ENGIE BRASIL ENERGIA S.A.

TELECONFERENCE TRANSCRIPT

ANEEL AUCTION 01/2017

September 27, 2017 – 5:00 p.m. (Brasília Time Zone)

Operator:

*Good afternoon. This is the ENGIE Brasil Energia teleconference, which will discuss the outcome of ANEEL Auction 01/2017. All participants are connected as listeners only, and the Q&A session will open later, at which time instructions for participation will be provided. Should you require assistance from an operator during the teleconference, just press star-zero (*0). It is worth mentioning that this teleconference is being recorded.*

Present with us today are Chief Financial and Investor Relations Officer Mr. Carlos Freitas and Investor Relations Manager Mr. Rafael Bósio, who will comment on ENGIE Brasil Energia's performance in ANEEL auction 01/2017. Immediately thereafter they will answer any questions offered.

We would like to point out that journalists who wish to ask questions may do so by email to the Company's Press Relations Office. I now give the floor to Mr. Carlos Freitas. Please, Mr. Freitas, do proceed.

Carlos Freitas – Chief Financial and Investor Relations Officer:

Thank you, operator, and good afternoon, everyone. It is a pleasure to be here with you today to comment briefly on this morning's successful auction. And in line with our policy of transparency before the market, I wanted to have this conference call on the date of the auction, today that is, to be able to convey to you ladies and gentlemen what we may in connection with these plans, how they will be financed, etc.

We have prepared a few slides that are available from the company's Website and I imagine that you must have all downloaded it by now; otherwise, there's still time to do it. In brief, and already in connection with this material, as you know, there were four plants going on auction, the four that Cemig operated, and we won the Jaguara Plant and the Miranda Plant, Lots B and C, which are two excellent assets, assets that, taken together, add up to just over 800 MW installed, and will add increase our installed power by 12%. This is therefore significant growth, and from an asset that is in operation, a good asset aligned with the company's core business and at the heart of the Southeast's load center.

Bear in mind that we are now the biggest player in Brazil's Free Energy Market, operating with several plants, most of which are here in the South of Brazil. We actually have a few plants in the Mid-West and the Southeast, but they are allocated, and have been measured for the regulated market. So, to mitigate the sub-market risk, which is always present, it is ideal to have a little generation, or as much generation as possible, near

the customer. So, here we will have 30% of these medium-sized businesses, Jaguara and Miranda, allocated to the Free Market, with the remainder for quotas.

In slide three of the material, we lay out the auction's characteristics. For emphasis, 70% for the ACR (*Ambiente de Contratação Regulado* – Regulated Contracting Environment) without GSF (Generation Scaling Factor), that is, with no hydrological risk, and 30% without GSF, hydrological risk, bound set aside for the Free Market. The granting bonus that we will pay is of around R$ 3.5 billion, and this must be paid up-front, in a lump payment de two months from now. And for a 30-year concession period after the end of the assisted operation, to be carried out by Cemig over the following months as a transition period between Cemig and ENGIE. So, slide number 3 here shows the main features of the plants, the GAG (*Gestão dos Ativos de Geração* – Generation Assets Management) and the RBO (*Receita de Bonificação por Outorga – Granting Bonus Revenue), which make up the RAG* (*Receita Anual de Geração* – Annual Generation Revenue), which is these plants' actual revenue and adds up, as you can see here, for B and C, to R$ 535 million. This is the equivalent if it were all ACR. In practice, the total expected revenue from these plants will be higher, since we expect to sell 30% on the free market, above the price of the quotas. In our case, the average price for quotas is R$ 113 MW/hour. We expect to sell above that on the Free Market. So the effective revenue from these projects will exceed those R$ 535 million.

And then, the final slide has a series of bullet points to better explain what we're buying. First, that this annual generation revenue, the RAG, is indexed to the IPCA [inflation index], which is good, and is in line with the company's existing revenues. Like I said, the GSF does not exist in the quotas part, but does for the energy earmarked for the Mercado Livre, which will complement the EBE portfolio. What's the idea? The idea is that at the companies or the company that owns the concession, we will have an SPE (*Sociedade de Propósito Específico* – Specific Purpose Entity) for this purpose. We will retain this company, bring the power from these two energies up to complement our trading company's portfolio and them assemble products and go on working like we do, selling energy on the free market under three-, four-, five-, six-year PPAs. This energy, these 30%, will flow up into our trading company to allow complementing the portfolio. The concession agreement will be entered into on November 10 and the granting bonus has to be paid by November 30. That is, we have two months to pay the bonus. Like I said, there will be an assisted-operation period under Cemig; it will be a six-month period. The effective, actual, period is yet to be set, and we must wait in part for entry into the concession agreement. And so on November 10 we will determine the period, six months, three months, but a few months in any case. During these months, Cemig will collect the GAG; we will collect the RBO after entry into the concession agreement, that is after November 10, and we will collect the GAG, which is for O&M and Improvements, when operation shifts to us, where it will remain for 30 years. That is, the concession is for 30 years from the end of the assisted-operation period. We're talking about a projection that begins next year.

There's maintenance investments that we will use, we think that they set down those figure there to define the Improvements GAG, that is, as concerns project improvements, it's a reasonable amount. We still have to drill down into the details to understand what has to be done, but we don't see major CAPEX in the next few years in either of the two plants, they are every good plants. Miranda is a rather new plant, in relative terms, it's just 19 years old, so it's in line with several other plants that we already have at ENGIE Brasil Energia, and we're familiar with these plants' operational and maintenance cost. Jaguara is a bit older, there may be some CAPEX required there before Miranda, but nothing major in the next five years.

Financing: this R$3.5 billion granting bonus is going to be financed, we are thinking of financing 100% of it. We always mention that the Company's leverage is below optimal, that in late June our Net Debt/EBITDA was at 0.4. And we always mention that there's room for improvement in our leverage, but that we were going to do that with growth. And there's the growth, we are going to finance 100% of the R$ 3.5 billion with debt, some of it is going to be structured at the SPEs' or the SPE's level, and another part at ENGIE's level. That is, it will be financed as project finance within the SPE. , but there will be a takeout next year at the SPE's level. In addition, there will also be the upper treatment, like I said, at the level of EBE, of ENGIE Brasil Energia, to enable financing the equity. We will be discussing banking deals, stock market operations, debentures, etc. But the idea is to use 100% debt financing, and debt denominated in Brazilian Reais.

Finally, there's the question that's always asked, so let me get it out of the way: the project's return is in line with what we've been doing in the past 20 years with a financial system track record that is an ENGIE trait. We don't disclose the return on any projects, all that I can say is that the return is in line with our financial discipline, and that we always add a certain spread to our cost of capital before going into an investment. So we estimate in terms of risk/return, but clearly these projects will generate value for the Company.

Well this is what I had to say on my end, and I'd like to open the floor to questions now.

Operator:

*Ladies and gentlemen, we will now begin the Q&A session. To ask a question, press star-one (*1). To remove a question from the list, press star-two (*2). Please wait as we collect the questions. The first question is from UBS's Mr. Marcelo Sá. Mr. Sá, please go on.*

Marcelo Sá – UBS:

Hi, everyone, thanks for the conference call. I have a few questions. The first one, which caught the eye of many, is why didn't you bid for lot A, the São Simão lot? We thought that because of its size, you would be very interested, but then you didn't bid and the Chinese got it for a relatively small bonus. So that's my first question. The second is, could you give us a little more in terms of what you are seeing in terms of energy prices in the long run. When you look at the Dcide, you can see that the price is in the high R$

150 to R$ 160; but when you look at the long-run curve at which energy is being marketed, it's closer to R$ 140. So I wanted to understand how you are seeing the long-run price. Finally, as for funding cost, we saw some companies recently, like Equatorial, issuing debt at inflation + 5.5%. I was wondering whether this cost of funding makes sense to you, or if yours would be a little higher, what can you tell us about this? Thank you.

Carlos Freitas – Chief Financial and Investor Relations Officer:
Thank you for your questions, Marcelo, let's take them in parts. We looked at São Simão, but we thought that the bid size was very high and the São Simão asset itself required significant CAPEX as well. This, in fact, is why the premium on São Simão is smaller, because it's not as interesting as, say, Miranda. But the reason why we didn't bid on São Simão is because we set a ceiling size that we would like to go into, a minimum estimated return, and there was the check size, we wanted to put on the table a check for R$ 3.5 billion, which is 12% of the company's worth. So we thought it was better to stay out of São Simão and focus on the two better plants, which we understood to be B and C, Jaguara and Miranda.
Energy prices. Indeed, for us, like it has been for us as in the latest call, July's I think, it stays more or less the same. We see the long-run energy price hovering between R$ 150 and R$ 160. That is, R$ 155 on average. This price hasn't changed much, what varies widely is the short-tern price, but the price-trend for energy is a given, what we now see as cost and expansion, etc., and demand-supply dynamics, somewhere between R$ 150 and R$ 160 is reasonable.
As for cost of funding, we are not at this time disclosing the cost of funding, but will be looking at several sources of funding, it may be shorter-term bank financing, or it may be longer-term, based on debentures. One interesting thing to find out is that the granting bonus payment may be used as underlying asset for infrastructure debentures, income-tax matters. So, clearly, if we issue a debenture, we will try to maximize the infra kind, which has been coming out at bare-bones NTN-B rates. So, depending on timing, depending on the kind of underlying asset we will be able to substantiate, and easily substantiate, I think we will be able to do a competitive issue.

Marcelo Sá – UBA:
That's great, thank you very much.

Operator:
Our next question comes from Santander's Mr. André Sampaio, do Santander. Mr. Sampaio, please proceed.

André Sampaio – Santander:

How are you. Good Afternoon. I have just one question, I suppose in connection with the potential for premium amortization. We would like to know if you see any benefits in potentially amortizing the premium in the future, over the course of the project.

Carlos Freitas – Chief Financial and Investor Relations Officer:
No, actually, under current IFRS rules, you no longer have free-value and premium situations. What you do have is one financial and one intangible asset. The financial asset is nothing more than this concession for the use of a public asset that is bound to the ACR. This is amortized over time. So there's no longer a premium like there used to be.

Rafael Bósio – Investor Relations Manager:
André, this is Rafael speaking. I'd just like to point out that we look at the premium over the auction's reference price. The granting bonus that ENGIE and the others offered is the amount that will go on the books. At that point, there is no premium.

André Sampaio – Santander:
I see, it's very clear. Thank you.

Operator:
*Again, to ask a question, just press star-one (*1). Please hold on while we collect the questions. Ladies and gentlemen, please hold on while we collect the questions. The next question comes from Statkraft's Ms. Fabíola Sena, Ms. Sena, please go on.*

Fabíola Sena – *Statkraft*:
Good afternoon, Carlos, good afternoon, Rafael. I have a very simple question, the Bidding Notice condition concerning physical guarantee review, does that impact just the 30% or the 70%? And if it does impact the 70%, will there be a revenue review? Thank you.

Carlos Freitas – Chief Financial and Investor Relations Officer:
No, Fabíola, we don't anticipate any revenue reviews at this time.

Operator:
Our next question comes from Safari Capital's Mr. Rafael Almeida. Please go on, Mr. Almeida.

Rafael Almeida – Safari Capital:
Good afternoon. I'd just like an update on what ENGIE's appetite for new investments, if after this auction you are still looking at any growth opportunities, or even the next transmission auction, which was something that you talked about looking into. Mostly

to get a sense of whether you are still looking at assets and, if so, which you find most interesting.

Carlos Freitas – Chief Financial and Investor Relations Officer:
Thank you. Yes, we do have the appetite for more and are looking at other choices. For example, we are looking at transmission again. Since there's an auction in April, we are now evaluating joining the December auction. It's a strategic vision for the company to expand into transmission. So we see that there's an interesting market, that there is a demand, and we are looking fondly at the December transmission auction. The same applies to new energy; to illustrate, in December last year we were ready to bid on a reasonable, relevantly sized wind farm, in an auction that got cancelled. So now, in addition to this wind farm, other wind farms and solar plants in our pipeline that we can trigger through the new-energy auction. And then we will also invest in greenfield. Furthermore, there's obviously the project that we are buying from Renova, which is a new market. It is also a wind farm with a big CAPEX of around R$ 2 billion. We have already closed the deal on the purchase agreement, but there remain a few very minor precedent matters that we are addressing. So there's a range of interesting opportunities at this point in Brazil, and we will be looking at them.

Rafael Almeida – Safari Capital:
Do you have a sense of the size of your appetite, how much CAPEX at the most you are considering, or a new project, or don't you have a clear figure in mind?

Carlos Freitas – Chief Financial and Investor Relations Officer:
No, not for now. In the last transmission auction, in April, our appetite was around R$ 2 billion to R$ 2.5 billion, and CAPEX. In theory, the amount remains the same, in the magnitude of billions.

Rafael Almeida – Safari Capital:
That's great. Thank you very much for the conference call and for your answers.

Carlos Freitas – Chief Financial and Investor Relations Officer:
Thank you.

Operator:
Our next question is from Santander's Mr. André Sampaio. Mr. Sampaio, please go on.

André Sampaio – Santander:
Let me ask you another question. I'd like to confirm whether you felt that the O&M GAG is sufficient for the plants. Or whether you see some disparity with the actual cost there.

Carlos Freitas – Chief Financial and Investor Relations Officer:
Thank you, André. We looked at the improvements GAG and estimated it as a reasonable amount. In principle, we don't see a major gap there, either positive or negative. And, like I said, we will take a longer look at it once we begin operating the plant, what kind of optimization will be needed on the CAPEX level, on the improvements level. I believe that these are good assets, they are well operated, Cemig is a good operator, we were on-site, visited the plants, and were satisfied with the outcome. So we estimate that the required CAPEX for improvements over the concession period is well remunerated with the improvements GAG.

André Sampaio – Santander:
And as for the O&M GAG, do you feel the same way?

Carlos Freitas – Chief Financial and Investor Relations Officer:
Yes, the same way. It's the same thing, we thing that it's a reasonable amount.

André Sampaio – Santander:
Ok, great. Thank you.

Carlos Freitas – Chief Financial and Investor Relations Officer:
It is important to emphasize that, over the coming months, and before going taking over operations at the plant, we will refine the O&M and CAPEX amounts. But our view today is that the GAGs are reasonable.

André Sampaio – Santander:
Thank you very much.

Carlos Freitas – Chief Financial and Investor Relations Officer:
Thank you.

Operator:
Our next question comes from J.P.Morgan's Carolina Yamaguchi. Please go on, Ms. Yamaguchi.

Carolina Yamaguchi – J.P.Morgan:
Hello, Carlos. I'd just like to know if you could share with is the GSF assumptions that you are making for the free-market portion.

Carlos Freitas – Chief Financial and Investor Relations Officer:
Sorry, what? GSF?

Carolina Yamaguchi – J.P.Morgan:
Yes. The GSF assumptions that you are making for the free market. Because 30% will be sold on the Free Market, right? And our understanding is that this portion is in fact subject to GSF.

Carlos Freitas – Chief Financial and Investor Relations Officer:
No, sadly I can't comment on that, Carolina. The information is strategic for us. If we disclose it, we will be giving information to the market, to the competition, and if they have to buy or sell energy it'll be weaker.

Rafael Bósio – Investor Relations Manager:
But you're right. The 30% are subject to the GSF. On the other hand, the ACR, which is in the quotas, has no exposure.

Carolina Yamaguchi – J.P.Morgan:
All right. Thank you.

Carlos Freitas – Chief Financial and Investor Relations Officer:
Thank you.

Operator:
We have come to the end of the Q&A session. I'd like to give the floor back to Mr. Carlos Freitas for his closing statement. Mr. Freitas, please go on.

Carlos Freitas – Chief Financial and Investor Relations Officer:
Well, just to conclude and underline the message that this auction confirms ENGIE's interest in investing in Brazil, it confirms our financial discipline of investing in good projects that add shareholder value, and it will be 100% financed. So, that is, to underline what we have said before, about improving the Company's financial profile and balance sheet through growth. One point that I didn't mention before is that these 30-year concessions also increase the Company's current average duration, as part of the company holds concessions that will expire 11 years from now. So, now, with these additional 800 MW for 30 years, starting next year we will increase the remaining duration of the Company's concessions.
In closing, I'm very happy with the outcome, I think it was great teamwork that signals ENGIE's drive for growth in Brazil. Thank you.

Operator:
The ENGIE Brasil Energia teleconference is over. Thank you all for attending, and have a good afternoon. Thank you for using Voitel.