**Local Conference Call**

**ENGIE Brasil Energia**

**Transcription of the Conference Call for 3Q16 Results**

**October 28, 2016**

**Operator:**

*Good morning. This is the conference call of ENGIE Brasil Energia for discussing the Company's third quarter 2016 results. All participants are connected in a listen-only mode. Later we will open up the call for the question and answer session when instructions for participating will be given. Should you need the help of an operator during the conference call, just touch *0 (asterisk zero). We would like to remind you that this conference call is being recorded. The presentation with the respective slides will be transmitted simultaneously on the internet through the www.engieenergia.com.br, in the "Investor" section. By accessing this section, you can also obtain a copy of the presentation and the release of the Company's results. Before proceeding, we would like to clarify that any forward-looking statements that may be made during this conference call with respect to the business outlook for the company should be treated as forecasts, independently of the economic scenario for the country, performance and electric sector regulations as well as other variations, and are therefore subject to change. With us today are* ***Eduardo Sattamini****, Chief Executive, Financial and Investor Relations Officer of ENGIE Brasil Energia and* ***Rafael Bósio****, Investor Relations Manager, both of whom will comment on ENGIE's performance in the third quarter 2016 and will present an update on the work at Jirau HPP. Immediately afterwards, we will take any questions that you may have. I would now like to turn the call over to Eduardo Sattamini. Mr. Sattamini, please go ahead.*

**Eduardo Sattamini – Chief Executive, Financial and Investor Relations Officer of ENGIE Brasil Energia:**

Good morning to all. I would like to thank you for taking part in the call and also point out that this long title of chief executive, financial and investor relations officer will, come January, cease to be quite so long. From January, my focus will be on the job of chief executive officer since in that month, Carlos Freitas will be joining us. Carlos is a former

financial manager here who for the past three years has held the position of CFO of E-CL, another listed company of ours in Chile. He knows our Company well having worked with us as well as being with the Group for nearly 16 to 17 years. He will bring considerable additional value to us. It is very gratifying to have Carlos Freitas with us and also to know that I can concentrate a little more on strategic matters, albeit without ceasing to look after our investors during this next cycle.

Let's begin with slide 4, the financial highlights and the Company's leading financial and operational indicators - always with the caveat that quarterly comparisons may be distorted by allocation strategy, by hydrological conditions and their reflection on short-term prices, which can make it difficult to compare the numbers. We always point this out although you will all be well aware of this situation. Talking first a little about revenue, there was a slight decline between the third quarter 2015 and the third quarter 2016, principally due to operations in the short-term market. In the market, we have seen prices rising quarter by quarter below inflation, a natural situation. Last year, we had contracts with very high values due to the similarly high prices of 2014, we had sold 2015 contracts with very high prices. We also bought energy for trading purposes at that time. So purchase prices for the 2015 were contaminated by the extremely high price of 2014 and reflected in 2015. So there was a small dip of 2.3% in revenue 3Q15 X 3Q16 and 0.6% for the accumulated nine month period year-on-year. However, the result for operations saw a small improvement of 4.9% comparing the same quarters in 2015 and 2016, while on a nine month comparative basis for the two years the improvement was a little more substantial at 10.8%. This was largely driven by the cost of energy sold and we will be able to see the breakdown of these aspects a little later on in the presentation. EBITDA then was 4.6% higher in the quarter and 9.5% higher when comparing the first nine months for the two years. This has boosted our margin from 47.1% to 50.4%. In the quarter, net income rose 14.2%, increasing from R$ 347.6 million in the third quarter 2015 to R$ 396.9 in the third quarter 2016. And again on a nine-month comparative basis, growing 19% from R$ 901.6 million in 2015 to R$ 1.072 billion in 2016. The reduction in financial expenses was particularly significant here, the Company's cash balance being notably high. We pursued a strategy of retaining earnings last year due to the economic uncertainty, interest rates, ongoing projects, concerns surrounding the ability to draw down BNDES financing. This proved to be a wise decision since in practice we had some difficulty in drawing down BNDES funding while interest rates were also extremely high

at the outset of the year. The situation is normalizing and for this reason, we no longer need to retain cash. The company is a cash cow and we should return to lower levels of liquidity. We saw a reduction in power production principally due to less output from thermal sources. Prices at below PLD imply reduced dispatch from thermoelectric sources. The effective thermoelectric dispatch will be a reflection of plant inflexibility. The hydroelectric plants also experienced a significant 7.3% decline while the complementary plants produced 2.4% less energy. Worth pointing out here is that energy output is not necessarily linked to the profitability of the Company. We have already commented on an increase of 4.9% in net sales price when comparing quarters and 5.6% for the first nine months of each year. Remembering that prices did not increase the inflation because in 2015 they were already abnormally high for short-term contracts. In terms of numbers on the payroll, we had a reduction in employee numbers, principally a reflection of the voluntary severance package, which we have on offer. In reality, this voluntary severance package is a retirement plan, programmed retirement. The first group of people left in April 2016. A second group will leave in November 2016, representing one more adjustment in head count in 2016. However, it is worth pointing out that as new projects are implemented and gain traction and develop, we will have to do some additional hiring in order to handle these projects. Our idea is that from now on we will have a number of new hires for implementing the projects and these hires will be separate from the permanent work force of the Company, the new hires being a temporary workforce consisting of those employees taken on for given functions while work on the projects is being executed.

Let's move on to slide 5 for more highlights. The first highlight is that the Santa Mônica Wind Complex began generating through the Santa Mônica Wind Farm with a capacity of 18.9 MW. This first wind farm began operations on a test basis in the second quarter and is now fully operational with all seven wind turbines have been in commercial operation since early October. We will have cause to talk later about the project as whole and the situation of the other wind farms in the Complex. We were also recipients of the Expression of Ecology Award at the State of Santa Catarina Industries Federation's Sustainable Management Forum in recognition of our Cidade Azul Photovoltaic R&D project located close to our Jorge Lacerda Plant. For some time, this project was the largest photovoltaic plant in Brazil, with a capacity of 3MW, although today this is no longer the case. We already have other larger plants in Brazil but this is the one that

received the Sustainable Management Forum's Sustainable Development in Ecology Award.

Moving to slide 6, the next highlight is the approval of interest on shareholders' equity for the period from January1 to December 31. The amount was substantially greater than last year. Last year, we set aside R$ 314 million net in shareholders' equity. This year the amount is R$ 432.5 million, principally reflecting the components. One is a TJLP of 7.5%, higher than last year when the average stood at 6.25%. And retained earnings in 2015, which we said was due to the need to conserve cash, also increased the calculation base for interest on shareholders' equity. These were the two components driving the increase of about 30% on the amount of interest on shareholders' equity for 2016. Well, we have already mentioned the appointment of Carlos Freitas as Chief Financial Officer. And another important fact of an operational nature was the inauguration of the Generation Operations Center at our head office in Florianópolis and already responsible for the remote operations of the Ponte de Pedra, Rondonópolis and José Gelázio plants. Our intention is to gradually transfer the operation of the plants to our head office to ensure a greater integration of operational procedures, maintaining just a reduced team on site at the plants and consequently gaining scale in operations. We will have three plants beginning remote operations this year at head office and the idea is that at some point in the future, all plant operations will be similarly centralized. Which does not mean that we are not going to have operational personnel at the plants. We still need an onsite team, albeit a reduced one obviously, but the idea is that centralized operations will bring synergies and operational gains.

In slide 7, showing shareholding control, there was no major change other than ENGIE Brasil Geração Distribuída of which we have already spoken at the last meeting on our entry into the area of distributed generation. This involves a company for installation, operation and maintenance of solar panels in residences and in small and medium-sized commercial and industrial units. We believe this is a business, which should see a substantial growth in the next few years.

In slide 8, the only significant difference we have is in the number of plants with the entry into operations of Santa Mônica now in October and so increasing the plant numbers. We were looking at an amount, if I am not mistaken, of 7,009MW for the last quarter and with these 18MW from Santa Mônica, we move up to 7,027MW of installed capacity.

This also changes slightly the percentage of energy from complementary sources in our overall energy mix. We are currently 79% hydroelectric, 6% complementary and 15% thermal.

In slide 9, we are changing the presentation a little. We continue to be as a group, the largest independent producers of energy in Brazil if you take into account ENGIE Brasil Energia's plants and the Jirau Plant held by ENGIE Brasil Participações. However, we have a new competitor on the block - namely CTG which is growing at a rapid pace. However, we continue to play a major role on the domestic scene. Our idea is not necessarily to be the largest but to be the most efficient, the most creative and which generates the greatest number of business opportunities.

Moving forward to slide 10 on the portfolio. We have a well-balanced portfolio between the free and regulated market. Next year, we will see a reduction in the regulated market due to an agreement, which matures before the end of 2016. However, the energy is already contracted. You will see our energy balance later. The idea is to maintain this balance between free and regulated markets, which also engenders stability in the Company's results. Very well, as the free market has great importance, the care we take of it is equally great. Risk diversification vision is important in this context as a credit policy that protects the quality of our credits. So you can see that we have major diversification here in the sectors of the economy where we operate. We also have a policy of not surpassing certain percentages for industrial segments. With this, we also once more even out the moments where certain segments have greater difficulties, making sure that there is less volatility in the energy sales volumes of our contracts. However, this is strategic, obviously when we have a crisis, this crisis affects overall demand. And for this reason, you will see in the previous quarter, we had a total of 2.052 aMW contracted while in this quarter, the figure was 1.991 aMW. A decline in contracted energy principally due to flexibilization, which we have built into the contracts resulting in a decrease of 61MW for this year of 2016. This will not necessarily be the case in 2017 in the sense that if there is a recovery, then our clients tend to recover their levels of consumption.

In slide 13, we go on to talk a little about the short-term energy balance and the behavior of the PLD. We have a significant positive change in relation to the last quarter, namely revised demand forecasts, the forecast for 2016 was revised up something like 2.1GW

and forecasts for 2017, 2018 and 2019 by 2GW meaning that surpluses decline somewhat. Obviously, as the companies sign up to the new MP 735, those companies with difficulties in implementing their projects will be attracted to adhere to the reduced fine for the cancelation of their grants. This should also have an effect on the outlook for future supply. Let us see how this is going to influence the energy balance in the coming years. On the right hand side, the description of supply by source, we can still see how we have a situation where the demand line crosses the supply line in the case of the thermoelectrics and with this, generating greater price volatility during the year. At one moment, you have more water and lower short-term prices, then less water, room for thermal supply, higher prices. This is what occurred during this year. Clearly there was a deterioration in the hydrological situation from April and May through to the present, also affecting the GSF. We will see how these factors affected the Company shortly.

Here in slide 15, where we talk about strategy and commercialization, all of you know that we adopt a strategy of contracting year by year future energy little by little in such a way that we are continually making up a balanced portfolio of contracts without causing major impacts and without having a very large uncontracted volume at any one time. So this is what also gives us our stability of results and revenue flow characteristic. Our current position is that we are very well contracted. Within the next three or four years, from 2020, a little more energy begins to be liberated very much as a function of this characteristic. These are four-, five-year agreements and when we look four or five years ahead you have a larger volume of uncontracted energy.

But this energy has been contracted principally for the years ahead. We have made up our portfolio for 2016, 2017, 2018 in such a way as to guarantee an eventual cushion for a bad day, to take advantage of market opportunities, GSF affects. Here for 2019, 2020, 2021, we have sold a reasonable quantity of energy in our portfolio. We can see this when comparing quarters. Just to give you an idea, in the third quarter of 2019, we sold about 90MW of energy. For 2020, 60MW, 2021 114MW.

Well, in slide 16, we show the energy balance. This is a tool, which shows all our contracts and provides the input whereby analysts can prepare their forecast models for Engie's results. Very well, I will not dwell on this information in detail.

So, moving on to slide 18 to talk about the Jirau project. We are going to talk about Jirau in more qualitative terms instead of going into details. There are 45 units already installed out of the total of 50 turbine units. We have three units, which are already synchronized and operating on a test basis and a further two in the final stages of commissioning. By year-end, all the turbines will be operational and in all probability, the process of transferring the asset will have begun. It is a question now of the controlling company deciding the most appropriate point in time since the principal risk, the very important risk of construction, will have been mitigated by year-end. It is very likely that the controlling company will then decide the transfer structure for the asset and accordingly notify the Board of ENGIE Brasil Energia at the beginning of next year so that the Related Parties Committee can be activated for evaluating, preparing the studies and negotiating with the controlling company.

In slide 20, we can see some photographs, which show the project's level of readiness. On the right hand side, the right bank installations are totally up and running while on the left bank some of the final units are still being assembled as we have already mentioned. These photos are of the left bank in September and the right bank in October, the right bank in fact is a little more up to date.

Slide 21 shows the Pampa Project. You can see from the photograph that the assembly of the structure has already begun. We have been facing some difficulties in assembling at the plant with the Chinese electrical engineers, but these are things innate to a complex project, a project where we have a relationship with a new supplier.

Moving on to the Campo Largo Wind Project, where we are beginning construction work. This project, like Pampa will begin the delivery of energy to the regulated market in 2019 only. We are beginning with the access roads and also the work on site installations. We should see a little more movement here as from next year.

For the Santa Monica Wind Project, we have already talked about the Santa Monica Wind Farm with seven generators, which have already gone into commercial operations. Cacimbas, if I am not mistaken, already has three generators in operation and the idea also is that by early 2017, or even by the end of 2016, all the wind turbines will be in commercial operations. This project is also becoming less a project and more an operational plant in its totality.

Assú, in slide 24, is also in the early stages with startup in operations slated for 2018 only. The photovoltaic plant involves a much more complex assembling process. We are at the beginning: we already have the suppliers lined up and we are structuring the finance and should now begin to take the first practical initiatives in the work site area.

In slide 25, Geração Solar Distribuída. The market is evolving at a pace faster than we expected. This is positive. We are successfully increasing our client numbers at a faster rate than we had expected. In the commercial market, we already have some installation contracts of a larger size from small commercial and industrial companies. This is a market on which we are placing great emphasis and there should be some interesting news in the near future.

As to projects under development, we still have other stages of the Assú project, which may be entered for future auctions. Although, for the upcoming auction in 2016, these plants will not participate because of discussions surrounding transmission issues. Santo Agostino is the same. Campo Largo Phase 2, as well. The Alvorada complex also, although we are looking at some possibilities of projects where we have the option for acquisitions in areas where transmission restrictions will not affect the projects. So very probably, we will not be without a project for the 2016 auction in December.

Moving on to financial performance in slide 28, we always show the principal components, net revenue, EBITDA and Net Income, with respective evolution. Despite difficult times, we were successful in maintaining stability in cash generation and profit. This is the important message in slide 28.

In slide 29, we talk a little about the components making up revenue comparing quarter with quarter. Average sales price rose 4.9%, representing R$ 76 million more in revenue but we had 83 aMW less volume, which meant we had a negative R$ 35 million in sales revenue. And in the short-term, we reported much lower revenue dropping from R$ 99 million last year to R$ 20 million this year. This decline is largely a reflection of the GSF which influenced supplies in covering variations in the short-term/CCEE account. GSF for this quarter must have been about 0.83, more or less, we still do not have September to complete the quarter, but the important message here is that the GSF insurance risk premium is beginning to prove its worth. In the quarter, we paid a risk premium of R$ 5.6 million while cost avoided was R$ 34.7 million. At the beginning of the year, we were

not expecting to use the GSF insurance premium although ended up doing so, showing that it is being effective and helping to stabilize our results at least in the regulated market.

In slide 30 for EBITDA change, we had purchases for resale with a reduction of R$ 71 million. In net revenue from contracted sales, we saw an increase of R$ 41 million in revenue. This also boosting the evolution in EBITDA. We had lower expenditures with fuel, reduced dispatch of gas-fired energy mainly, and mineral coal for which I would point out, there is reimbursement from the CDE. And on the short-term front, we had R$ 100 million less, the difference between the positive R$ 99 million we reported in 2015 versus the negative R$ 1 million which we recorded in 2016 as the result of our CCEE trading. The end-result for our EBITDA, was a 4.6% increase from R$ 772 million in the last quarter to R$ 807 million.

Moving on to slide 31 and the change in net income. The financial result contributed R$ 41 million, R$ 27.5 million more in revenue income, R$ 13.6 million less in expenses, a net debt as you will see is well down, ensuring that financial expenses fall and the financial result is positive. As shown in the previous slide, EBITDA contributed R$ 35 million. Depreciation was rather higher at R$ 5 million than in the third quarter of last year, principally due to major maintenance work meaning maintenance values will be depreciated over the subsequent years. Then there is income tax as well, the higher the result, the higher the income tax, it follows. This all added up to an evolution of 14.2% in net income from the third quarter of 2015 to the third quarter of 2016.

Moving on to slide 32, indebtedness. Let's remember that we have no currency exposure. The currency exposure that we have in loans is entirely covered by associated hedge instruments, nearly with the same counterparties and net debt falling from 0.4 times EBITDA to 0.2 times EBITDA. When we compare total debt/EBITDA, we are more or less at the level of 1.2x for 1.2x, and when we compare total debt there is a small decline from 0.78x to 0.70x. It is that old story of comparing quarter with quarter, at times we have a quarter which is a little better and at times one which is a little worse. This creates these small situations, which we have already mentioned and which do not bear comparison. Cash and cash equivalents amounted to R$ 3,085 billion, a very notable change from the position in the preceding quarter of R$ 2,104 billion. Worthy of mention is that in October, we paid out dividends of more than R$ 600 million, while net debt in the quarter fell from R$ 1,203 billion in the last quarter to R$ 765 million, a R$ 438

million decline. We do not have the best capital structure. The idea is that debt will increase as our ongoing projects have their respective financing agreed and eventually with the transfer of Jirau, one of the options may be to raise debt, payment being effected via debt although this has still to be decided. However, we have space in our balance sheet for acquisitions, establishing a rather higher degree of leverage without putting the Company's credit ratings at risk.

In slide 33, we show the evolution of debt with investments, tax paid and accrued interest, and cash generation from operational activities. Important here is to point out the reduction in working capital compared on a quarterly basis, so feeding through to an improved cash position.

Moving on to slide 34, debt profile. The debt profile shows a concentration at the end of this year of R$ 862 million. This will be settled with an external loan swap mechanism, eliminating currency variation risk. The loan was contracted at the end of 2014 for two years precisely for the period of difficulties, which we experienced in 2015 due to the difficult economic situation and necessary adjustments in the first 12 months. From early 2017, we resume the normal amortizations of our long-term financing. The graph here shows a higher amount of R$1,463 million, this merely reflecting the bunching of a total of five years. So, we are talking here more or less of a similar value which we see for 2020 to 2021. The composition of debt today consists of this tranche at CDI, which will be paid down. Indexed to the IPCA, we have two debenture issues, one issued at the end of 2015 and the other issued in the middle of 2016. The first is earmarked against financing for modernizing assets, the second linked to equity investments at Pampa. These carry terms of 10 years, involving operations of a small size with fixed rates of interest.

In slide 35, allocation of Capex. You know which projects are ongoing in 2016/2017: Pampa, Campo Largo, Santa Mônica, which is nearly concluded and remembering that we also have the R$ 511 million in retained earnings since 2010 to be used in the event of approval of our idea for the acquisition of Jirau. Since the cash was retained, the issue here is to show how we are going to use it. While the other operations and transfer of Jirau do not come to fruition, we keep transferring it to the year in which we expect the resources to be expended.

As for dividend policy, we returned for a 100% payout and our expectation is that this will continue in the situation of equilibrium. We believe that even with our projects with work in progress, we shall have enough cash and room in our balance sheet to maintain this resumed 100% payout. This is what I have to say, ladies and gentlemen. I would be happy to answer any questions you may have.

**Operator:**
*Thank you, we shall now begin the questions and answers session. To ask a question, please touch asterisk 1 (*1). To remove a question from the list, touch asterisk 2 (*2). Our first question is from Kaique Vasconcelos, Citigroup.*

**Kaique Vasconcellos - Citigroup:**
Good morning to all and thanks for the opportunity. Just one question in relation to the energy balance. I notice that both in relation to average purchase price for 2017 and 2018 as well as the selling price of energy there was a decline, with the purchase price falling even more. I would like to understand the rationale for this change. Was it due to the return of contracts, renegotiations, what was the cause of this versus the result for the preceding quarter? Thanks.

**Eduardo Sattamini – Chief Executive, Financial and Investor Relations Officer of ENGIE Brasil Energia:**
Hi, Kaique, thanks for the question. Quite right, I overlooked this particular point. Obviously, according to the points which you raised, this revision of contracts and renegotiation did occur although this was not the principal factor at play. The principal factor is that there was an estimate for IGPM and this turned out to be a little lower and as a result, the entire volume was affected. Renegotiation and the price line of new contracts have a very marginal affect and would go undetected by you. What you are seeing here is a revision in the IGPM used for restating the contracts.

**Kaique Vasconcellos - Citigroup:**
Great, thank you.

**Operator:**

*Our next question comes from Vinícius Canheu from Credit Suisse. Please go ahead Vinícius.*

**Vinícius Canheu – Credit Suisse:**

Hi Sattamini, good morning. I had another question but I wanted to take the opportunity to touch further on the first question. You spoke of your estimates for the IGPM, but from what I understand in the table when you show the prices that you always show the current price. In this context, I never understood that there was any expectation as to future inflation involved. I should be grateful if you would clarify this. And now to the question I was intending to ask, which is that we have seen during this quarter the announcement of the sale of assets of Duke in Brazil. The Paranapanema generation facility is an asset that has interested you for a long time. Something, which the market particularly noted, was the valuation, which at least apparently was attractive. So, I would like to know from your point of view if you could comment on what led you not to participate or participate and lose and what was the reason for the disinterest in Duke's assets at this price which apparently excited the attention of many for having been a low price.

**Eduardo Sattamini – Chief Executive, Financial and Investor Relations Officer of ENGIE Brasil Energia:**

I believe I have already replied to this question of Duke in one way or another during the last quarter. Duke is an asset, which has a profile very similar to our concession investment in 2029, when the lion's share of our assets mature in 2028. This meant that we did not want to see a concentration of concession investments between 2028 and 2029. We did not lose because we did not take part - it's as simple as that. The first question with respect to price, Rafael is going to answer here. He identified this same alteration and it was he, who gave me the crib notes here for the IGPM.

**Rafael Bósio – Investor Relations Manager of ENGIE Brasil Energia:**

Vinícius, good morning to all, with the caveat that the energy balance is a best estimate both in terms of volume as well as prices and that we restate every quarter in terms of price although for volume and prices, it is our budget which is run twice a year. The way in which it is calculated is that we have an assumption as to IGPM for the contracts and then we bring the numbers to present value at a discount rate. What happened this quarter was that there was a downward adjustment in our IGPM assumptions, although the

discount rate remained unchanged… it stayed the same. So that this meant an impact on average prices both in terms of purchases and sales.

**Vinícius Canheu – Credit Suisse:**

OK, that's good.

**Rafael Bósio – Investor Relations Manager of ENGIE Brasil Energia:**

But if you look at the trading side, there was a much larger drop in the purchase price then in the selling price. So, commercialization was unaffected.

**Vinícius Canheu – Credit Suisse:**

No, that's clear. We identified the fall in purchase price. Only what had alerted us is that as always, we had understood that it was the current price, and I was unaware that there was this question of an IGPM estimate and a rate of discount on top, but this is clear.

**Eduardo Sattamini – Chief Executive, Financial and Investor Relations Officer of ENGIE Brasil Energia:**

And perhaps this is something, which is important, I mean to say this is an indication. We do not restate every quarter and I have had cause to mention this on some occasions. This point was important some years ago while more recently, the questions have focused more on other things such as hydrology and operations, etc. But it is basically a question of prices and in this context we do not give away price information to the competition. So we try to give the most comprehensive information possible without indicating the contracting prices in our portfolio. That is basically the idea.

**Vinícius Canheu – Credit Suisse:**

Great, great. That's good, thanks.

**Operator:**

*Once more, reminding you that to ask a question just press asterisk one (*1). Our next question comes from. André Sampaio of Santander. You may go ahead, André.*

**André Sampaio - Santander:**

Good morning, I would like to ask a question, I wonder if you could talk a little about these possible changes in PLD in 2017 and 2018.

**Eduardo Sattamini – Chief Executive, Financial and Investor Relations Officer of ENGIE Brasil Energia:**

Changes in methodology, right? With respect to change in methodology, we were even expecting the requirements to be a little more radical in terms of the appropriation of risk with a greater tail-end weighting. This to a certain extent was alarming and resulted in price expectations for 2017 falling a little, but the outlook is for high prices, higher than we are seeing now in this third quarter and probably in the fourth quarter as well. This is our expectation overall. 2018 is going to depend on the hydrology for 2017 and 2018. 2017 is going obviously to reflect the hydrology for 2017, but on the basis of reservoir levels today we can be a little more precise in the values.

**André Sampaio - Santander:**

Thanks.

**Operator:**

*Our next question comes from Ezequiel Fernandes of Scotia Bank. Please go ahead Ezequiel.*

**Ezequiel Fernandes – Scotia Bank:**

Good morning, thanks for the call. Firstly, I would like to ask about contracting levels in the presentation and in the release, since we can see that you have increased the number of contracts for 2020 and 2021. If you could comment a little on this and I also have a second question on the pricing in the free market.

**Eduardo Sattamini – Chief Executive, Financial and Investor Relations Officer of ENGIE Brasil Energia:**

Let's go. The contracting levels in 2020 and 2021 have increased, yes. This is our normal activity. Our normal activity is to sell and reduce our exposure year after year. So quarter after quarter, for the years when we have available energy, the tendency is for you to reduce uncontracted levels. I am not sure if this was your question, but this is natural. Every quarter selling my commercial activity, which is conducted in such a way that we have a flow of sales, providing a service to the clients and a dispersion of contract maturities over the course of many years. This is the way that we protect ourselves from price volatility over the years, quarter after quarter, which is a function of short-term influences, perceptions of growth or slackness in the economy. So all this is natural. And as to your second question on prices in the free market, it has shown volatility of

expectations because of changes, eventual changes in the calculation, etc. Prices have shown some volatility, at the beginning of the last quarter being about R$ 145 and rising to R$ 165, R$ 170. I am talking about 2017, right? After, they came down to R$ 160 and today they are below R$ 160 again. So we have seen some volatility in price largely as a function of questions over the use of new methodologies in calculating price, economic outlook, etc. After 2018 and 2019, there is a large question mark in relation to hydrology behavior and the way the economy behaves, with prices close to a marginal cost of expansion. That is not very far off what we are seeing for 2017, that is in the region of R$ 155 per megawatt/hour. Thus, this is not the case of what we have seen in past years in which the following year the price was around R$ 200 per megawatts/hour and then falling to R$ 200, R$ 180. We are seeing more stable price levels in the next four or five years with a cost much closer to the marginal cost of expansion.

**Ezequiel Fernandes – Scotia Bank:**
Perfect, very clear, thanks.

**Operator:** *Once more, reminding you that to ask a question just press asterisk one (*1). We now conclude this session of questions and answers. I would like to ask Eduardo Sattamini for his final considerations.*
**Eduardo Sattamini – Chief Executive, Financial and Investor Relations Officer of ENGIE Brasil Energia:**
I would once more like to thank all for taking part as well as the questions and to express my expectation of an improvement in the macroeconomic scenario. We have also seen great professionalism in the government team, the ministry, EPE, ONS seeking to introduce reality to market prices and to reduce artificialities. So we are very optimistic in relation to the actions of the government and to the adjustments necessary for the sector to follow a stable course and resolve its problems over the short-, medium-term. This is a message I would like to leave with you, a message of optimism in relation to the outlook for the sector.

**Operator:**

*ENGIE Brasil Energia's conference call is concluded. We would like to thank the participation of all. Have a good afternoon and thank you for using Voitel.*