioned that level quite frequently, but I will allow the CFO to respond to this question for you.

A - Carlos Freitas {BIO 15364136 <GO>}

Thank you, Sattamini. Good morning, Marcelo. The question is important. We -- I'll try to respond to this very clearly, the leveraging level that we're going to work with, should allow us a balance between what is the best for the shareholder, without compromising our ability to follow through with a conservative management now, which would be this figure. We're working under normal conditions to be able to reach a level of 2.5 of net debt EBITDA ratio of 2.5.

Now, with the long-term debt, which is normal for us, it is not the present day situation, but will become soon. With the long-term structure, the long-term debt and the low cost

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debt, we feel comfortable working with 2.5 net debt EBITDA ratio. At present we're at 3, we could even double this, it is below our covenant, but we would also like to maintain our AAA rating that we have with Fitch. Of course, this is a competitive edge for us. If we -- well, when we went to the market in October and November to raise 3.5 million in three weeks, which is something that we achieved our AAA rating and the quality of the company, as a whole that translates into the rating, allowed us this competitive edge. And we were one of the few players in the market, who'll be quick and efficient leveraging capacity that could be put in place.

Therefore, we work with a maximum of 2.6, 2.7, but around 2.5 would be a comfortable level. Temporarily, we could go somewhat beyond these limits, at present, for example, we're at 2.3 net debt and EBITDA. But we have just taken on a large debt with assets that are not fully contributing. If we did not have other investments to be made during 2018, this would drop to 1.9, 1.8 at the end of the year. Obviously, we have Umburanas and Campo Largo and we're not expecting this ratio to drop to those levels. But what we are attempting to say is that there already have been conversations regarding this ratio, when we speak about Jirau and taking full control of it. We did discuss the maximum leverage that we would reach maintaining our AAA rating and the guidance was of course that we would not be too far from this 3.5 and 2.5 is simply our cruising level. And we're going to go up or below these levels as we require more investments.

Thank you very much for coming in.

Q - Marcelo Britto {BIO 15393330 <GO>}

Carlos, thank you for your response.

Operator

Our next question is from Mr. Ezequiel Fernandez from Scotiabank. You may proceed, sir.

Q - Ezequiel Fernandez {BIO 17243886 <GO>}

Hey, good morning, Eduardo, Carlos and Rafael. Thank you for the presentation and congratulations for the results and your allocation during the year. I have three questions. The first refers to page 15, the hydrology balance. If you compare this presentation with the presentation of the previous quarter, the presentation between supply and demand is somewhat lower. I would like to know what underlies this, perhaps it's due to demand, if it is regulated or not regulated?

The second question is, if this effects, if you have achieved a good contracted price when it comes to supply.

A - Eduardo Sattamini {BIO 16648085 <GO>}

Now your first question refers to the graph on page 15, where we have an expectation for a greater demand. And the second question, I'm sorry, I was not able to understand.

Q - Ezequiel Fernandez {BIO 17243886 <GO>}

Net effects of a greater demand and a lower reserve, if you were able to work with the different prices for the beginning of supply in 2020.

A - Eduardo Sattamini {BIO 16648085 <GO>}

Yes, we have begun to observe a greater demand. You will see in our power balance on page 18, what we have had in terms of new sales, a bilateral sales. If you compare this with the previous quarter for 20, 21 and 22, we have almost 400 megawatt sold during this semester. So, this is a significant change, a significant sales volume and it shows that there is an increasing demand. In principle, demand will gradually decrease prices, we see that, well speaking of course in the long term and where we can bring somewhat more in terms of prices.

Ezequiel, this is simply to corroborate what was said on page 17, where we have the company sales strategy. If we look at the medium term 2020, 2021, in 2021 we have 26% of uncontracted energy. In the third quarter, this would have been equivalent to a 1,420 average megawatts. This figure has already dropped, it dropped a 120 average megawatt during the quarter. Considering that we have now taken on Jaguará and Miranda that have more than 500 average megawatt and 30% of that energy is in the free market.

Now if we think that we have a 160 average megawatts free from Jaguará and Miranda, we have reduced the volumes for 2020, 2021. Once again, the amount will be 400 average megawatts for the medium term.

Q - Ezequiel Fernandez {BIO 17243886 <GO>}

The second question, we see a very strong growth phase at present. I would like to know if on the regulatory side, something is missing, so that solar energy can continue to grow more. And secondly, how we can measure this if you have any internal forecast that you could share with us in terms of the penetration of solar energy for the year 2030, simply so that we can have an idea of what will happen?

A - Eduardo Sattamini {BIO 16648085 <GO>}

Now, when it comes to solar energy, our vision is that the prices at the last auction were quite inviting. I don't know, which will be the strategy of the players. We're, of course, adopting a conservative stance. And if we look at our background in wind energy at the very beginning, we were not the most aggressive developer, we had a very cautious stance, when it comes to investment.

And in wind power this proves to be very positive. Many players entered this process aggressively and were left along the way. When it comes to solar energy, we have several players entering this sector. Now price is not a problem, but demand is very low at present. Perhaps if we had a series of conditions, very favorable conditions, then the players could practice prices that are much higher than those we're practicing at present. I mean, this is the vision that we have at present. Now the market has been growing

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considerably, it's also due to a cultural issue, people need to get accustomed to using solar energy.

And what is positive, of course, is a resumption of economic growth and the capacity to pay and to reduce the levels of embeddedness of the population. But it is necessary to invest in solar panels and residential solar power. On the other hand, there is a demand of commercial and industrial consumers, medium priced consumers, who have suffered quite a bit. And their ability to finance CapEx for the installation of new solar roof has been weakened. There still are some issues pending, the tariff example, that could hamper the development of this market. And what we still need is a government policy for this type of power and we believe that solar power will be incentivized. We do believe that solar power will have a very positive evolution.

Q - Ezequiel Fernandez {BIO 17243886 <GO>}

Thank you. Thank you very much for your clear answer.

Operator

Our next question comes from Mr. Giuliano Ajeje from Claritas. You may proceed, sir.

Q - Giuliano Ajeje {BIO 18603141 <GO>}

Good morning. In truth, I have several questions. And I have a doubt if the growth in distributed generation, you shouldn't do a partnership with a distributor of energy, so that you can obtain this market better. Secondly, I would like to gain a better understanding of the transmission line. The loss that you obtained in the last auction, I think, that this was a very aggressive move. I would like to understand, what you are planning to do with this, which is the net debt-equity ratio that you are working on. And my third doubt, refers to the growth if contingencies continue to be a problem and if this new grant will be carried out in the short term.

If you will allow me to ask another very interesting question, when we speak about the generation scaling factor, you mentioned the insurance, 91, 92. Now when you find this you gave up having any future results from this, or if you could go back and explain what happened then?

A - Eduardo Sattamini {BIO 16648085 <GO>}

Many, many questions, but let us try to respond to them. A partnership with distributors, we do have the benefit of having a distributor as part of our energy efficiency program. But it is our understanding that we need to work very closely to the customer and in an independent way. In a partnership with a distributor, for the distributor, this tends not to be very interesting. And the distributor has his own holding and can be a competitor in this segment. And you will see that the large energy players that have distributors, they're also active in this segment. In the case of -- so unless we have, what I would call an abnormal situation. I don't see the need for this, we have good capillarity, we want to have this capillarity independently of a distributor. We don't want to have to depend on this.

In terms of transmission, I will allow Carlos to speak about the net debt and equity ratio.

Basically, what is different is to consider the anticipation of the CAD in a very responsible way. We would be able to anticipate the coming into operation of the line and of course the issue of costs. The costs will be higher, which is positive. We don't have to discover, which is the minimum cost. We're going to work with cost that will enable us to have a good competition and have the RAP at a normal level. Now if the costs are too low, this business will not begin working.

And of course, I think that it will be possible to capture greater returns. This is what it would mean to working in a competitive market. Carlos can later refer to the net debt equity ratio. I'm going to continue to speak about (inaudible) with the changing situation it has become much better. Potentially, we can consider this asset, but this moment has not come yet. We are still on waiting mode and we will properly assess it, when the right time comes. We are -- in certain situation, we stopped with our questioning, now is a behavior that is not appropriate comes about. This does not mean that, we're not going to try to defend our future proceeds. We do not have our hands tied. And if this will not allow us to receive some retroactive payments, this is not part of the agreement.

We believe in good faith and if the third parties receive better conditions, I understand that the government itself will find it just that they will have to pay for these things retroactively in the contracts, they will also have to pay the benefits negotiated by third parties. It should be a matter of justice and that is why the proposals that are made at present to address sales, encompass not only generators and not those that had mandates against them.

A - Carlos Freitas {BIO 15364136 <GO>}

In transmission, once again, we're only beginning to work in funding because this is a long-term project. The CapEx for this project for the first 18 months is not that relevant. Our premise, our idea was and continues to be to finance this project with a mixture from the National Development Bank and the market, we're subsequently going to discuss the leverages, that we can reach. We think that we can leverage 70% of our CapEx. Some people say that we can't do this, I would love to do this. What we see in practice to have something with a profile that is distributed three time for something that will be in the long term and that can finance itself. We have to have good coverage and determine the maximum amount of the debt. We hope, therefore, to be able to finance 70% of our CapEx with the mix from debentures, BNDES, at the lowest cost possible.

Q - Giuliano Ajeje {BIO 18603141 <GO>}

Excellent. Thank you very much.

Operator

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

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Q - Giuliano Ajeje {BIO 18603141 <GO>}

This is my third question. I do apologize. This is a legal issue. The proposal to resolve the problem under lengthening the term, in principle this could have an impact on you that have this assets frozen until 2022. Have you observed this at the end, this could become a problem in terms of the generators?

A - Eduardo Sattamini {BIO 16648085 <GO>}

I have not thought about this. I would have to see if our regulatory personnel is following up on this. Once again, this issue has not come to the point of having a formula. And I do not know if this formula will have an impact on us. I believe we are protected in terms of this. But I will get back to you on this. We have already spoken about this. Our regulatory team is following up on this. And we do not have new information for the time being.

Operator

(Operator Instructions) At this time, we would like to end the question-and-answer session. I will give the floor to Mr. Eduardo Sattamini and Carlos Freitas for their closing remarks. Gentlemen, you may proceed.

A - Eduardo Sattamini {BIO 16648085 <GO>}

I would like to thank all of you for your participation, for the very active participation. We had a great number of questions. Thank you for your interest in the company. And we thank you for the contacts with analysts and investors, these are the reason of being of our existence. Thank you very much.

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.

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