

## Q3 2019 Earnings Call

### Company Participants

- Marcelo Cardoso Malta, Chief Financial Officer
- Rafael Bosio, Investor Relations Manager, ENGIE Brasil Energia S.A.
- Unidentified Speaker

### Other Participants

- Analyst
- Kaique Vasconcellos

### Presentation

#### Operator

Good morning. This is the ENGIE Brasil Energia Conference Call where we will discuss the results for the Third Q 2019. All participants are connected only as listeners, and later on, we will open the Q&A session. Further instructions for participation will be given. (Operator Instructions). You should remember that this teleconference is being recorded. This presentation followed by slide will be simultaneously transmitted through the internet to [www.engie.com.br/investidores](http://www.engie.com.br/investidores). The slide presentation and Company's the earnings release are also available on that website.

Before proceeding, I would like to clarify that all statements that may be made during this teleconference, regarding business outlook of the company should be treated as forecast depending on the country macro-economic conditions, performance and the regulation of the electric sector besides other variables, therefore they are due to changes.

With us here, we have. Mr.Marcelo Malta, Chief Financial Officer, Eduardo Antonio, Investor Relations Manager, who will talk about Company's performance in the Q3 2019. Right after, we will have the Q&A session with them. We remind that journalists who wish to ask questions can do so by email, sending them to the company's press office.

It is now my pleasure to turn the floor over to Mr.Marcelo Malta. Please, sir go ahead.

#### **Marcelo Cardoso Malta** {BIO 21276941 <GO>}

Good morning to all, and thank you for being with us in this earnings teleconference of the third Q, 2019. This is my first call since I took over as CFO at EBE last August. And unfortunately, Mr.Sattamini is outside Brazil, and therefore, he could not be with us today, for which he apologizes. And certainly, he will be present on our next teleconferences.

For those who do not know me. I joined the company in 2005, and in these 15 years of my professional life, I acted as Accounting Manager also as the Financial Planning and Control Manager, and accumulated a very wide view of the processes and strategies of finances at EBE as well as all of our interests.

To start our talk today, we have Slide 5, with the main financial operating indicators in the period. And as you can see we have an important growth in EBITDA and net profit, in the periods compared and this financial situation was motivated by several factors: First the level of commercial operations of our wind energy, complexes of Umburanas, and also from the commercial situation of our Thermal electric company, and the operation of these complexes added BRL 114 million to our EBITDA. Another factor that also contributed for this financial performance was the execution of a guarantee of the building contract for our Thermoelectric Pampa Sul complex, and the execution of this guarantee was duly motivated by the delay in the conclusion of the work, and we had foreseen by contract to complete it on December 31, 2018, and it was only completed at the end of June 2019. Therefore to compensate the results we did not receive the further delay in the completion. The executives of this guarantee made us receive the amount of BRL334 million, and with this 14% generated an impact in our EBITDA of BRL221 million.

In the Slide 6 and 7, we have the main events of the quarter. In the transmission segment, we have important advances in the transmission system Gralha Azul involving the construction of 1,000 kilometers of transmission lines in Parana, and now we have this situation in Miranda. We issued some tranches with the bill in 7 and 10 years. And this will give us 3.6% to 3.9% per year increase, and most recently we concluded the financing contract for BNDES, around to BRL1.26 billion, and the financing of the construction of our wind energy complex Umburanas, it's a 19 year contract with the TLT rate of 1.7 throughout the year. And in terms of our Gralha Azul projects, which is our transmission line of 1,000 kilometers, which is being built in Parana. We obtained two installation permits: One for the Ponta Grossa Substation, and another one for most of our transmission lines.

Therefore, I would say that these are two landmarks, that show our advance and progress of implementation of the lines and also for the achievement of our implementation program. We issued the distribution of 100% of net profit in the first Q, in the amount of BRL893 million and also approved the credit in the amount of BRL354 million, shares were ex-dividend and ex- net interest rate as of December 3, 2019, and the payment quota will be soon informed to the market. In this quarter, we also have important awards such as the Company of the Year by poca NEGCIOS 360o. And we were also rewarded for the 10 time and the 7th consecutive with the Transparency Trophy organized by Anefac, Fipecafi and Serasa Experian.

Now, I would like to give the floor to Rafael Bosio, who will discuss the quarter's most important updates in the first sessions of our presentation and then I'll be back to comment on the financial performance.

**Rafael Bosio**

Thank you very much. Good morning to all. Thank you Malta. And the first update we had to our presentation on the second Q earnings results. Controlling interest in the controlling and simplified controlling interest on Slide 9, where we now have a direct participation of 29.25% at TAG. And since in the month of September that was the incorporation of the TAG trends for Alianca Transportadora de Gs. And we have a direct participation in up 29%.

And then we will see now the results.

Now speaking about the segments of natural gas on Slide 12.

## Operator

Ladies and Gentlemen, please remain connected. We are reconnecting the line. Ladies and Gentlemen, please remain connected. Please proceed, Mr.Bosio.

## Rafael Bosio

The alignment sound. So, I was speaking about Slide 15. On the generation, on the solar distributed generation. Going to this subject besides update numbers of units and installed power. I wdrow your attention to our geographic expansion, which was carried out in the quarter. Now, we will have our footprint in over four states since the end of this year, second quarter and now reaching 17 States with the major contribution in segment B2B.

Now on Slide 19. We had a 19% improvement. On Slide 21. We updated the graph of canceled energy contracts with an increase in the availability for 2020 and 2021, as per what we informed in the last on the second Q, '19. This is part of our new strategy to mitigate the impacts of deficits from hydroelectric generation through the adequate management of our portfolio. We also had a small decrease in the cancellations in years 2022 and 2024. They are small amounts, but this will intensify as we get closer to these years, because it's very rare to see free market clients by energy for more than a year, year and a half year earlier.

Now on Slide 22. We can see this is compared to the first Q. We hadn't reductions in the third -- in the three years '19 to '21, and then increasing in the sale [ph] 2021 with stability for this year. (Technical Difficulties) This grant to good margins.

(Question And Answer)

## Operator

(Operator Instructions). Our first question comes from Mr.Kaique Vasconcellos of Bank of Safra. Please proceed, sir.

## Kaique Vasconcellos {BIO 17317373 <GO>}

Good morning all and thank you for the call. I have two questions. The first, looking to your growth and the analysis, I would like to know if you have any comments or any area that you'll be more interested? And second, if you could speak about the commercialization and more visibility for 2020 and how do you see long-term prices?

## Unidentified Speaker

Ladies and gentlemen, please wait while we reconnect the speaker's line. Kaique, I'll ask you to be patient because our speakers will go on with his presentation, and then we come back to your questions.

We now, we will go on with our presentation and we will answer your question. Entering in the expansion details and speaking about the development and construction of our new projects.

Slide 26 show the evolution of the development constructions of our new assets on slide, on this slide, we see that 3Q '19, here mark the beginning or the start-up of the Wind Energy Complex Campo Largo Phase II, both with the execution of new accesses that have been the works of the connecting line.

On slide 27, we show the advances in the implementation of the transmission system Gralha Azul in Paran. And in this Q, we had the installation permit to start the works of substations on Ponta Grossa. And now last October, we received the installation permit to enable the beginning of the building of the works of the system's main first lines.

Now, as in Campo Largo Phase II, we are maintaining forecast for the start-up of operations in this line, with an anticipation of 12 months as to the deadline in March '23. I now give the floor back to Malta for his comments on the financial performance and then Mr.Kaique, we'll go back to your question.

Well, thank you again. So on slide 30, we show the demonstration of variation of the net operating income, EBITDA and net profits. Our net operating income shows growth in this 3Q '19 and this slight growth was impacted by a reduction in the positive effects of our transactions of R\$49 million. As a counterpart, we had a reduction in our operations of R\$112 million and in then compared quarter R\$23 million, but since we had the negative impact of R\$109 million in our revenues we have here the results in our net operating income.

In the EBITDA, yes, here we had an important growth of 11.1%, 56.1% and great part of this is the results of the operations at Campo Largo, Umburanas and Pampa Sul and also the impact of the recognition of the guarantee that we received in August 2019.

And with the effect of the guarantee, we recognize in our results the variation of EBITDA would be around 25% in the -- comparing the quarter. And the net profit also showed an important growth of 16.2% in the 56.2% in the same quarters. And also if we combine the effects of the execution of the recognized guarantee, the variation of net profit would be

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around 12%, and it's important to mention and recognizing our financial expenses, in the amount of R\$100 million motivated by the growth of the company.

On slide 31, we have a breakdown of the composition of our net operating revenue and with an increase of R\$215 million due to the increase in the sales volume and which was mainly mitigated by the operations of Campo Largo and Pampa Sul and we also had an increase of R\$98 million in revenues, and we also have an increase of cost of R\$53 million, which gave an impact in the operations at negative R\$25 millions.

We also have R\$68 million revenue from the building of infrastructure for transmission and with the cost of the construction, we have R\$424 million as with net positive results of R\$4 million.

And the sales aggregating R\$29 million in our net operating revenue mainly due to the inflation with an increase of 4% in our average sales price due to inflation. And the installation of solar panels also impacted the revenues and this represents the control of solar panels in 2018, which now have helped us consolidate its operations.

And now, we have the contribution of our complexes of Jaguará and Miranda due to the increase in financial assets remuneration. As we mentioned before, we have the reduction with the transactions, which resulted in a decrease in our net operating results and also a reduction on the amount of R\$409 million. The motivation on the decrease in our short-term market or in our PLD and our Energy Reallocation Mechanism with a result in the quarter of around R\$214.

We also had the lower impact in our Generation Scaling Factor much lower and better than the other assets. And we had the recognition of the reduction of our sales position at the Energy Trade with a lower generation of thermoelectric and the recognition in the 3Q of the uptime ratio of Salto Osório.

Now in our next slide, we go back to EBITDA, where we have an impressive and important impact growing 55.1% and we received the R\$321 million referring to indemnity due to the delay in Pampa Sul, which I already mentioned. Excluding the income reconciliation, the increase of the EBITDA would be R\$25.4 million. We had the reduction of R\$45 million in the purchases of energy and also drop in the fuel consumption of R\$41 million mainly due to the reduction in the thermal electric generation in our contract with Jorge Lacerda.

We have a positive result in our equity income at TAG and we have R\$21 million added by TAG in our -- to our EBITDA in the quarter. And part of the financial assets of Jaguará and Miranda R\$10 million and we had a reductions too -- in the costs of SG&A and personnel motivated mainly by length of the commercial operations, by the start-up operations of Campo Largo.

As we mentioned, we had an increase due to the recomposition of revenue due to the charging of indemnity due to (inaudible) concepts and also the renewal of operating risk policy.

And also in translations of CCEE due to commercial operations of non-expressive amounts. Besides everything that was commented on the EBITDA, as a consequence we had an impact of the increase of interest rates in social accounts as mentioned and also an increase of R\$100 million of the net financial expenses.

And to conclude, we had a growth of depreciation and amortization of assets and also Campo Largo and Umburanas' specific situation.

Now on slide 34. We had a small non-expressive reductions and the major drops is represented on return on invested capital of R\$19.6% and also an increase in the sequential comparison of the company.

The next slide shows the composition of our indebtedness, this on the 3Q. We had a growth in the relation between growth debt and net debt over EBITDA motivated as we mentioned by the increase of the indebtedness of the company mainly due to acquisitions and the projects we are developing now. And we attained R\$2.7 of the debt, of the gross debt-to- EBITDA and R\$2.9 million, R\$2.2 million net debt over EBITDA in a very comfortable leverage level still.

The next slide 36 shows this movement in our net debt in details. The main components of this evolution are the reduction of R\$1.2 million in the comparison with last year same quarter was the impact of the R\$726 million in dividends and IOE. And the exchange variation is compensated by an effect of R\$213 million in this graph with the hedging -- exchange hedging operations with the R\$11 million BRL 211 million of appropriated interest and R\$121 million of income tax and social charges. Beside we had an investments amounting R\$93 million, amounts that were paid by the obligation of constructions of R\$18 million, and all the expenses were paid and the cash that were generated by the operations of R\$1,434 million sic R\$1,464 million, and as mentioned, the effects of the indemnity for the execution of the guarantees at Campo Largo.

This is the other part of the execution of the guarantee and we have to cover impacts negative impacts with the results we had or the results we did not attain due to the delay in operations. And we also had the execution of another guarantee to cover the exceeding costs in the amount of around \$18 million, which are represented by this amount in real.

On the next slide, we have the profile and composition of our debt updated, considering that we had the contractions, contacting of debt for 2022 mainly with the operations we had recently and also the share of the execution of the fifth and sixth issue of debentures. And in July '19, we had a very high issue of debentures. It's important to mention the reduction of the nominal debt cost 7.2% if compared with the 1Q 7.6% versus 8.6% in 3Q.

And on slide 28, we have our investment plans. We had important expressive amounts to take into account, the acquisition of shares in TAG of R\$3.5 billion and in Pampa where we had investments of around R\$700 million.

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In 2020, we estimate having CapEx around R\$2.1 billion in ex Campo Largo and Gralha Azul and Campo Largo II, which should be around R\$900 million. And for 2021, we also have for Gralha Azul and Campo Largo with the approximate R\$1 billion investments in CapEx, maintenance CapEx.

On slide 36, we show the evolution of the dividends proposed and paid by the on slide 39, and our Board of Governors approved the distribution of dividends in the 1Q 2019 at the price of R\$4.39 per share and also an increase in social capital giving the payment of interest per share of 43% and adding up these dividends in the 1Q and the equity capital, we have the amount of R\$1.32 per share.

Having said that, I conclude my presentation and open for Q&A.

## Operator

(Operator Instructions). Mr.Kaique from Bank of Safra. Please resume.

## Kaique Vasconcellos {BIO 17317373 <GO>}

Well, I'll repeat my question. First, I would like to understand if there is any region in the next transmission auction that you're interested in? Or how do you analyze the competition and the situation? And the second question on you have any view on how the next year will proceed in terms of energy transmissiosn? And if you have plans for the long-term. Thank you.

## Unidentified Speaker

Well, the law hasn't published yet transmission auctions and the laws in auctions but we have interest of course in making a presence in these auctions. In terms of the forecast for next year, ENGIE TS, we are now entering in this commitment, naturally we hope to have a better visibility. But anyway, we are already prepared with our portfolio and we want to have a GSF in a level close to what we have been practicing in 2019. But anyway, we will try to have as our strategy this position as our prices, we hope that in the short time, we will -- as the prices will be very much pressed because this year, we had something similar than one we had in -- at the end of 2018, but with a much higher volatility. And now with decreasing energy. Because I would consider the last one was the worst months in our history, and November, generally, has very weak energy consumption. So we are pressing on prices for 2021, as well, 2020, '21 and naturally as well 2022, prices will start to go down because they will separate from the energy pressure. And price is around R\$60 slightly more or less. I think that that's what I wanted to answer.

## Kaique Vasconcellos {BIO 17317373 <GO>}

Well, it's cleared what you said. Thank you.

## Operator

Our question now comes from (inaudible) Bank of Itau. Mr.Fernando, please proceed.

## Analyst

Good morning. I would like to pose a question on (inaudible) Energia because there was a document from the modernization of the electric sector last week. I would like to understand if you already have a study on how this could impact your company? Because of hydroelectric and reservoirs should have a higher reserves and I would like to comment also and how you separate the energy concessions according to the contracts you have today. Well. Thank you.

## Unidentified Speaker

Fernando, I understand that this alteration will impact no contracts as the last for energies for the future. It won't impact the contracts. And our team which deals with regulations, are very -- following this very closely. And I think that there will be more positive impact because we will have the opportunity to create new products, such as the normalization with some Wind Energy Generators, with the improved generation and this being a good opportunity for a profitable auction. But I think that first, this -- if you want to contact level get into more details with you now that's what we can say. Thank you.

## Operator

Thank you. (Operator Instructions). Well, we'll now close the Q&A session. Now we give the floor to Mr.Marcelo Malta for his final considerations. The floor is your sir.

## Unidentified Speaker

First I would like to thanks the presence of all of you and our teleconference, and as usual, we are at your service for any further question with -- of Investors Relations. And the eventual questions that remained from our presentation, if you have any questions we are here at your service. Good afternoon to all and hope to see you next time.

## Operator

This concludes ENGIE Brasil Energia's audio conference for today. Thank you very much for your participation. Have a good day. And thank you for using Voitel.

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