

Q2 2021 Earnings Call

Company Participants

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

Presentation

Rafael Bosio

Good morning everybody, and welcome to ENGIE Brasil Energia's Second Quarter '21 Earnings Results Video Conference. I'm Rafael Bosio, Investor Relations Manager of the Company. And in order to better interact with you without a mask and in safety, each of us is in an individual room, respecting the protocols. People connected by the phone are in listen-only mode. Ensuing this, when we open the question-and-answer session, participants will be able to send them either by phone or via the platform chat. It is worth recalling that this video conference is being recorded. We have made available on our website www.engie.com.br/ir the results presentation and the earnings release where detailed analysis of the variations are disclosed.

Please bear in mind that the forward-looking statements that may be made during the video conference should be treated as forecast, that depend on the country macroeconomic conditions, on the performance and the regulation of electric sector besides other variables. They are due to changes.

I'm here with Mr. Eduardo Sattamini, CEO and IRO; and Marcelo Malta, the CFO who will talk about the Company's performance in the second quarter 2021. Journalists who wish to pose questions, can send them to the Company's press office.

I will now turn the floor to Mr. Sattamini. You may proceed, sir.

Eduardo Antonio Gori Sattamini {BIO 16648085 <GO>}

Good morning, Rafael. Good morning to all of you. Here we are for another quarter, a difficult quarter. We're undergoing difficult moments, but the Company continues to have normal business and posed good results.

We're going to begin on Slide number 5, I think we're showing you the presentation, and we are initially going to speak about the highlights, the main drivers for the quarter. We had some positive highlights, a greater generation of wind sources because of the good wind and because of the coming into operation of Campo Largo II. As you will see further ahead in the presentation Campo Largo already was almost fully implemented and

presently the 86 turbines are in operation, whether commercial or test operation. We reduced the purchase of energy for portfolio management, representing a BRL120 million. And this shows that for some time already, we have been working towards reducing these figures, having a more conservative sense in terms of our electrical energy portfolio.

As a counterpart, we had a drop in the results of the CCEE, in amounts much lower than the amount we were able to save with energy, BRL85 million was of the negative result this quarter. We had the contribution of the energy sector, of course, the work is underway and we have to account for these assets in a more in-depth way, because they do generate revenues and EBITDA and the more resources we have in CapEx, the better results we can offer to the Company. The other projects are doing well. Further ahead, we will speak about Gralha Azul, as well as other projects. And we already have an inflationary effect that has been applied to our prices. Our prices on the average increased 4.9%. We have our contracts in IGP-M, part of the contracts index to the IPCA. And once again we will speak in greater detail about this further ahead.

We had Pampa Sul availability, that came into operation in 2019 and operates fully on coal, and it had a period of adaptation, what we call a curve and presently it is at a very high operational maturity rate. We still have some issues to address in Pampa Sul, the connection with Delta II. We connected I, which is a substation owned by UTI, and when there is export to Brazil, we have to decrease the space for Pampa, but this situation will be overcome at the end of November, when we will definitely connect the Candiota II station, that is being built by the (inaudible) complex. In terms of negative highlights, the variation of the IGPM and IPCA and the monetary restatement, this you will see below the EBITDA line, our financial expenses increased a great deal, because our debts are linked to the IPCA, as well as obligations in concessions that are paid based on the IGPM.

Yesterday, we presented to the Board to survey this, because we can perhaps change the index to decrease this mismatch between revenues and expenditures. With a results of CCEE, a negative BRL55 million result and because of greater availability and generation in Pampa Sul, higher fuel consumption. What has also impacted our results are the non-recurring issues. This quarter we had a BRL163 million in impairment, preparing the company to sell-off the asset of Jorge Lacerda. We're concluding the negotiations. In truth, we are presently at a stage where we are discussing the sale of quotas. The conditions have already been put in place. And as we do have the intention of selling this, we're going to apply the fair value of this asset in our balance.

When we look at the same 2020 quarter, we had some non-recurring differences, and that is why we have the differences between the same quarter in 2020 and 2021. At the center, when we look at EBITDA, we wanted to eliminate the non-recurring events and we have 19.7% for our adjusted EBITDA and 23.2% if we compare semester-on-semester. In net income, once again we have not made this separation. We had a drop of 58.4% in the -- from the second quarter '20 vis-a-vis this quarter, and a reduction of 28% approximately.

We now go on to the Slide number 6. The first highlight, the Company has maintained its social initiatives to generate income and input for healthcare to struggle against COVID-

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19. We observed a reduction in terms of the needs of our activities, at least at this stage in the hospitals, of course, this is a positive news and we can feel it throughout the country. We had the implementation of the first megawatt generator -- sorry, we have a project between WEG and ourselves. We began this project with a turbine and at a certain point, we withdrew from the project and ended up having a turbine with greater capacity, while the turbine has been installed at our photovoltaic plant in Tubarao and should be inaugurated very soon. It is important to mention that today Aneel is authorizing the connection, which will enable us to begin the test at the turbine and very soon begin operations.

On this page, we highlight the launch of a new product, the Modulation Swap tool, where we transform a generation curved into a flat curve for generators. We do have a very broad energy portfolio and we have the possibility of managing the generation risk in our portfolio rendering services to smaller generators and capturing value, generating value for the Company as well, and managing a much larger energy portfolio. The Campo Largo complex, that had reached almost 70% of its installed capacity nowadays should come into commercial operation at a 100%, until the end of this month. And presently, all of the turbines are already in operation, either for tests or for commercial operation.

We go on to Slide number 7, to speak about the approval of law 14.182, extending reimbursement for GSF hydrological losses, that were prior to 2015. This was a claim of the hydroelectric generators, that was responded to by Aneel, and is now part of this new law. And this will bring additional benefits for the Company, enabling us to have a greater compensation of energy, and will extend the concession of our plans. The figures once again are still about to be said, Aneel is under the obligation of determining the calculations that will be done to the CCEE. This should be done until the end of August, and we will finally end up this long story of the GSF, it will be defined at the end of this month or beginning of September. A sad event that we will have to underscore here, we had an accident on July 16, and because of this, we had a standstill of all of the works in the northern part of our Novo Estado transmission line. We're setting forth all the inspections and we should have the final report this week.

Once again, we're taking the measures to inspect and test all of the foundations in this part and the rest of the transmission lines were almost fully concluded the tests for the Gralha Azul line. We believe it was an execution error but we must take all the necessary measures when working at great heights and working with cables, this t should be done with the proper safety. As a highlight, the company in July obtained an all-time record for wind generation in a five-minute average totaling 1,105.19 megawatts, representing 89.2% capacity factor, instant capacity factor.

Another highlight, as mentioned, where we were negotiating with FRAM Capital and we expect to sign the contract for the sale of Jorge Lacerda with precedent conditions that will still be met until the end of August. And we have some conditions precedent referring to some of the steps that the federal government is taking, enabling us to sell-off this asset to a new operator. And of course, to have a good compensation for this. And of course, we are carefully analyzing the sale instead of closing it immediately.

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On Page number 8, we have additional highlights. We want to promote the replacement of thermal capacity, and we also have the Pampa project that will be disinvested in the coming months. And for all of this, we have set-up a special independent committee for transactions with related parties to evaluate the potential acquisition of the Paracatu and Floresta photovoltaic complexes, with have an installed capacity of 260 megawatts. We will refer more to this feature, but we had already foreseen the transfer of assets from a company subsidized by Brasil Energia. And we thought that this would be the right time, as we're selling-off our core assets to bring in renewable assets to replace this capacity. And the Board has approved the distribution of BRL789.5 million dividend and their shares will become ex-dividend as of the 17th of this month, and the payment they will be set forth by the Management Board.

Very well, let us go on to Slide number 10, where we will speak about our energy commercial strategy. You're very familiar with this, we sell energy bit-by-bit, to dilute the specific risk of price variations. We work with an average price, we accelerate when the price is high, we slowdown when the price is lower. But we do have a continuous flow of energy sale to service our clients and to renew our contracts.

To ensure that our clients reduced their churn rate. To the left, as I mentioned, we have managed our portfolio, always allowing a certain amount of energy de-contracted. Now this increases because hydrology has exerted an enormous pressure. And because of this, we are able to protect ourselves. As you can see, we have 12% of our total portfolio, 713 megawatts of protection. It may seem very low when compared with the GSF of 75%. But we should realize that we have energy sold in the market, the insurance that was contracted. We have the purchase of energy through the GSF factor and hydraulic sources, thermal sources and intermittent and solar sources. And we believe that this is an appropriate level, and because of this, we have suffered quite little in terms of our portfolio management that is carried out day-after-day.

We have had an evolution in the last few years and we are now at a good management level. We show once again, that we have diversified our free customers portfolio. We have a somewhat greater exposure in metallurgy and some other sectors, but always below a risk threshold. It's 15% with some industries, we're below that level and we're very vigilant to ensure we don't overcome the level.

In the next slide, we continues to speak about the energy commercial strategy. We have the participation of clients and the portfolio. What is important here is to observe that we have a growing number of clients. Thanks to the decrease of our propension of selling. Since last year, of course, we have reduced the number of clients that we service. We can't increase the number of clients, if we decrease the availability of energy for sale, we have selected our clients. We have had a slight reduction, we will recompose our portfolio in a conservative fashion. We will grow again with clients, when we realize there is a greater market opening. And we will support clients who require greater support and that are more willing to pay higher margins for energy in our portfolio.

Let's proceed to Slide number 13. We're going to speak about our constructions. We have spoken at length of the Campo Largo complex. This is an image, dating back to June. Some of the wind complexes began commercial activity and tests during the second

quarter of 2021. At the end of the second quarter '21 of a total of 86 turbines, 71 had been fully set-up. At present all of them are in commercial operation or undergoing tests. And this complex should come into full operation at the end of the month.

We go on to Slide number 14. To speak about Santo Agostinho without great novelties that this point, our licensing is up-to-date. We began the earthworks -- the drilling, vegetation suppression, topographic execution and the development of the engineering project. The project is that, it's very beginning, licensing the beginning of construction. And during some time, we won't have great news regarding this complex.

In the next Slide number 15, we have the transmission line for Gralha Azul. On July 18, we released the test for 230 kV for Ponta Grossa Sao Mateus do Sul. And on August 20, we will be coming into commercial operation with this line. And we will begin with the wrap of this operation Ponta Grossa Sao Mateus at 16% of the total RAP of the project. And you can see that we're coming in before what was planned. And despite all of the friction that we had in these projects, considering the pandemic, that is still ongoing, but reached its peak last year. Our intention is for this line to be fully operational in October and November as planned.

Next slide. We will refer to Novo Estado. We have concluded 85% of the power line tower foundations, 60% of assembly work. Once again, we did have that accident. We are reassessing some activities and the impact that this will have on the schedule will be easily absorbed by the term that we had estimated. We're operating with an outlook of perhaps bringing this before. But what is important for us is to go back to working and guarantee that our contractors can work in safety, and to make sure to identify the causes and service the families in appropriate way.

We will go on to the next slide, number 17, to speak about expansion. We have already mentioned, the photovoltaic complexes, Paracatu and Floresta. They were purchased in the auction of 2015 for a 20-year contract. At that time, the Company was being acquired by a competitor, they implemented the projects they came into operation in 2017 for Floresta. Paracatu came into operation in 2019. And we came to the conclusion that these assets should be incorporated into ENGIE Brasil Energia and they will have a special purpose.

We have created two independent directors, Mr. Lopez, representing the bank; Karen, who is our counselor and also the Director of ENGIE in Canada. And these two Board members will be aided and supported by the Director of the Company, Jose Laydner, who will access resources, hire advisors and offer a price proposal for this specific acquisition. This park has 259.8 megawatts and a total commercial capacity of 59.1 average megawatts. And Paracatu saw 34 average megawatts at 364.13 megawatts hour in November 2019 (Sic - 2020) and Floresta 25.1 average megawatts at 357.78 megawatts hour. Once again this is complex for a 20 year project.

We'll go to Slide 18. Absolutely no news regarding Jirau. It is still part of our portfolio, and the original idea was to build a plant for future transfer, as this plant is still seeking financial balance. The controlling company has not presented yet for assessment, but we do

included in the presentation for future expansion. And we will only have projects that will make sense and add value and not add problems to our Company.

On Slide number 19, projects under development, we have 1.6 gigawatts of potential projects, linked to projects that have already been developed, where there is great synergy. In solar energy, we have (inaudible) with an installed capacity. We have four additional plants with a total of 120 megawatts. Santo Agostinho, Umburanas, Campo Largo, they also have the solar energy. Therefore these projects have great synergy with our portfolio, and at the right time we will develop this. In the meantime, we're undergoing negotiations to acquire more capacity and strengthen this pipeline to have a stronger capacity in renewable energy, because we're moving away from thermal energy based on coal.

We will now refer to our financial performance, I will give the floor to Marcelo Malta, who will proceed with the presentation.

Marcelo Cardoso Malta {BIO 21276941 <GO>}

Good morning, Sattamini. Good morning to all of you. We go on to Slide number 20, where you see our financial performance. We observe a drop on net equity. Now basically there was an increase in EBITDA, and we invested more. To the right, we show you our financial performance in the last five years. We had total investments during the period of BRL19 billion, with the high leverage rate but maintaining comfortable leverage rates. Our installed capacity rose by 24%. We had the acquisition of TAG and the entry into transmission to diversify our business. Our EBITDA rose 74%, net income with an increase of 66%. Now the total dividends and interest on shareholders capital distributed in this five-year period was up BRL9.1 million.

On Slide 21, we show you the evolution of our operating revenue -- net operating revenue, it went from BRL2,687 [ph] million in the second quarter, to BRL3,133 million during this quarter, an increase of 16.6%. The main impact as mentioned previously by Mr. Sattamini, arises from our transmission assets. We had an increase of BRL342 million, this is an accounting impact, not a financial impact caused by the progress in the works in Gralha Azul and Novo Estado, and also due to the monetary restatement of assets linked to transmission. We had an evolution of our revenues with trading operations adding BRL44 million to our revenue. On the other hand, we have the recurrent cost of the operations of BRL42 million. And you can see the EBITDA variations. Our gross margin with trading operations, which was of BRL2 million.

We had increases in revenue especially due to the increase of prices -- our sales prices. We have contracts based on IGPM and IPCA, simply as the information we have a stock of contracts indexed to IGPM of BRL5.5 billion. This is one of the reasons why our average price sale increased. And we also had an increase in the volume of energy purchase. We had the Jaguará and Miranda assets representing BRL67 million, a reduction in operating revenue, due to non-recurring events in the first quarter of 2020. We won a judicial action for (inaudible), took place during that quarter.

In the next slide, we show you the results of TAG. As you can see, TAG ended the semester with a net income of BRL453 million and our stake was of BRL147 million.

Next, Slide number 23, the evolution of EBITDA. And here we have segregated the non-recurring events. We have a better basis of comparison between the quarter EBITDAs. Adjusted EBITDA in the second quarter of 2020 was BRL1,280 million, and the adjusted EBITDA in the second quarter of '21 was BRL1,532 million, an increase of 19.7%. The main impact here was economic, once again, because of the transmission assets, as mentioned previously.

As a positive effect, we have equity equivalents on the TAG results during the two quarters, BRL57 million. We had an increase in prices, as well as energy volumes as mentioned beforehand. And the payment of some assets and a significant reduction in the energy volumes purchased in our portfolio. This was something that we expected and was caused by the coming into operation of Campo Largo II. As negative impacts on EBITDA, we have the GSF, with an impact during this quarter. And simply as information, in the second quarter, it represented BRL75 and in the second quarter of this year BRL203. And of course, this has a slight negative impact on our results.

And if we consider variations among the quarters, this represents BRL59 million. Another reason for the reduction of EBITDA is something we expected, was an increase in the consumption of fuel, due to the greater thermoelectric generation, due to the hydrological crisis that we are witnessing. Other variations in our results and in our EBITDA were also expected. The consumption of third-party material and services, this refers to main tenants that we carried out during this quarter, leading us to consume more material and third-party services. We also had a higher hydrological generation vis-a-vis the past quarter, which increased the cost of royalties. Additionally, we see the increase of the network charges, because of the coming into operation of Campo Largo. And well we're investing in the structure for the operation of Novo Estado and Gralha Azul. And of course, this has demanded a new structure in terms of personal, and it increased our personnel costs. Therefore, these are the three factors which I have just mentioned, that have led to this negative variation in our EBITDA, something that we had already expected.

On Slide 24. The evolution of our net income, as mentioned by Mr. Sattamini, a significant reduction caused by some drivers. The main driver was the monetary restatement and interest, that we had during the quarter, especially the IGPM variation on the balance of concessions to pay. We have approximately BRL4 billion of concessions to pay, all of which are indexed to the IGPM. And this led to an increase in financial expenses of BRL181 million. Other effects were the applying the IPCA on the balance of our debt. This generated an increase in our financial expenses of BRL230 million, and the increase of interest on debts and concessions to pay, adding BRL100 million to our financial expenses. One of the justifications, besides the evolution of the inflationary index is the reduction of our leverage during this period.

Now, besides the impacts on the financial result, we had the impairment that corresponds to something that we expected of loss of capital with the sale of Jorge Lacerda assets. Now if we exclude these effects and the non-recurring events that have been recognized

in the second quarter of 2020, we would have an impact on our net income of 28%, a reduction of 28% in our net income due to non-recurring effects.

On Slide number 25, we share with you our debt. We had a slight increase in our gross indebtedness, because of the withdrawals of loans with the (inaudible) and the Amazon Bank to finance Gralha Azul and Novo Estado. And additional withdrawals (inaudible) is a complement for the Novo Estado funding. Our cash for the quarter stood at BRL5 billion, which means that our net debt at the end of the quarter stood at BRL13 billion.

On Slide 26, our debt profile and composition, you can observe a balance in the last three years. And the amounts that will mature in the coming 12 months are indexed to the IPCA, and a significant part have a fixed rate. And in other years, we have a significant part indexed to IPCA, in terms of our total indebtedness, 70% of the debt is indexed to IPCA. And we have TJLP and fixed rates, and our debt once again increased because of inflation. It has gone to 11.2%, as nominal cost, and the average term of the debt is 6.9 years.

In the following slide, you will see our investments. We have had an expressive volume. In 2021, the expectation is to invest BRL3.7 billion, especially in the construction of Novo Estado and Gralha Azul, the conclusion of Campo Largo and the implementation of another asset. In 2022-2023, we will have the investments for Santo Agostinho.

And finally on Slide 28, the history of our dividend policy. This quarter we're going to pay out the total net income BRL719 million, approximately. Very well, that is what I had to present.

I would now like to give the floor to Rafael.

Rafael Bosio

Thank you, Malta and Sattamini. I think with this, we can go on to the question-and-answer session. We're going to begin with the questions that have come through the phone and continue with the questions in our chat. Please feel at ease to post your questions, we're at your entire disposal.

Questions And Answers

Operator

Thank you, ladies and gentlemen, we will now go on to the question-and-answer session. (Operator Instructions).

A - Rafael Bosio

It seems we have no questions over the phone, I'm now checking the questions that came in through the chat.

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Bloomberg Transcript

Sattamini, the first question is from a individual investor. Who asked about the gas sector and TAG, which are the outlooks for TAG, due to the new gas law? And can we have an explicit volume increase in the volume transported in the medium and long-term? And if natural gas will become ever more popular in Brazil, aiding and abetting the industry of the country? Sattamini, your microphone is muted.

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

Thank you for the question. This is a question we most here in our lives. Well, thank you once again for the question. The new gas law is here to try to create a more favorable business environment for the trading of gas, for transport and distribution. Now for the gas sector to be able to grow in a process of a practical monopoly on the segment, in our understanding we have to have some elements in place, to have a truly effective gas market. We begin to see signs of this. We have signed contracts, even with a full capacity geared to Petrobras. We have begun to sign more flexible contracts with some of the users of the pipelines. So that they can use gas in their production. This is the case of Unigel. Their system was closed down. It has opened again and when we took on the TAG operation, and this is something that happens gradually, it will not happen overnight, this new market structure. But we do observe some interesting movements, a greater market opening. And of course this will lead to an increase in volume and make gas more popular, creating an environment where the price will become more accessible. And this will impact the transportation market. The existence of a monopoly is rather harmful. It doesn't demand the efficiency of operators and the margins are highly unequal. We have great expectations for TAG to become a good investment platform for investments in gas in coming years, and we will have growth due to this.

A - Rafael Bosio

Thank you, Sattamini. Another question from an individual investor from the (inaudible) Group.

Good morning and thank you for the information. Although this is counterintuitive in a moment of hydrological risk. Are you thinking of acquiring some of the assets that EDP will sell-off?

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

Well, the question is interesting, very smart, of course. The hydrological crisis is a condition and the acquisition has to take into account our expectation in terms of what will happen with hydrology and the future. We also have a price expectation, a market growth expectation. And our perception is that we should always look upon assets that have some type of synergy, and that are part of our core work. We can look at everything of course, but we do have an eye on good assets, the EDP assets are good. We have held conversations, we won't necessarily acquire them. We have a good return equation, and of course we're debating this. There is no guidance that we will conclude this process, but we continue observing what is happening.

A - Rafael Bosio

Thank you, Sattamini. We have some strategic questions, and I will pose them for you.

The third question from an individual investor on solar generation, if we're going to continue to expand as we have shown with the proposal of acquiring these two new projects. And the question is, depending on China for the manufacture of (inaudible) this represent a risk of a price increase?

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

Well, solar energy, of course, this is part of our strategy. The strategy of ENGIE Brasil Energia is to grow in energy infrastructure with renewables. So, it would be a perfect fit. We're looking at solar parks. We're acquiring the solar parks of the controlling company. We have developed some outlook in terms of this, and everything will depend on China as they create production park worldwide. We'll have to adapt to that. And if they have enormous market power regarding this type of material, if this will increase the price of equipment and technology, all of this will have an impact on the competitiveness of this source, vis-a-vis other sources. If we have an exaggerated increase in the price of panels from the Chinese market, solar energy will become less competitive. We will have less parks, and of course they will be forced to review their prices. At least this is my perception.

Wind energy, until last year had greater energy, had a lower cost in terms of implementation. The generation megawatt hour had a lower cost, but slowly this is changing, but we still haven't gone to the point where we have balance. Perhaps very soon, they will produce these panels a greater scale at lower prices. And in the last few months, we had a heavy component, the price of logistics, where the prices have soared and the transport of the equipment, the long-haul price has increased to great deal. So we're at a moment, where the price has not been well defined. We had a huge increase in costs after the pandemic. And after the hurricane of the pandemic in June, July of last year, we began to observe a recovery of the markets and a increase in the price of commodities. And of course, this has an impact on the different technologies. We have to wait a bit for the dust to settle to have a long-term vision in terms of the competitiveness of each source of energy.

A - Rafael Bosio

Thank you, Sattamini. We have received several questions. I will put together two questions that refer to the hydrological crisis, a question of Henrique Peretti and Lilyanna from HSBC and J.P. Morgan.

Which is the outlook in terms of the hydrological crisis and perhaps a potential rationing in 2022?

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

Well, the level of the reservoirs are truly very low and the outlook for hydrology is not the best. We're going to have to tread very carefully on this path. The government at present has more tools to be able to deal with the hydrological crisis compared to 2001 [ph], where we had rationing the hydroelectric capacity is much greater. And the government has also set forth some programs to move the demand around to stimulate a reduction in consumption. I think it will be very difficult to have rationing. I don't believe it will be

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announced. What may happen, that we will have specific blackouts during some hours of the day, moments of peak. And the operator will have to select, which is the energy that has to be cut. This is the outlook for future energy. But rationing, the probability is still rather distant. For a hydroelectric generator, the rationing would be very positive. This means that everybody would have to reduce their consumption. And with this, the pressure also decreases when they stimulated a reduction of consumption. Consumption is reduced and it reduces the pressure on the system as a whole, but this does not reduce the generators, contractual obligation. It's a difficult situation to resolve, more difficult than rationing. While rationing has a political cost, especially in an electoral year, such as 2022, it could have a very negative impact for the government.

We imagine that we won't have rationing that this entire process will be managed. There are better tools of management at present, vis-a-vis what we had 20 years ago.

A - Rafael Bosio

Thank you, Sattamini. Very good. A question referring to the Novo Estado project, Aleeni [ph] Paulo, an Individual Investor. Asks about the financial impact of the accident and the measures that have been taken to avoid this happening again?

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

At this point in time, we are not concerned with the financial aspects. Our concern is to service the families, to work with our subcontractor in terms of safety measures to gain an understanding of the accident. We have a hint of what caused the accident, and to set up a mitigation program, an action plan, so that we can resume work. We can once again assemble the cables which is where the accident occurred, but to do this safely.

What I can convey to you is that, we're very calm, that all of this has been done in a very expeditious way and a very competent way through the SK team. And we imagine that the impact on time, the financial impact will not be very relevant. What is relevant in the long-term is to contain this properly. And if it delays the projects, the delay will be limited. But of course, all of this will depend on the final report and all of the actions that have been set forth. We are pushing back on one of these actions and they will be contained in the recommendations of the experts, a test of all of the foundations of this type of foundation with an (inaudible), which is what caused the accident.

A - Rafael Bosio

Thank you. Thank you, Sattamini. A question now referring to the dividend policy, coming from an individual investor, Paulo. The Board has described an impact on the payout of dividends due to the income tax reform, if there will be an impact on the shareholder?

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

Well, we -- it is natural and we can't avoid this. Of course, the taxation of legal entities and the impact of this tax will of course have an impact on what the shareholder will have. If we pay out less, we will be able to reduce this. If we pay out 100% of our income because of the reform at present for the investor, it will represent a slight increase in their tax burden. The company will pay out less, but a part of this will go to the IRRF. If we pay out a

100% of the income, it's possible that we will have an increase in the tax burden for the shareholder and perhaps a reduction in our tax burden for the company. Malta, perhaps you would like to add something? You're the expert in this.

A - Marcelo Cardoso Malta {BIO 21276941 <GO>}

I think that you, you have it, Sattamini. What I can add as information, by exploring what you have mentioned, is the company doubtlessly will have a reduction in its income tax. This reduction in the first year will be 7.5%, 10% for the second year and 12.5% for the third year. And this would lead to a significant reduction of income tax. And then, which means investors would be taxed by 20%. But on the other hand, they would receive a greater amount of dividends. So the impact for the shareholder will end up being the net of these two effects when the company pays out 100% of the profit.

A - Rafael Bosio

Very well, Malta. Thank you very much.

We have some questions that relate to the sale of our assets based on coal. A question from Daniel from Safra Bank. He has asked for an update in the process from Pampa Sul. And he adds, if there is a schedule to replace this capacity, that we will lose through the sale of these assets, if we can replace this with renewable energy. You're on mute, Mr. Sattamini.

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

Very well. As I mentioned the negotiation is advancing permanently, and we're negotiating the terms of the purchase and sale agreement. We believe that until the end of August this process should be concluded. The issue of energy, we still have the obligation to contract energy until 2024. And we have to guarantee a minimum cash flow for the buyer in the first few years. From then onwards, they buyer will sell directly in the market and five ways to extend the operation through existing business. And they'll have to work on their strategy for the plan. Now what we are doing, we're increasing by 400 or 500 megawatts, the installed capacity per year. This is our goal and with this, we're going to gradually replace the energy that we no longer will have in our portfolio. The exit of Jorge Lacerda nowadays would create a gap in our portfolio.

We could not leave the energy uncontracted, and we continue to contract energy in the portfolio to avoid this GAAP. As Jorge Lacerda is not a plant that sells fully in the regulated market. The sale of this asset will not have an impact on our contracts, it will not cause an imbalance in our portfolio. Now the Pampa process is somewhat more lagging behind. It began by receiving non-binding offers. We selected a few of the offers, a few participants for the second stage. There is a due diligence stage. And of course, this takes time, it requires visits and much more. And this will enable the parties to make their final offers and we will decide whether we proceed or not with one of the parties, to negotiate the final contract.

The expectation is to have this operation concluded until the end of the year. But allow time for these parties to carry out their analysis and feel safe in terms of the capacity of

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the plant. And element that should be kept in mind is the transmission line can deal that too, that will only be ready in the month of November. And we must make sure that this plant won't be displaced through by imports. Because of the situation and the level of reservoirs, the risk levels are still high and risk aversion will lead us to contracting imports. So, the buyer will have to be sure that all of this is in place to avoid the risk. This is a process that will continue on, based on this guidance, based on this definition, that we're going to advance if and whenever the risks have been mitigated, so that buyers can feel safe and so that the offer will be the best for us.

A - Rafael Bosio

Thank you, Sattamini.

We have a high volume of questions, but we have gone beyond our time. So, I will select a question from another segment, so that we can hit for the closing of the call. We will respond to all of the questions that have not been addressed here through the Investor Relations group by e-mail.

A question from an individual investor who asks about our interest to continue to invest in the transmission sector.

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

We made the decision to investigate our business and for company that invest in energy way back in 2016. This is a decision that we made. And based on this, we entered the gas transport segment through TAG. We continue to be interested in acting in that segment. But we have realized there is a greater difficulty in terms of occupational safety. In some of the lines, the Novo Estado line for example has 1,800 kilometers. And despite the fact, that we used all the technology, resorted to care the best follow-up of the work processes. We have a 110 people involved in quality and safety acting in the region, when we compare this to other companies in the sector, the number is high. But we did have this situation, of course, this will not change our strategic focus. What it will do, will force us to adopt strategies, so that we can proceed with greater safety.

A - Rafael Bosio

Thank you, Sattamini. Thank you Malta. With this we will now end the question-and-answer session, and I return the floor for the closing remarks. Malta?

A - Marcelo Cardoso Malta {BIO 21276941 <GO>}

Thank you. Thank you for the opportunity to converse on our results. And we hope to see you during the next quarter. Thank you very much for your participation, for the questions. Unfortunately, time is short, we do have more work, but I was very impressed with the quality of the questions, the interest. And of course we would like to speak to you during the entire quarter. I'm at your disposal to answer your questions, and we expect you with good news for the coming quarter.

Operator

Thank you. The ENGIE Brasil Energia call ends here. We would like to thank all of you for your participation. Have a good afternoon, and thank you for using Voitel.

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