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# ENGIE ENERGÍA CHILE S.A.

## Presentation to investors

Full year 2017 Results



# AGENDA

## Snapshots

Key messages

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Addenda



# ENGIE: A GLOBAL ENERGY PLAYER



## LOW CO<sub>2</sub> POWER GENERATION

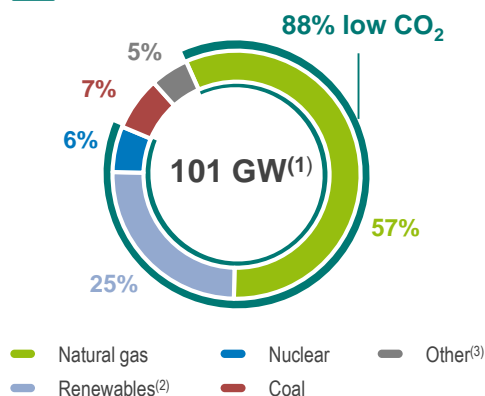
World leading independent power producer

101 GW<sup>(1)</sup> installed

>80% low CO<sub>2</sub>

25% renewables<sup>(2)</sup>

### Capacity breakdown



## GLOBAL NETWORKS

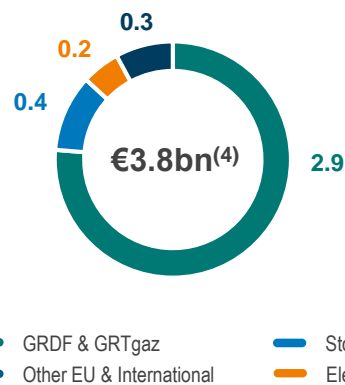
European leader in gas infrastructures

€24bn regulated asset base in France

12bn m<sup>3</sup> storage capacity

Expertise in power transmission & distribution

### EBITDA gas infrastructures



## CUSTOMER SOLUTIONS

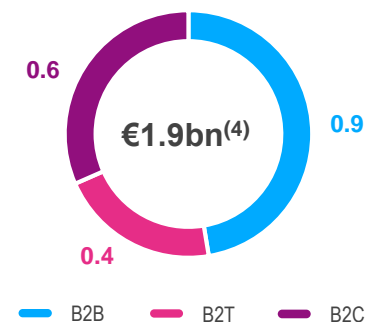
21m customers in Europe

Global leader in energy solutions for cities

+250 distribution heating & cooling networks worldwide

23m individual and professional contracts

### EBITDA by type of business



(1) At 31/12/2016, at 100%, pro forma announced disposals & closures (US thermal assets, Polaniec, Hazelwood), excluding decentralized power generation  
 (2) Excl. pumped storage for hydro (3) Incl. Pumped storage for hydro (4) 2016 EBITDA

B2B: Business to Business  
 B2T: Business to Territories  
 B2C: Business to Customers

## EECL: A RELEVANT PLAYER IN THE CHILEAN POWER INDUSTRY



### RELEVANT PLAYER IN THE ENERGY INDUSTRY

- **Leader** in northern mining region, **4<sup>th</sup>** largest **electricity generation** company in Chile
- **~2GW** gross generation capacity; **~0.3GW** under construction
- **3<sup>rd</sup>** largest **transmission** company
- **Seaport** infrastructure, gas pipeline

Prepared to provide energy solutions to its customers



### GROWTH UNDERWAY

- **New 15-yr regulated PPA** w/distribution companies starting 2018 => **43% contracted physical sales growth** by 2019
- 50%-owned **TEN** ~US\$ 0.9 bn **transmission project** began operations in 4Q17
- **~US\$ 1 bn new power generation capacity + port** to start operations in 3Q18

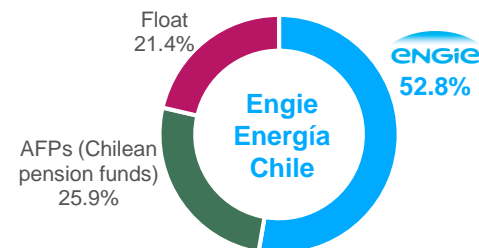
Good delivery in growth strategy implementation



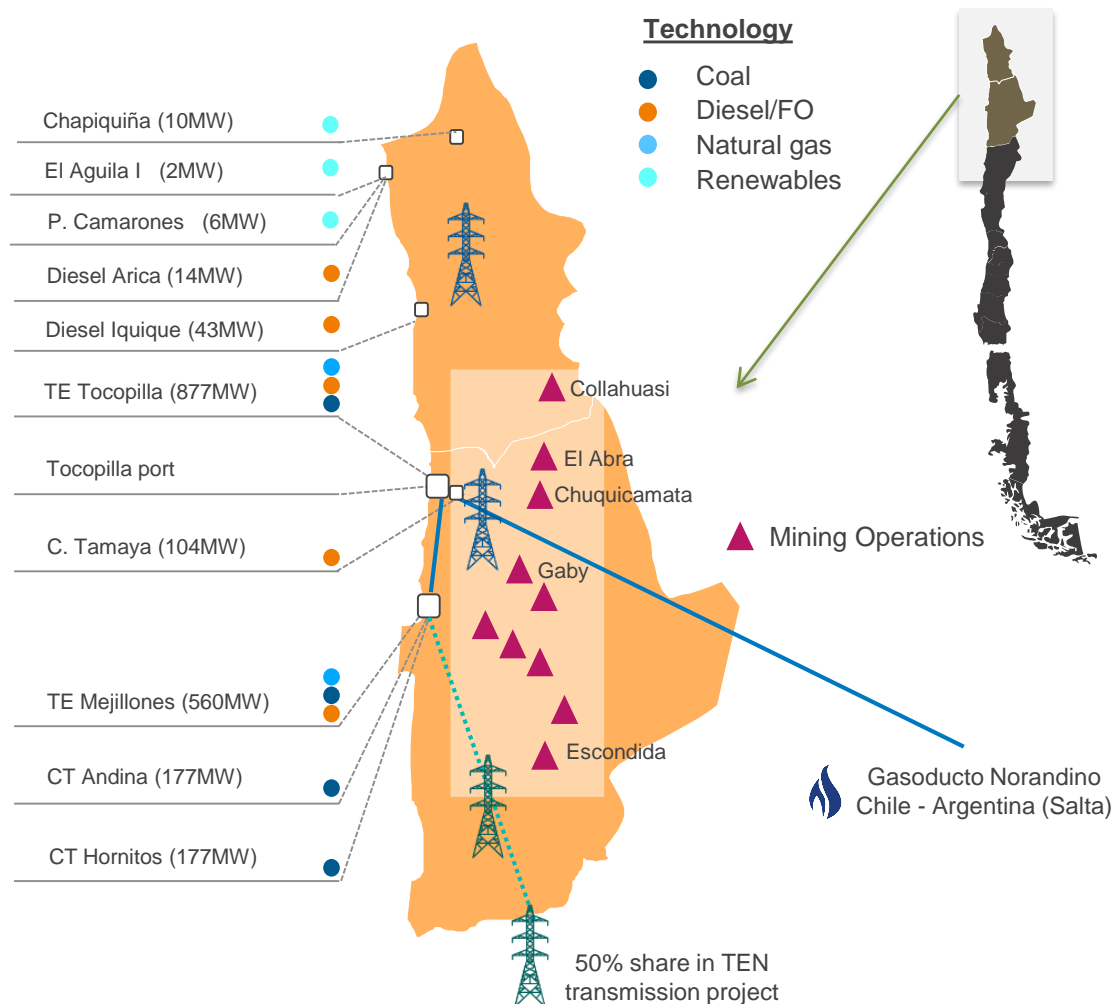
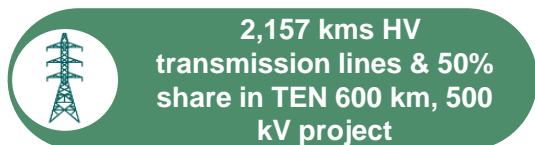
### CONTRACTED BUSINESS

- **Capacity contracted** under long-term sales agreements; **11.2 years** remaining average life
- Strong counterparties
  - Unregulated: mining companies;
  - Regulated: distribution companies

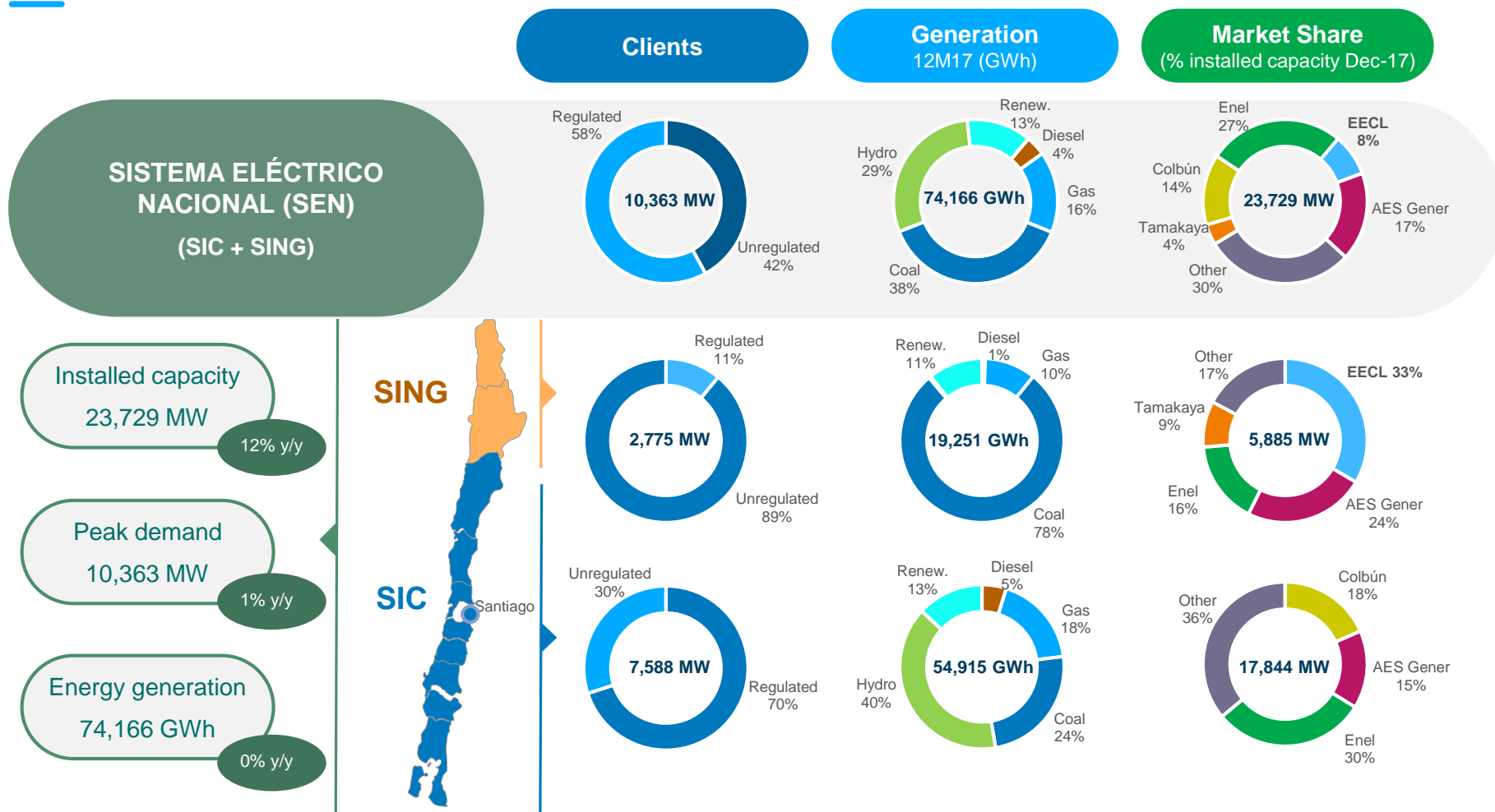
Strong sponsorship



## A DIVERSIFIED ASSET BASE TO MEET OUR CLIENTS' ENERGY NEEDS



## TWO MAIN GRIDS RECENTLY INTERCONNECTED



Sources: CNE, CEN, Asociación de Generadoras

## RECENT EVENTS



### INDUSTRY

- The **SIC-SING interconnection** began operations on November 24, 2017, giving birth to the SEN
- The **TEN project**, a key part of the interconnection, was ready ahead of its legal deadline and within budget
- A new coordination and dispatch center, the **CEN** (*"Coordinador Eléctrico Nacional"*) took office in January, 2017, in replacement of the CDEC SIC and CDEC SING
- The **interconnection** will reduce spot price volatility, sensitivity to hydrologic conditions, and will allow renewable capacity to reach demand nationwide



### COMPANY

- The **new 15-year PPA** with distribution companies started on January 1, 2018, for up to 2 TWh in 2018 and up to 5 TWh starting 2019
- **Bridge PPAs** with generation companies have been signed to supply ~60% of demand under the above PPA until the southern section of the interconnection is operating in full
- **Puerto Andino**, our new port in Mejillones, successfully unloaded its first coal shipment in December 2017
- **New debt** for US\$100 million was taken in 2017, with a 33 bps decrease in weighted average cost of debt



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# KEY MESSAGES



**Strong delivery on all fronts: results in line with guidance**



**Growth strategy and construction well on track:**

Projects on schedule and within budget. TEN interconnection in operation



**Robust capital structure:**

Smooth execution of financial plan



**Dynamic energy transition to secure future growth**

## RESULTS IN LINE WITH GUIDANCE

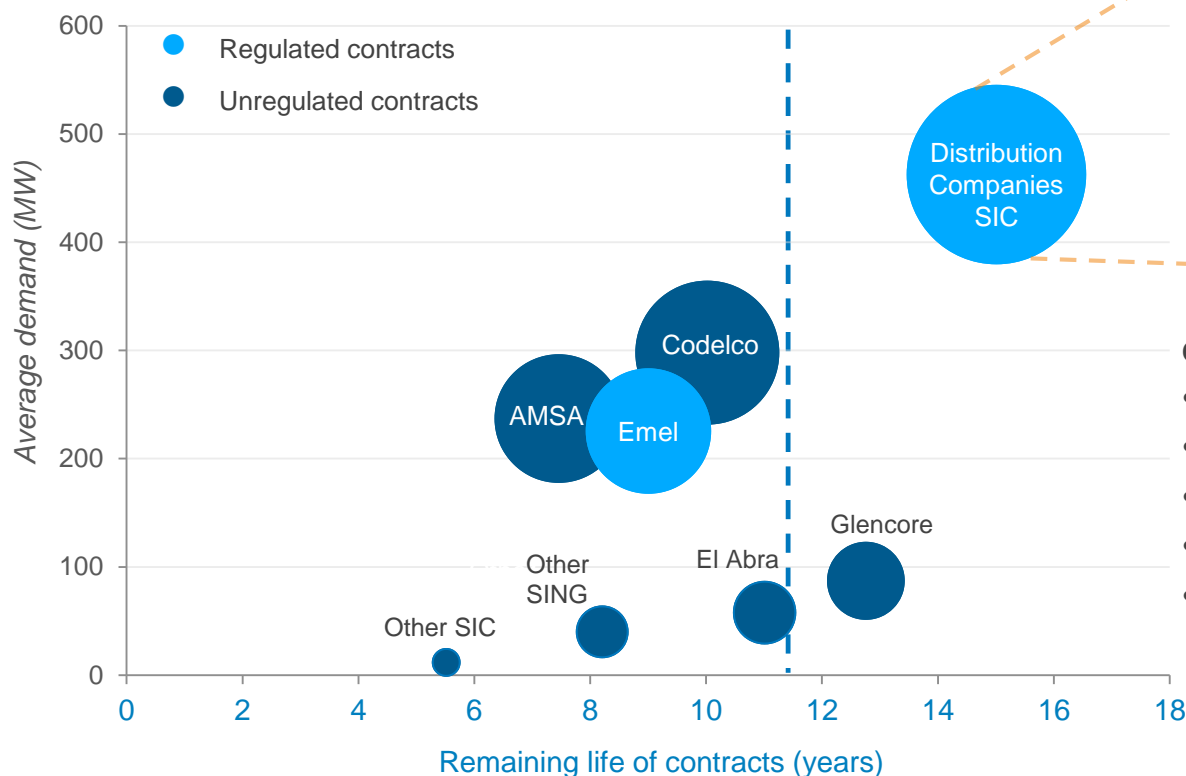
- + Operating cost savings
- CO<sub>2</sub> taxes, emission-reduction costs, lower physical sales

	2016	2017	Variation
Operating Revenues (US\$ million)	967.4	1,054.1	+9%
EBITDA (US\$ million)	284.8	276.1	-3%
EBITDA margin (%)	29.4%	26.2%	-3.2 pp
Net income (US\$ million)	254.8	101.4	-60%
Net income-recurring (US\$ million)	83.4	87.0	+4%
Net debt (US\$ million)	470.0	770.5	+64%
Spot energy purchases (GWh)	1,697	3,028	+78%
Physical energy sales (GWh)	9,492	8,825	-7%

- Net Income impacted by non recurring items in 2016
- Increase in net debt related to expansion CAPEX

## RESULTS DRIVEN BY LONG-TERM CONTRACTS WITH STRONG CLIENTS

Sound contract portfolio with average remaining life of 11.2 years



### A GROWTH DRIVING PPA

- 2018: **Up to 2,016 GWh** (230 MW-avg.)
- 2019-2032: **Up to 5,040 GWh** per year (575 MW-avg.)
- Monomic price (Jan-Mar 2018): **US\$126/MWh**

### Clients' international credit ratings:

- Codelco: A+
- Freeport-MM (El Abra): BB-
- Antofagasta PLC (AMSA + Zaldívar): NR
- Glencore (Lomas Bayas, Alto Norte): BBB
- EMEL: AA-(cl)

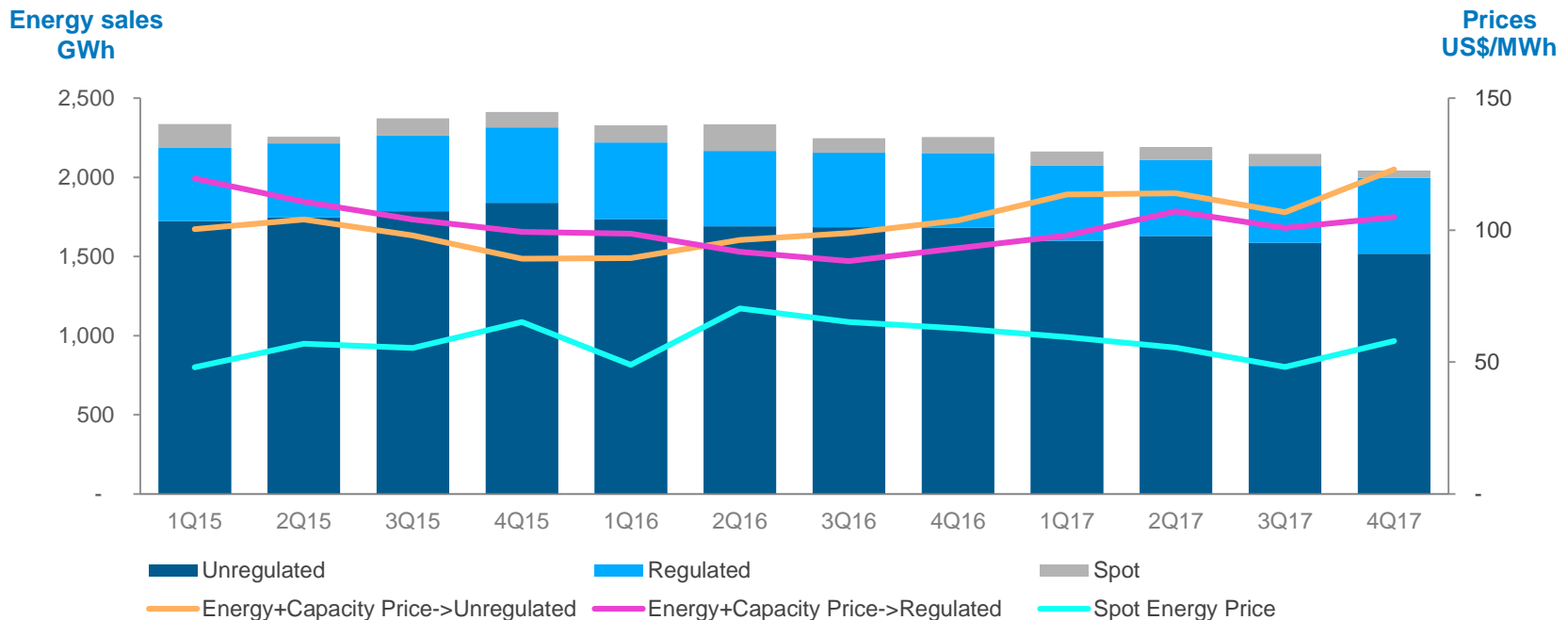
Source: EECL

\*Internal projections used for contract demand, according to history and market intelligence.

— STRONG DELIVERY ON ALL FRONTS: RESULTS IN LINE WITH GUIDANCE

## LONG-TERM CONTRACTS: THE BASIS FOR STABLE SALES VOLUMES AND PRICES

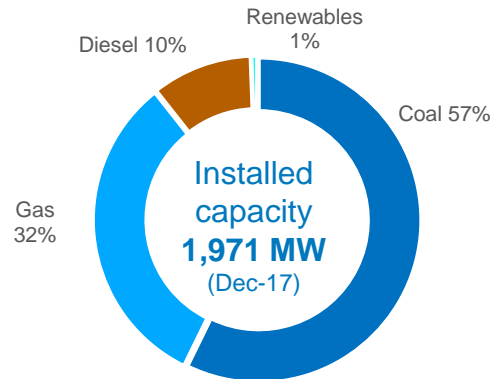
### ENERGY SALES AND PRICES



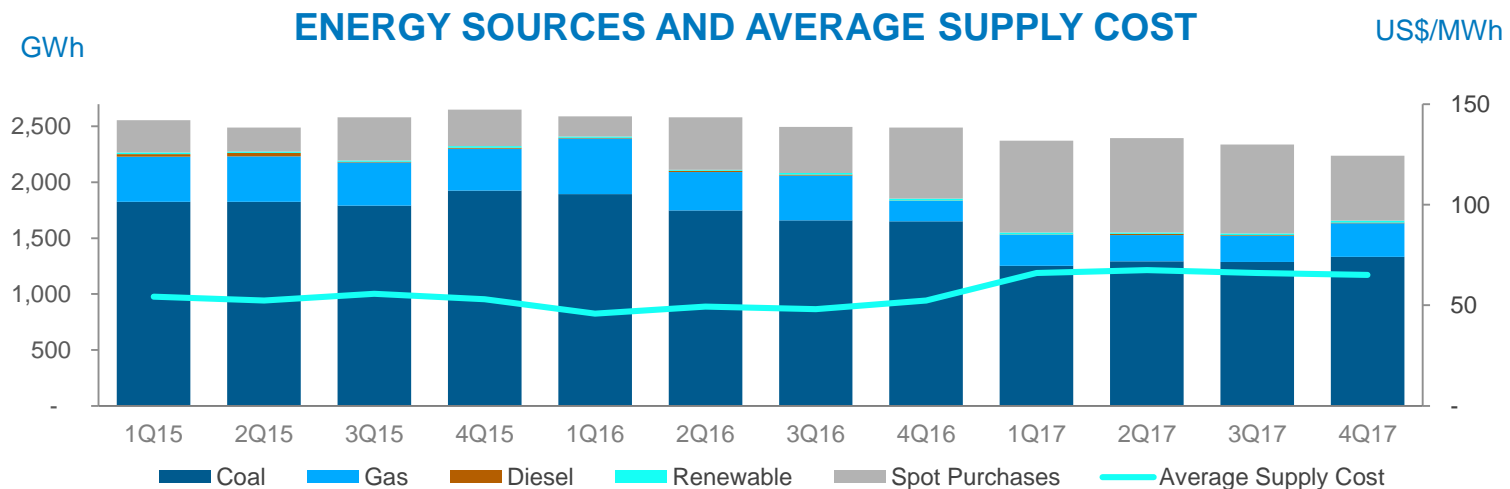
Energy prices have moved in line with fuel prices

## — STRONG DELIVERY ON ALL FRONTS: RESULTS IN LINE WITH GUIDANCE

# CLIENTS' NEEDS SUPPLIED WITH OWN GENERATION AND SPOT PURCHASES, WELL HEDGED BY OUR OWN INSTALLED CAPACITY



- Increasing spot purchases due to new coal, gas and renewable efficient capacity additions in the grid
- Spot prices impacted by coal price trends
- Higher fuel prices, CO<sub>2</sub> taxes and emission-reduction costs have put pressure on average supply cost



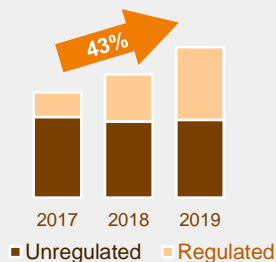
## NEW PPA: GROWTH AND DIVERSIFICATION ENGINE



### NEW PPA: REVENUE & EBITDA GROWTH

- Contracted revenue growth
  - ~8,200 GWh p.a. in 2017
  - ~11,700 GWh p.a. in 2019
- More **balanced portfolio** (Unregulated/regulated)
  - 77%/23% in 2017
  - 52%/48% in 2019
- Expected **EBITDA growth** (>80% in 2 years)

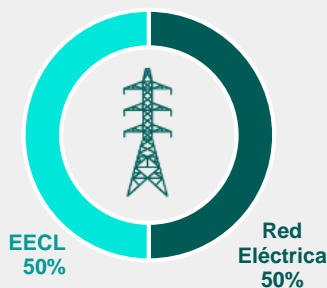
Clients' Sales (GWh)



### INTERCONNECTION

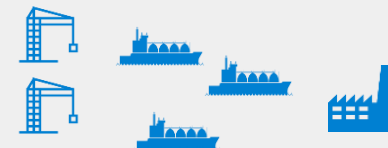
- TEN:** 600-km, 500 kV, ~US\$0.9bn, **transmission project**
- On schedule, within budget, **operating since 24-Nov-17**
- Regulated & contracted revenue; ~US\$80 million EBITDA p.a.

TEN: 50/50 Joint Venture  
80% project financed



### NEW POWER SUPPLY

- IEM + Puerto Andino**
- ~US\$1 bn investment including port
- On schedule, within budget  
**IEM COD: 3Q18**  
**Port COD: 1Q18**
- IEM: **375 MWe gross capacity**
- +2 LNG cargoes – 2018**  
**+1 LNG cargo – 2019**
- Lower fuel unloading costs; better environmental standards

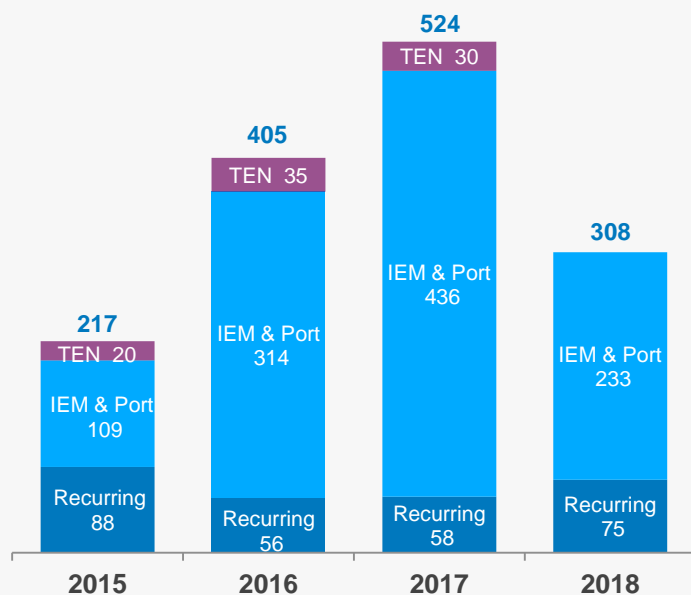


## SMOOTH EXECUTION OF FINANCIAL PLAN

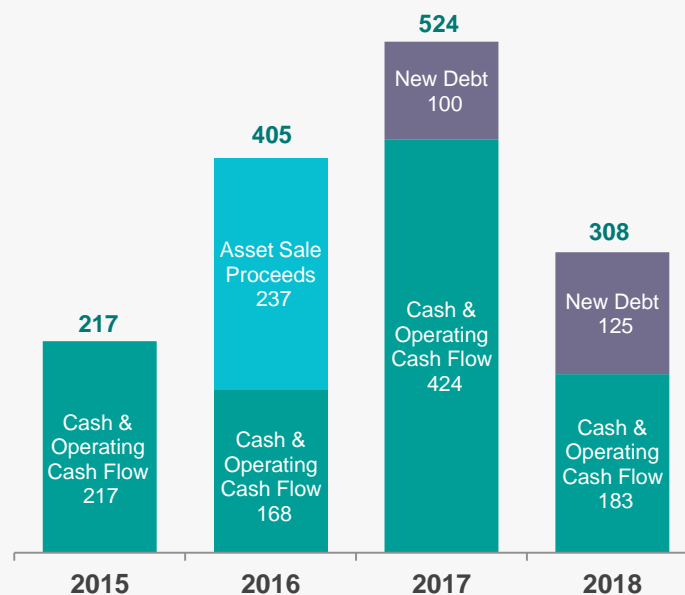
US\$1.1bn paid, US\$0.1bn debt => Room to finance further growth

- Investment-grade rating preserved (BBB Stable Outlook by S&P and Fitch)
- Dividends lowered to 30% of net income during investment-mode period (2015-2017)
- Proceeds from asset sales (TEN), operating cash flow and available cash used to finance CAPEX
- Moderate debt increase, with Net debt-to-EBITDA not expected to exceed 3.5x during 2018
- TEN developed in 50/50 JV with strong transmission operator (Red Eléctrica) and non-recourse project financing (~80:20 debt-to-equity ratio)

CAPEX & INVESTMENTS 2015 - 2018



SOURCES OF FUNDS 2015 - 2018





# THE 3 PILLARS GUIDING OUR ENERGY TRANSITION PROCESS



Technologic changes  
⇒ 24x7 renewable output



Need to reduce CO<sub>2</sub> emissions & carbon footprint

in a rapidly changing environment



Electric mobility



Smart grids, digitalization, energy efficiency

## CLIENTS

- Customer centricity
- Developing energy solutions
- Leveraging our asset base and group expertise
- Cross sell of energy services

## SUSTAINABILITY

- Development of low CO<sub>2</sub>-emission projects
- Study of energy storage solutions
- Developing a culture of innovation
- Ability to partner in new projects
- Sound corporate governance

## PRODUCTIVITY

- Towards a more agile organization
- “Lean” cost-efficiency program: More than US\$11 million of cost savings in 2017
- Digitalization

# AGENDA

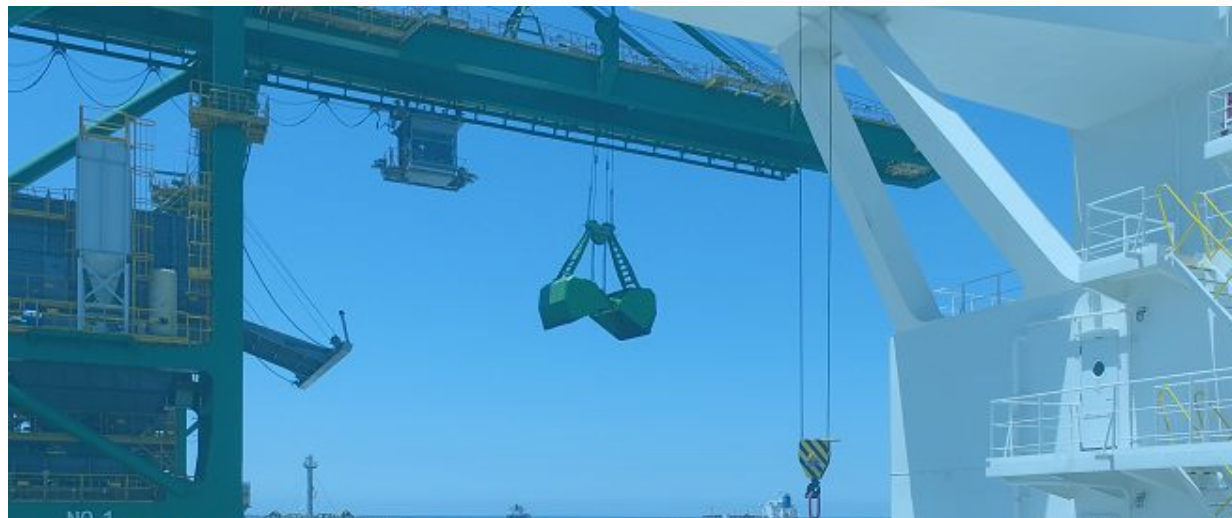
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# LOOKING FORWARD



**Industry game changers: Opportunities and Challenges**



**Intermittent power sources and interconnection:**

Current regulatory and grid coordination challenges



**2018, transition to further growth**

Continued focus on delivery



**New development focus:**

Low carbon generation, energy infrastructure, efficient solutions for all clients



## RECENT GAME CHANGERS IN THE CHILEAN POWER INDUSTRY

More agile, diversified, client-focused approach to face industry change



### INCREASED COMPETITION

- More flexible power auction regulations (Law # 20,805)
  - De-risked regulated PPA to foster competition
- Falling energy prices
- Carbon footprint reduction => PPAs indexed to CPI
- Increased difficulty to execute projects

Evolution of Market Design in continuous change



### TECHNOLOGIC DISRUPTION

- Lower investment cost of renewable capacity
- Shorter development period for renewables
- Improved plant efficiency
- Lower operational costs

High penetration of Renewables and new energy management products

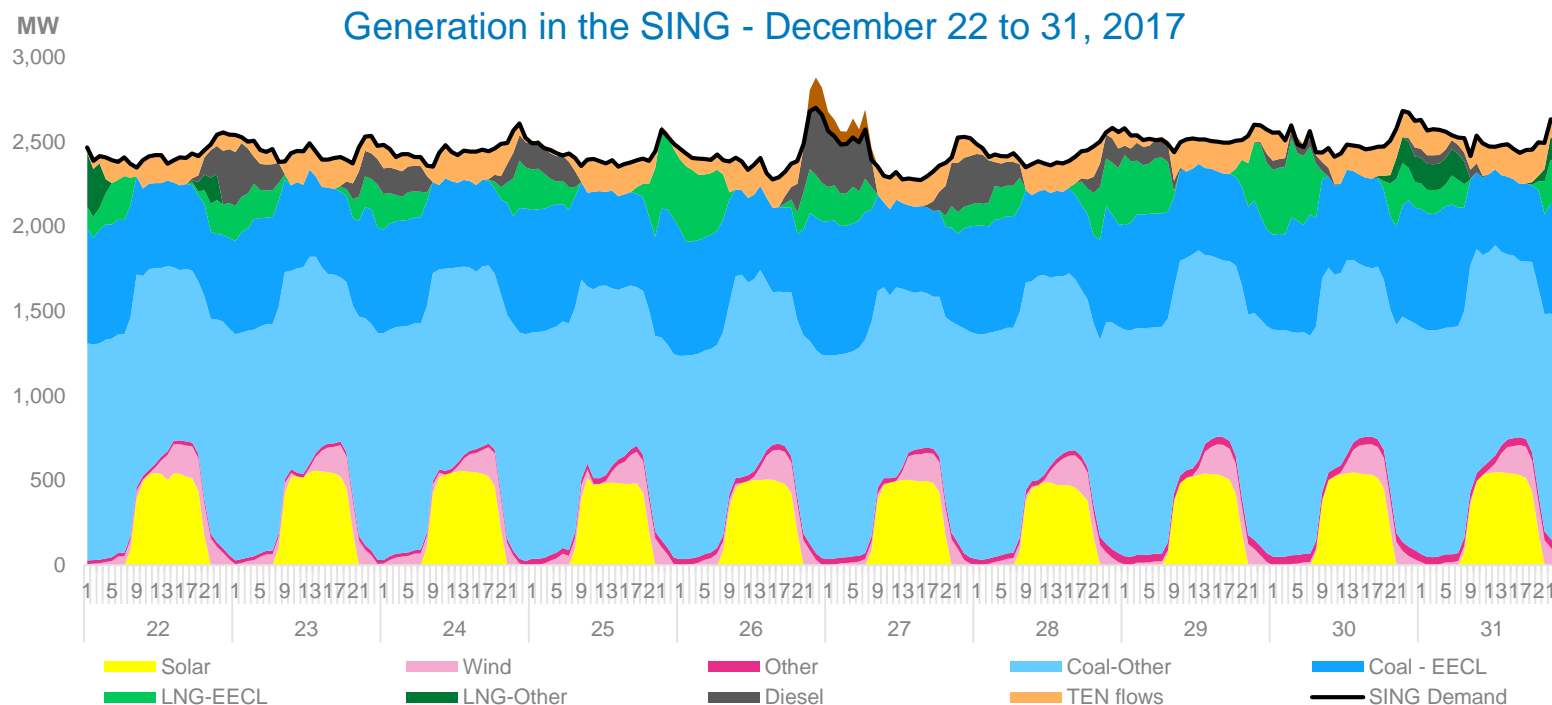


### RECOVERY IN DEMAND GROWTH

- Mining industry recovery with copper > 3 \$/lb: revival of large mining projects
- GDP growth may be reversing
- Energy saving programs create x-sales opportunities
- Smart grid initiatives and electric mobility

Trends may be reversing! (copper > 3 \$/lb)

## CURRENT REGULATORY AND GRID COORDINATION CHALLENGES

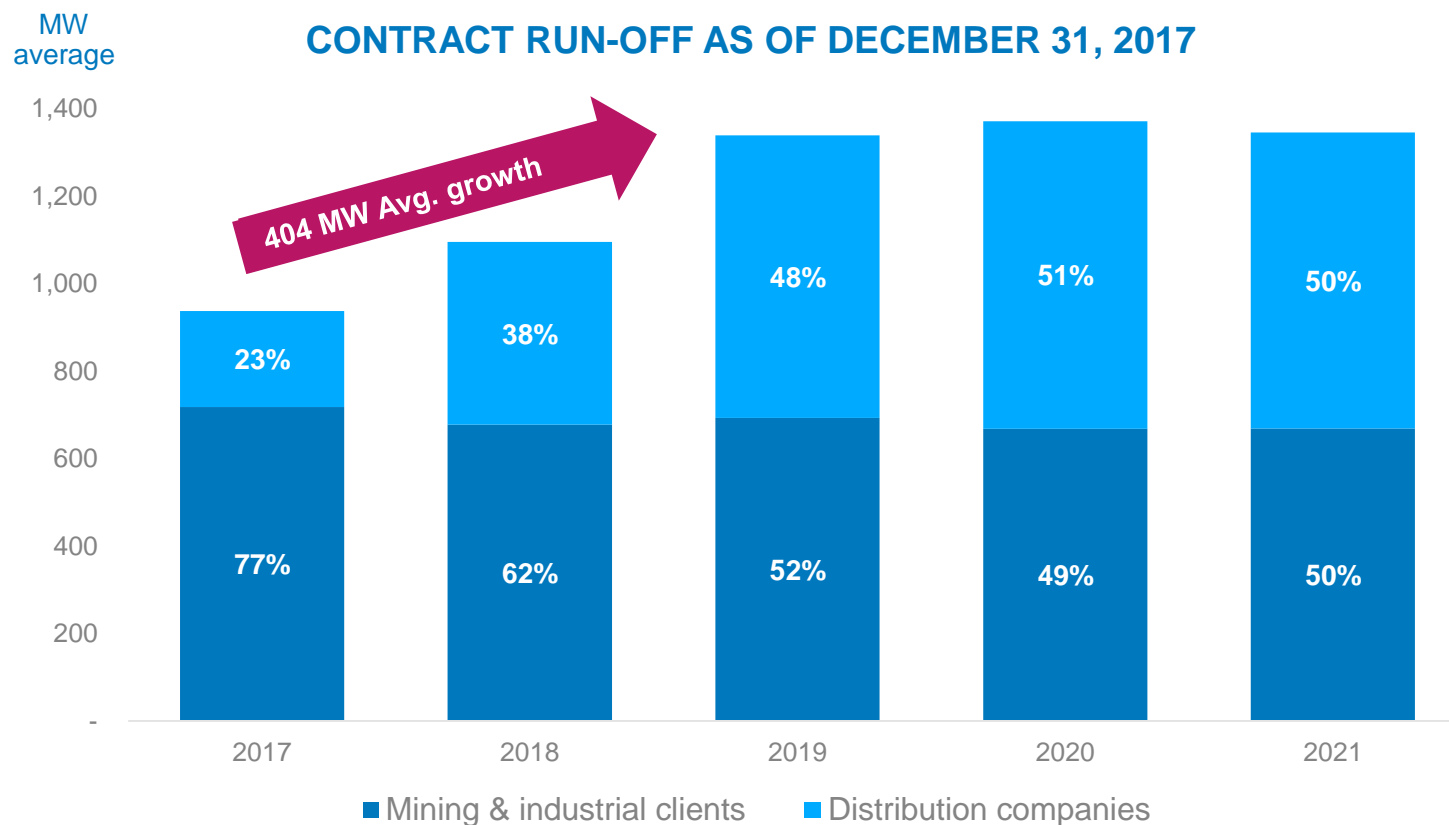


### Increasing penetration of intermittent renewable power sources

- Lower marginal costs during sun & wind hours
- Higher system costs to cope with intermittent output (more frequent CCGT start-ups, greater spinning reserve required to thermal plants)
- New auxiliary services regulation required
- Need to develop economic 24 x 7 renewable generation solutions

Source: CEN

## CONTRACTED SALES, WITH MORE BALANCED PORTFOLIO



Source: Engie Energía Chile: Average expected demand under existing contracts



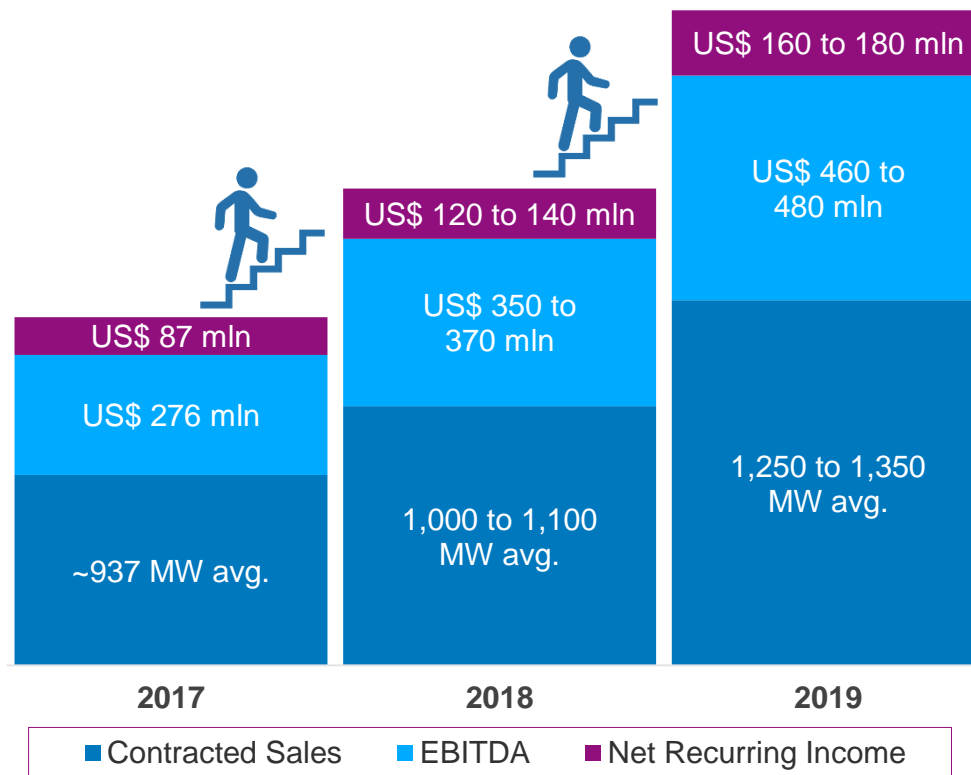
## ONGOING FOCUS ON DELIVERY IN OUR TRANSITION TO GROWTH



### PREPARING THE GROUNDS FOR A LARGER-SCALE, LEANER OPERATION

- Embracing the growth achieved:
  - New PPA => larger sales volume
  - Interconnected system => larger, more complex market
- Innovating and developing digital solutions to service our clients, improve efficiency and reduce operating costs
- Completing our projects in time, on budget and within quality standards

Pursuing an AGILE organization



Source: Engie Energía Chile



# LOW CARBON GENERATION, ENERGY INFRASTRUCTURE, EFFICIENT SOLUTIONS FOR ALL CLIENTS

—

## Project development focused on energy transition



### WIND

- Calama wind farm
  - Environmental approval
  - Turbine purchases under negotiation
- Acquisition of wind projects under development and/or greenfield development in different locations under study

**Geographic and power source diversification**



### SOLAR & STORAGE

- In process of acquiring over 400MW of solar PV projects under development
- Energy storage solutions to cope with intermittence are being explored:
  - First 2 MWh battery storage pilot in Arica under construction

**Gradual replacement of aging thermal plants**



### GAS & OTHER

- Natural gas, a low CO<sub>2</sub>-emission source, a good complement for renewables
  - Las Arcillas CCGT – EIA
- Energy management services
- Transmission
- Water & desalinization

**Smoothing energy production and demand patterns**

Source: Engie Energía Chile

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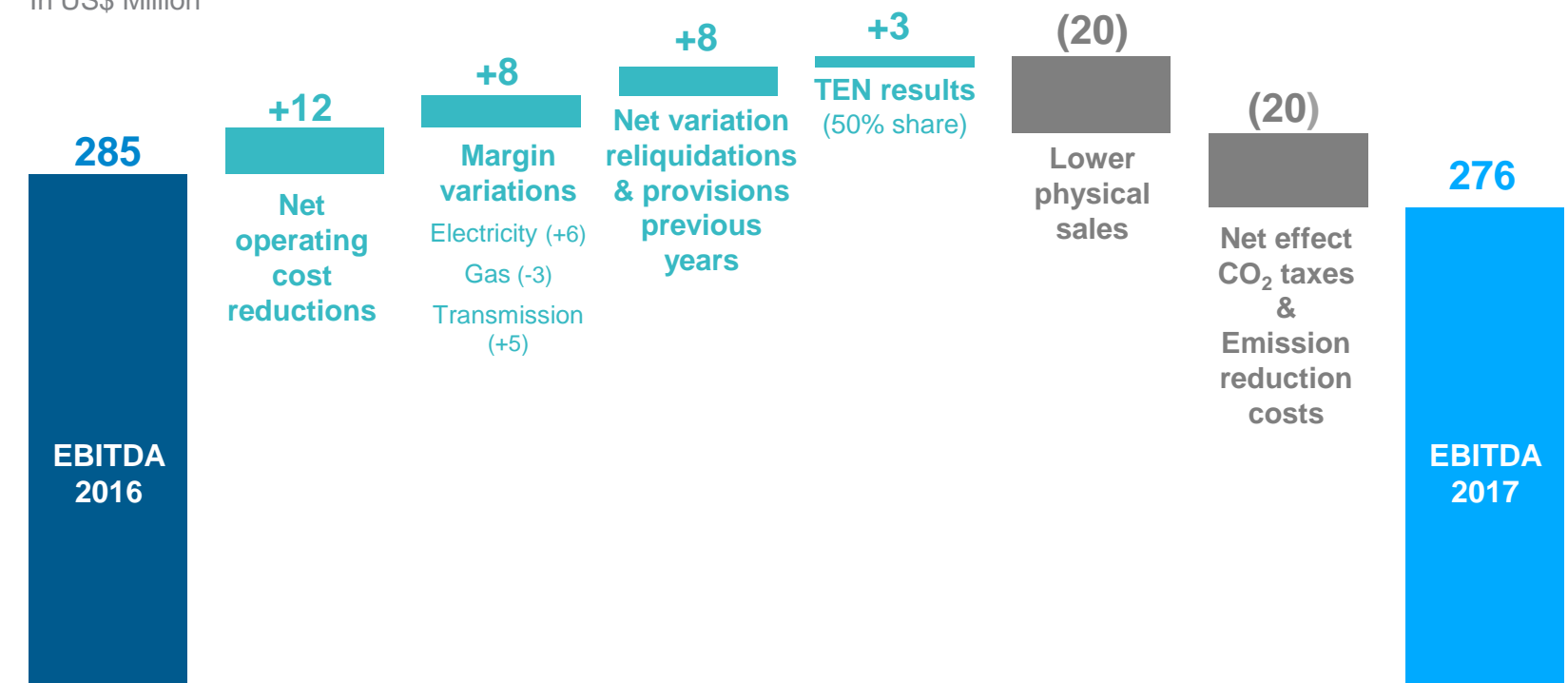
Addenda



# AS EXPECTED, EBITDA IMPACTED IN 2017 BY CO<sub>2</sub> TAXES AND LOWER PHYSICAL SALES

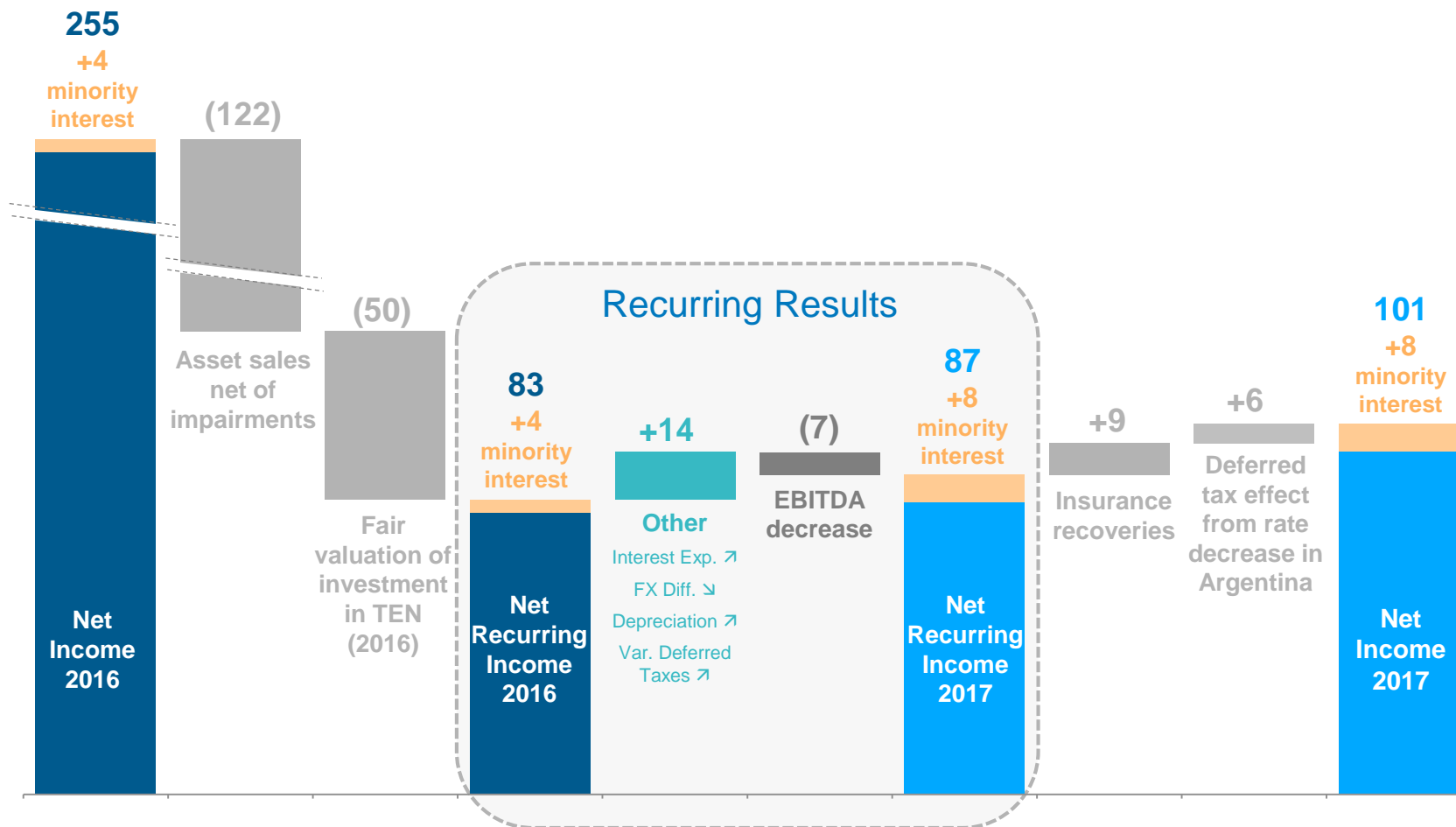
Lower physical sales and green taxes partially offset by positive margin variations and cost savings

By main effect  
In US\$ Million



# RESILIENT NET RECURRING INCOME

In US\$ Millions

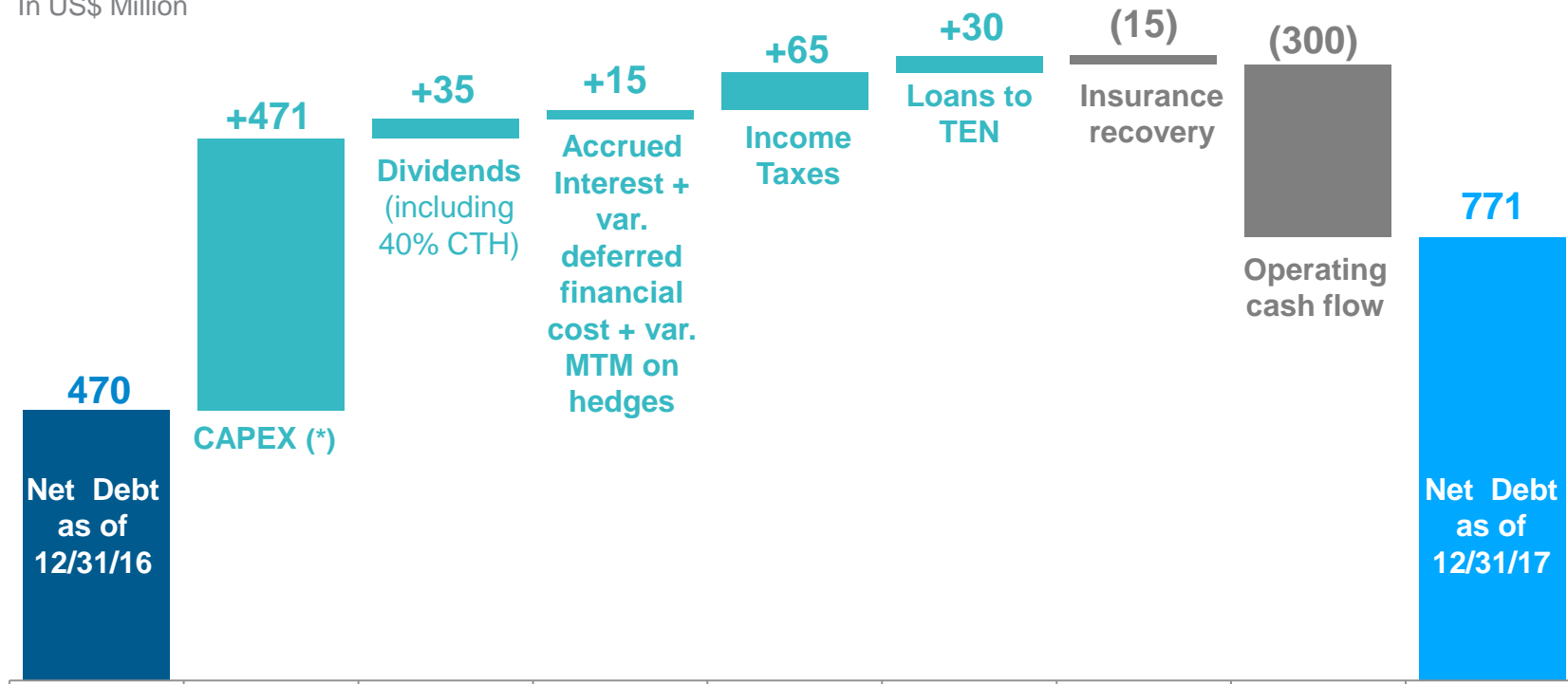


Significant non-recurring income from asset sales in 2016

# STRONG CASH FLOW GENERATION

US\$471 million CAPEX financed with available cash and operating cash flow, with debt drawings of only US\$100 million

Main cash flows  
In US\$ Million



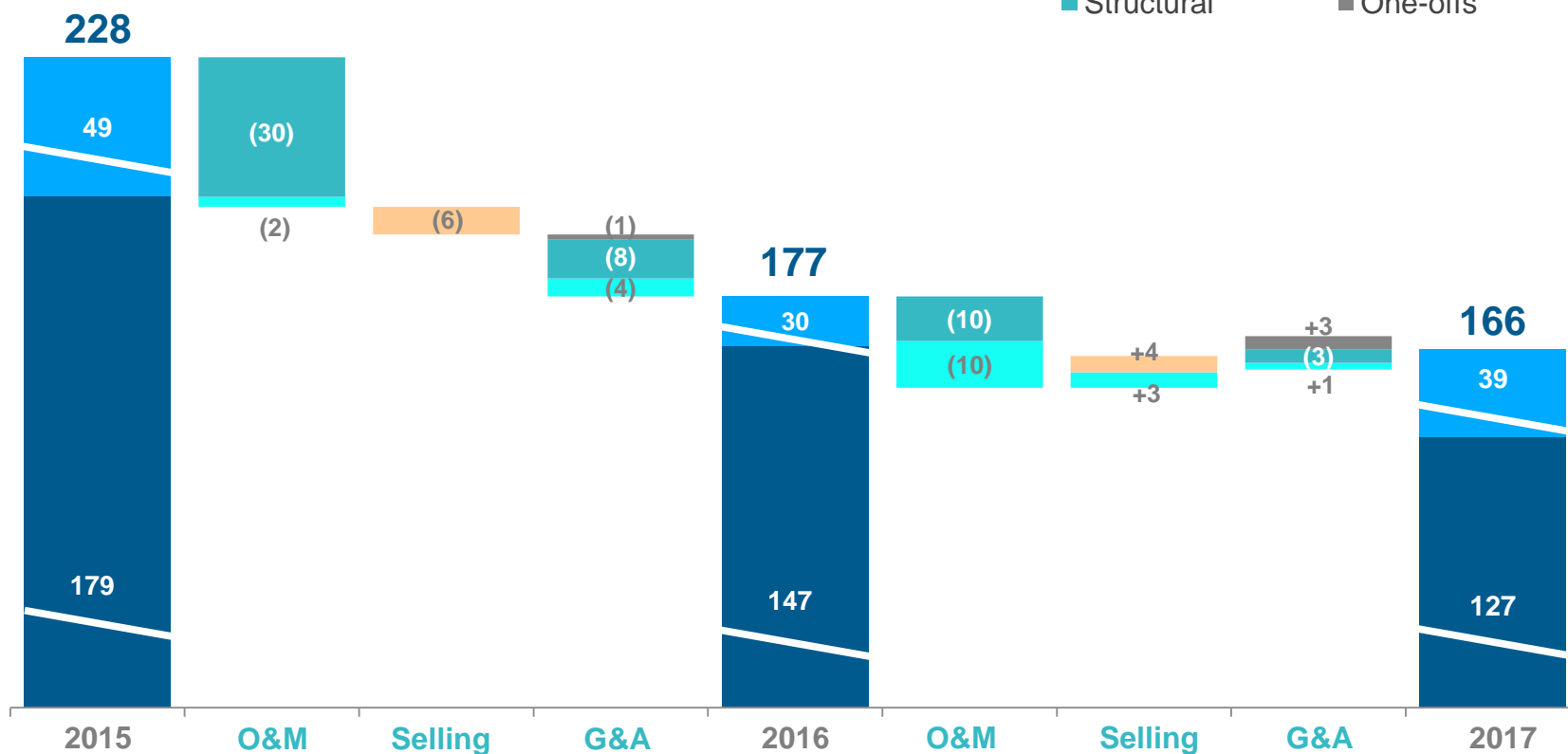
(\*) excludes capitalized interest



# COST OPTIMIZATION EFFORTS HAVE PROVEN FRUITFUL

By main cost saving (..); cost increase +..  
In US\$ Million

■ O&M                      ■ SG&A  
■ Personnel                ■ Development  
■ Structural                ■ One-offs



# ROBUST FINANCIAL STRUCTURE: ROOM FOR FURTHER GROWTH

## Net debt/EBITDA below 3.0x

- Strong cash flow generation
- Proceeds from asset sales (TEN) in 2016

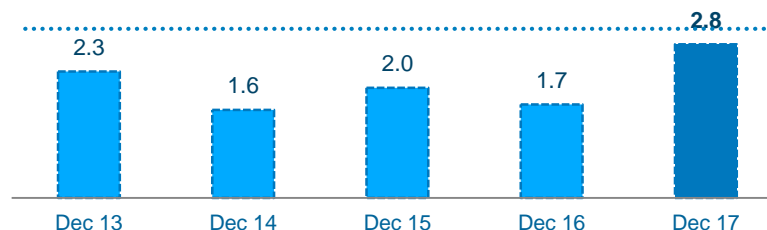
## Rating confirmed @ BBB (Stable Outlook)

- International: S&P & Fitch – July 2017
- National scale: Feller Rate (Dec-17): A+ Positive Outlook; Fitch (Jul-17): A+ Stable Outlook

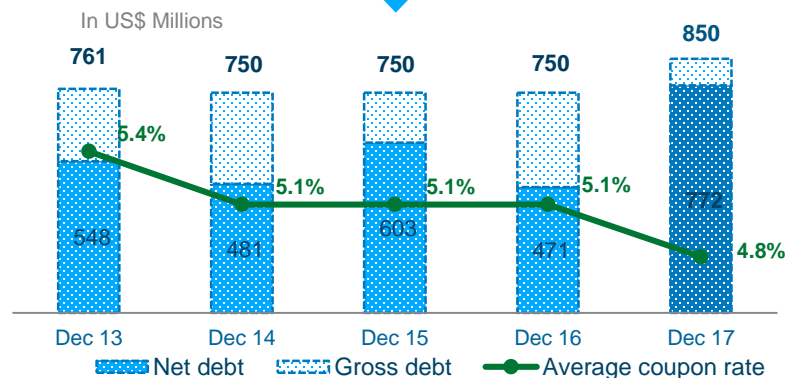
## Debt details:

- US\$ 750 million 144-A/Reg S Notes:
  - 5.625%, US\$400 million 2021 (YTM=2.476% at 12/31/17)
  - 4.500%, US\$350 million 2025 (YTM=3.661% at 12/31/17)
- 1.58%, US\$100 million bank loans maturing 2018
- US\$270 million bank revolving credit facility maturing June 2020 (*undrawn*)

## NET DEBT/EBITDA ≤ 3.0 X



## MODERATE DEBT INCREASE, WITH LOWER AVERAGE COST

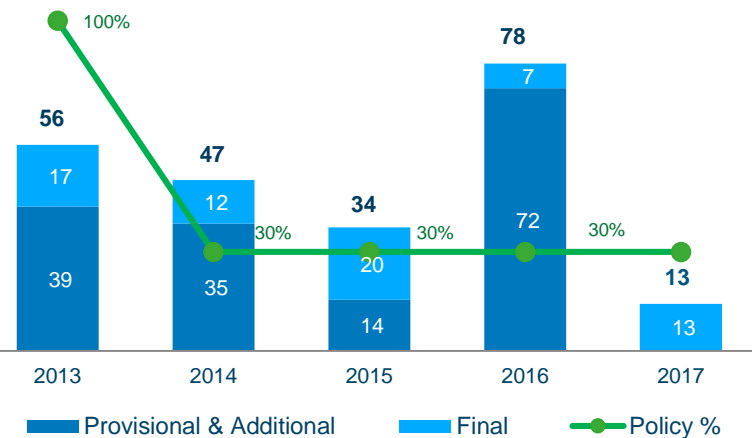




# SHAREHOLDER RETURN

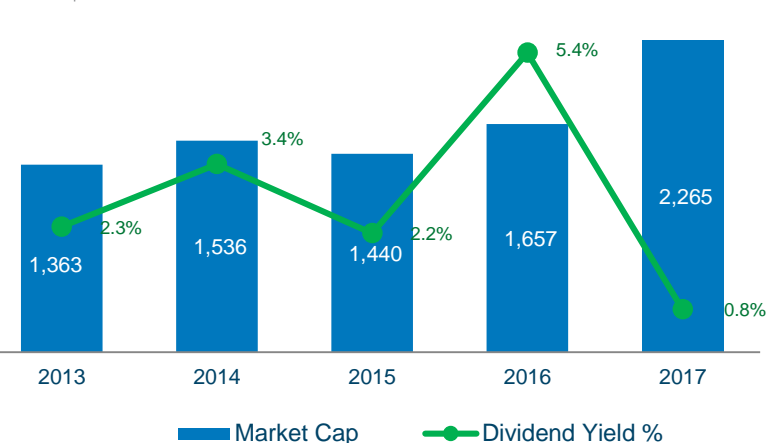
## DIVIDENDS PAID

In US\$ Millions

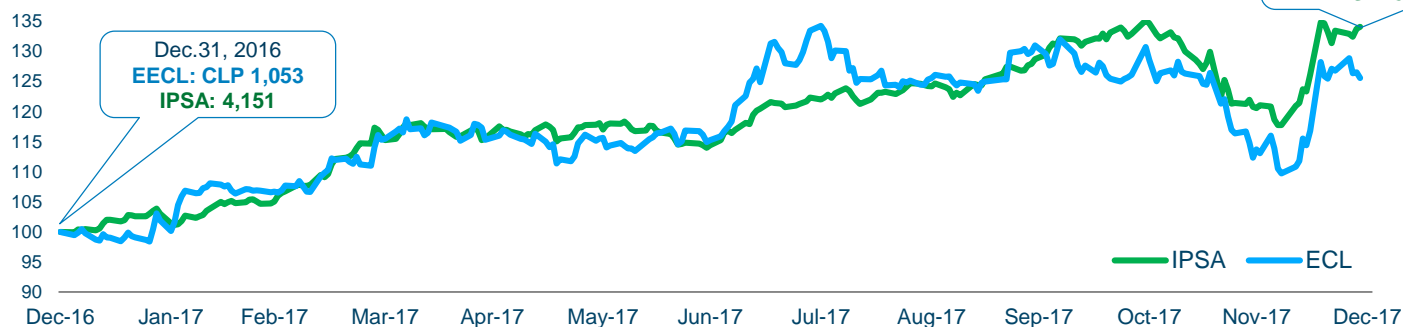


## MARKET CAP & DIVIDEND YIELD

In US\$ Millions



## SHARE PRICE EVOLUTION



Index: 12/31/16 = 100

Includes dividends

Dividend yield: dividends per share actually paid in year *n* divided by year *n-1* closing price

## KEY TAKE-AWAYS: VALUE CREATION FOR OUR STAKEHOLDERS



### DELIVERY AND DEVELOPMENT

- A US\$2 billion 2015-18 investment program will allow EECL to expand its presence nationwide, with an excellent PPA portfolio:
  - TEN 1,500 MW, 600-km transmission project in operations
  - 375 MW IEM coal project & Puerto Andino under construction on budget, schedule and performance
- Commercial strategy and new project developments focused on renewables, infrastructure and energy efficiency solutions
- Ongoing study and development of innovative alternatives to support Chile's growth in a sustainable manner



### CLIENTS AND OPERATION

- Important growth in client base and portfolio diversification
- Efficient capacity growing in line with strong, long-term PPA portfolio
- LEAN Program: successful execution of G&A, O&M and finance cost optimization plan to adapt to new industry environment
- Smooth execution of financing plan, basis for further growth:
  - non-recourse TEN project finance
  - bank lines:
    - US\$ 270 mln committed;
    - US\$500 mln uncommitted
  - flexible dividend policy

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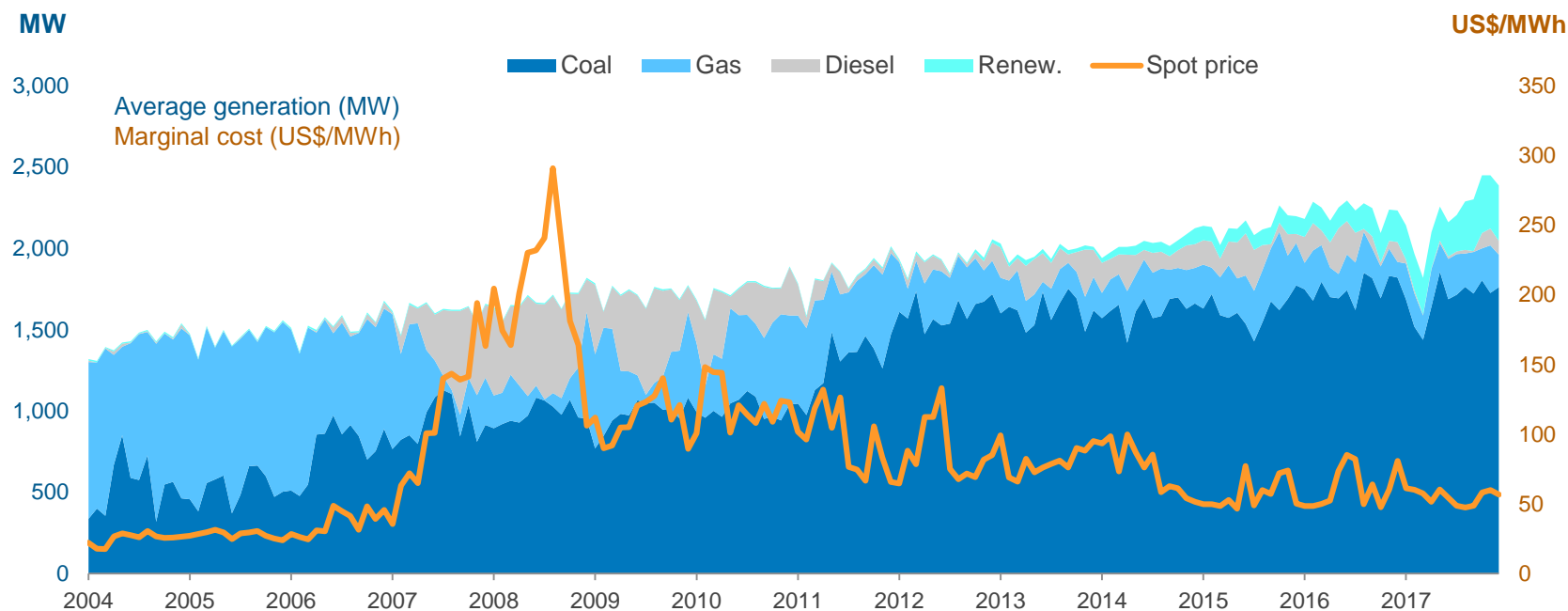
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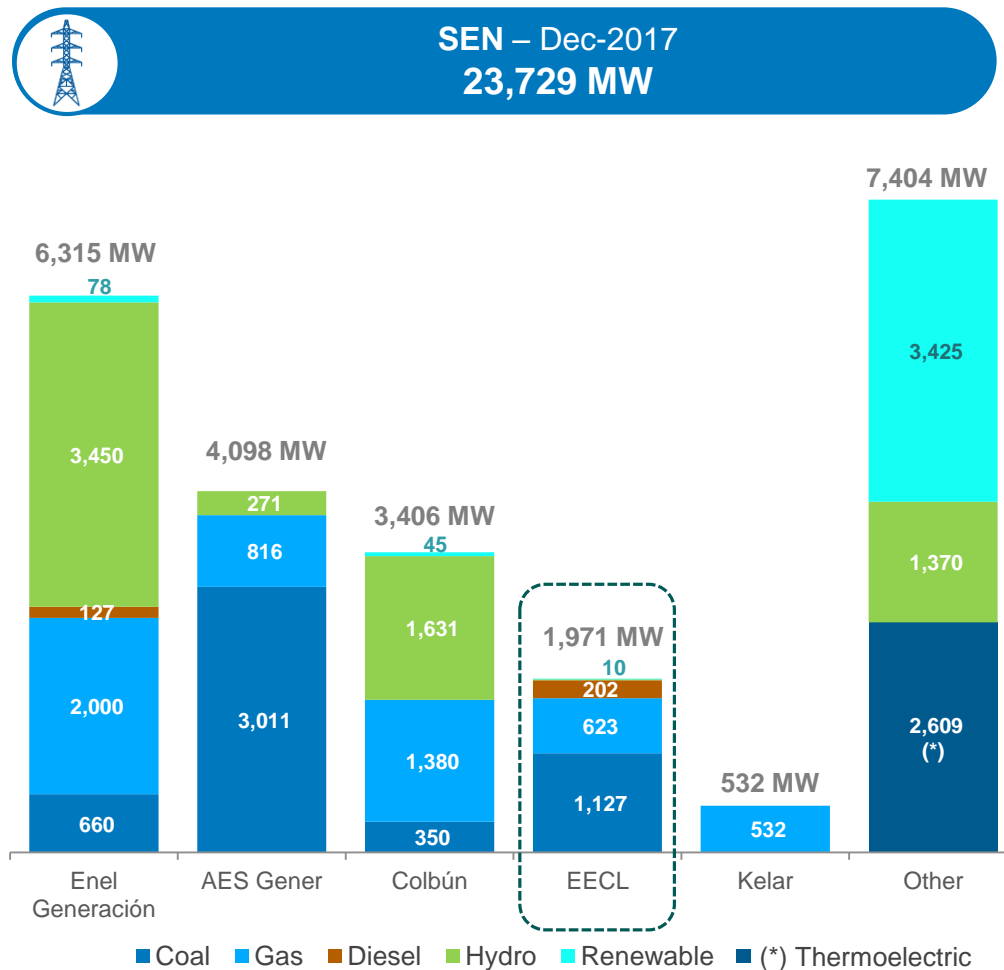


## GENERATION AND SPOT ENERGY PRICE HISTORY IN THE SING

- No exposure to hydrologic risk until interconnection is fully operative
- Long-term contracts with unregulated clients (mining companies) accounting for 89% of demand (bilateral negotiation of prices and supply terms)
- Maximum demand: ~ 2,577 MW in 2017; expected 3.5% compounded average annual growth rate for the 2017 -2026 period



# THE “SEN”: A LARGER MARKET FOR ALL PLAYERS



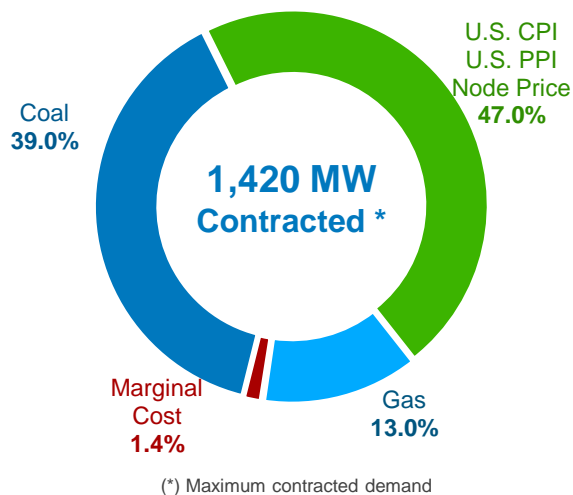
Source:

CNE ([www.cne.cl](http://www.cne.cl)) - Gross installed capacity – SING as of August 2017. Generation projects under construction as of August 2017



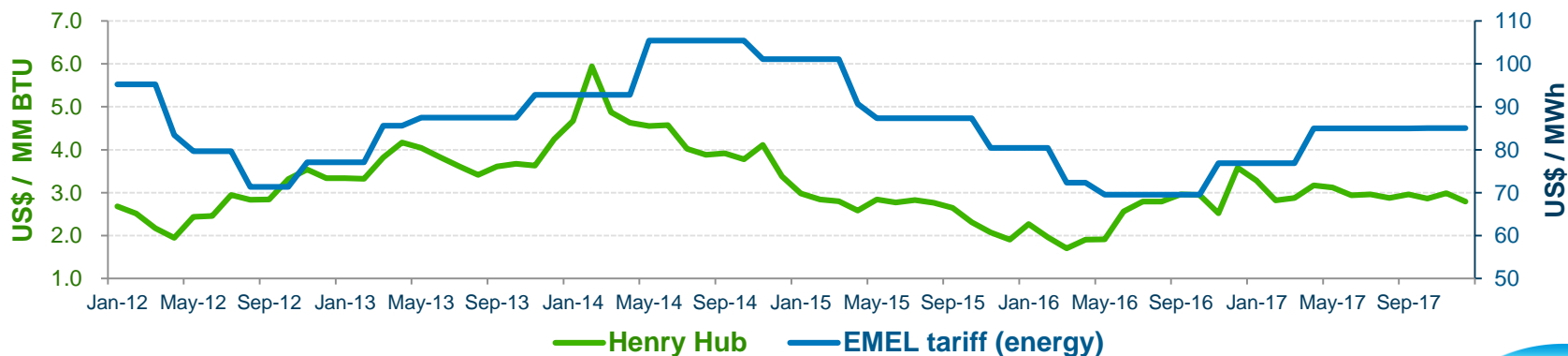
# PPA PORTFOLIO INDEXATION

Overall indexation applicable to electricity and capacity sales (as of December 2017)

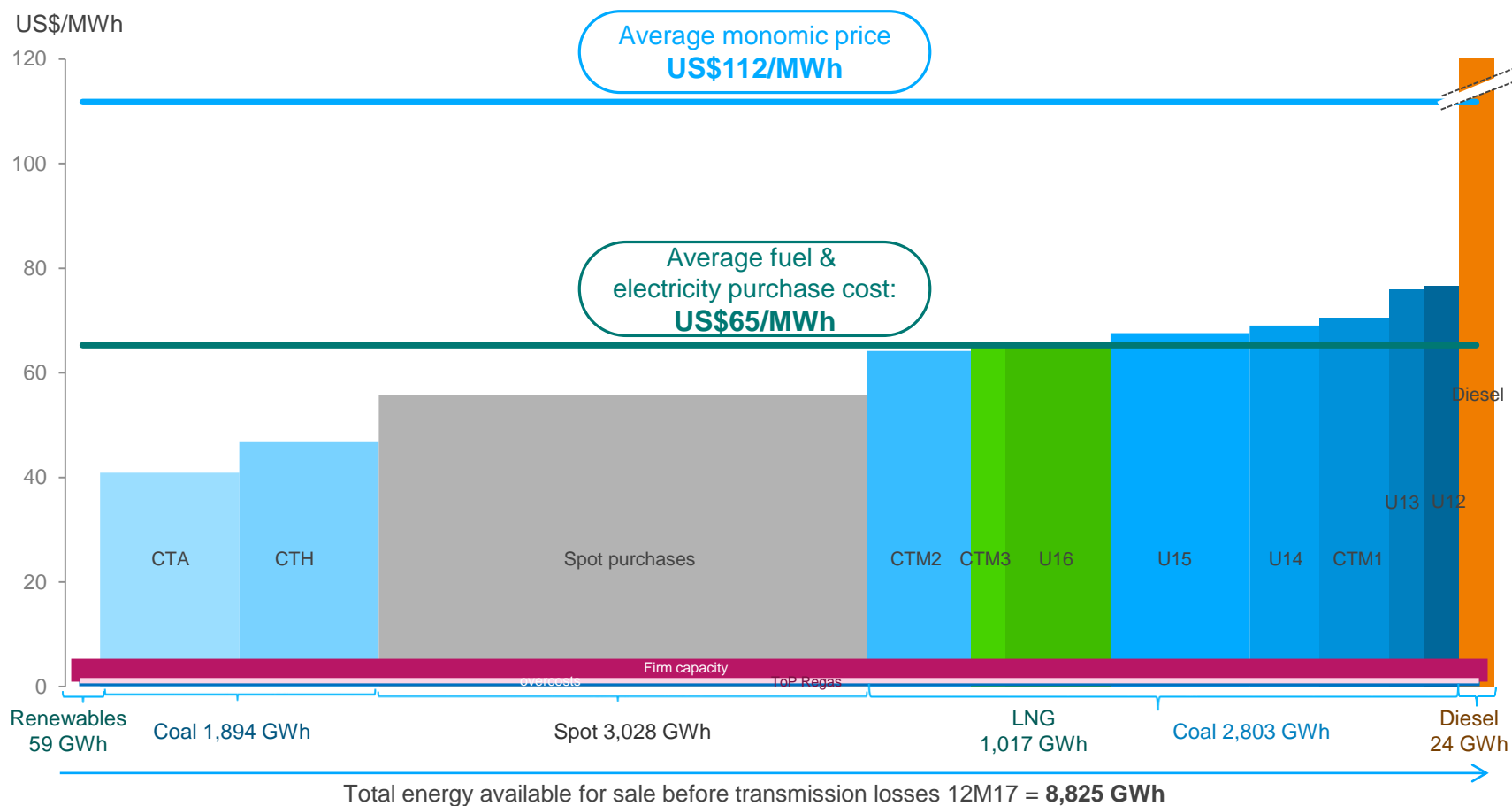


- Monthly tariff indexation for all PPAs except distribution companies (EMEL ~20% of our electricity sales), which are fixed for 6-month periods starting April and October.
- EMEL contract tariff:
  - Energy tariff adjustment: ~40% US CPI, ~60 % Henry Hub gas price ("HH"):
  - Based on average HH reported in months n-3 to n-6
  - Immediate tariff adjustment triggered in case of any variation of 10% or more
  - Capacity tariff per node price published by the National Energy Commission ("CNE")

Henry Hub vs. EMEL energy tariff



# ENERGY SUPPLY CURVE



- Average realized monomic price, spot purchase costs and average cost per MWh based on EECL's accounting records and physical sales per CEN data.
- Average fuel & electricity purchase cost per MWh sold includes the LNG regasification cost, green taxes, firm capacity, self consumption & transmission losses
- System over-costs paid to other generators averaged US\$0.8 per each MWh withdrawn by EECL to supply demand under its PPAs.





# TRANSMISORA ELÉCTRICA DEL NORTE S.A. “TEN” (PAGE 1 OF 2)

 **Infrastructure – Regulated** ► **~US\$0.9bn investment, 50%-owned by EECL**



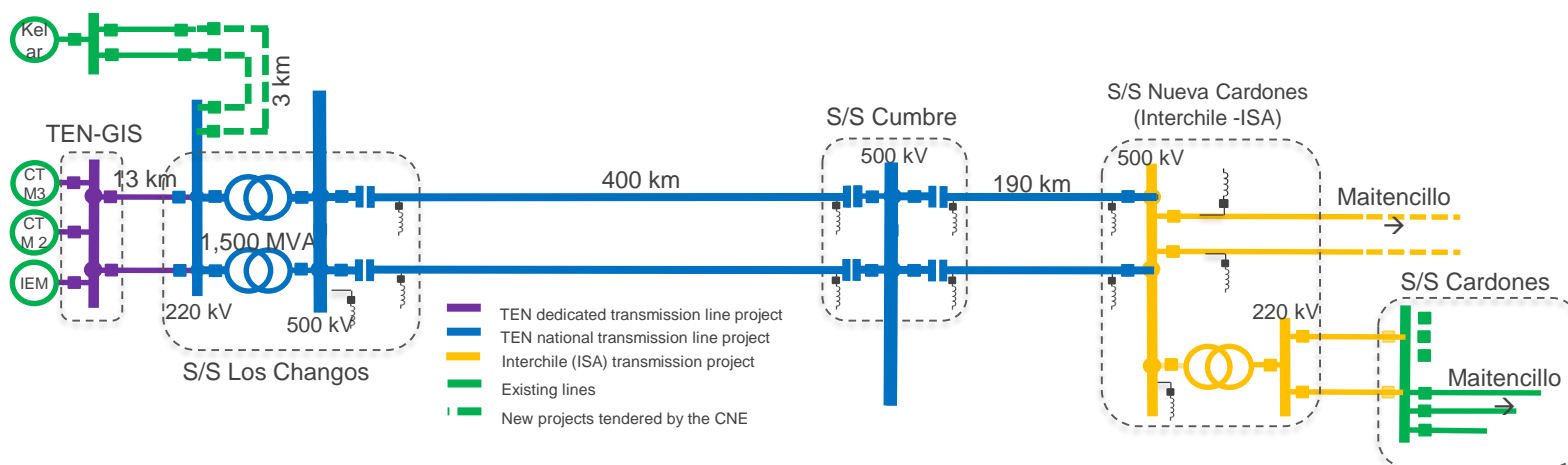
## Project Highlights

- Double circuit, 500 kV, alternate current (HVAC), 1,500 MW, 600-km long transmission line
- National transmission system interconnecting SIC and SING grids
- **COD: November 24, 2017**



## Main Contracts

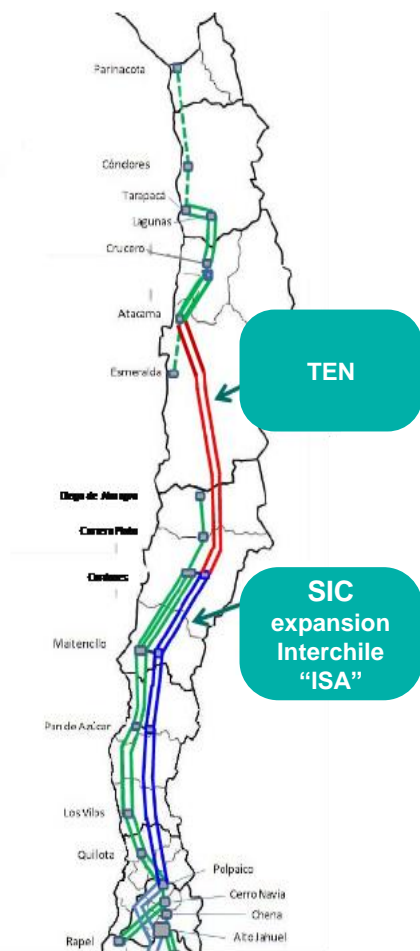

- Regulated revenues on “national assets” + contractual toll on “dedicated assets”
- Turnkey EPC contracts:
  - Transmission lines: Ingeniería y Construcción Sigdo Koppers
  - Substations: GE Grid Solutions
- Project financing (*see next slide*)




# TRANSMISORA ELÉCTRICA DEL NORTE S.A. “TEN” (PAGE 2 OF 2)



~US\$0.9bn investment, 50%-owned by EECL

**Regulated & contracted revenue**



**Project financing**

VI	Indexation	
In MUSD @ Oct 2013 FX Rates	In CLP to Chile CPI	In USD to US CPI
738.3	41%	59%

$$A.V. I_{n,k} = A.V. I_{n,0} \cdot \left( \alpha_j \cdot \frac{IPC_k}{IPC_0} \cdot \frac{DOL_0}{DOL_k} + \beta_j \cdot \frac{CPI_k}{CPI_0} \right)$$

$$COMA_{n,k} = COMA_{n,0} \cdot \frac{IPC_k}{IPC_0} \cdot \frac{DOL_0}{DOL_k}$$

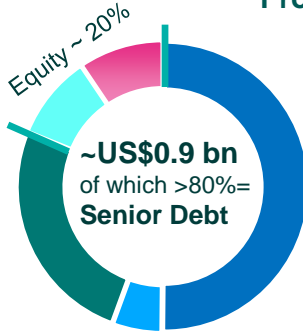
**AVI + EECL toll ≈ MUSD 80, a good proxy of TEN's EBITDA p.a.**

**TEN's annual revenues:**  
*(in USD millions at Dec.31, 2017 FX rates)*

<b>AVI</b> (VI annuity):	<b>75.7</b>
<b>+ COMA</b> (O&M cost):	<b>9.6</b>
<b>= VATT</b>	<b>85.3</b>
<b>+ Toll</b> (paid by EECL):	<b>~7.0</b>

AVI = annuity of VI (Investment value) providing 10% pre-tax return on assets (at least 7% post-tax return beginning 2020)

**Project Financing**

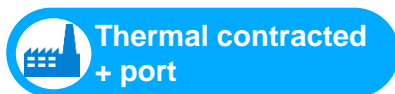


**~US\$0.9 bn of which >80%= Senior Debt**

- Senior 18-yr USD Loan
- 26-yr USD Fixed-rate note
- Senior 18-yr Local UF Loan
- Equity-RECh
- Equity EECL

**Total senior debt ≤ MUSD 745**  
**+ Subordinated VAT Facility ≈ MUSD 110**

# INFRAESTRUCTURA ENERGETICA MEJILLONES. “IEM”



**US\$1.0bn investment, within schedule and budget**



## Project highlights

- 375MWe gross capacity => 337MWe net base-load capacity
- Pulverized coal-fired power plant meeting strict environmental standards
- Mechanized port, suitable for cape-size carriers



## Main contracts & Progress

- Developed to supply distribution companies
- Turnkey EPC contracts:
  - IEM plant: SK Engineering and Construction (Korea)
  - Port: BELFI (Chile)
- Overall progress rate as of Dec. 31, 2017: **93%**

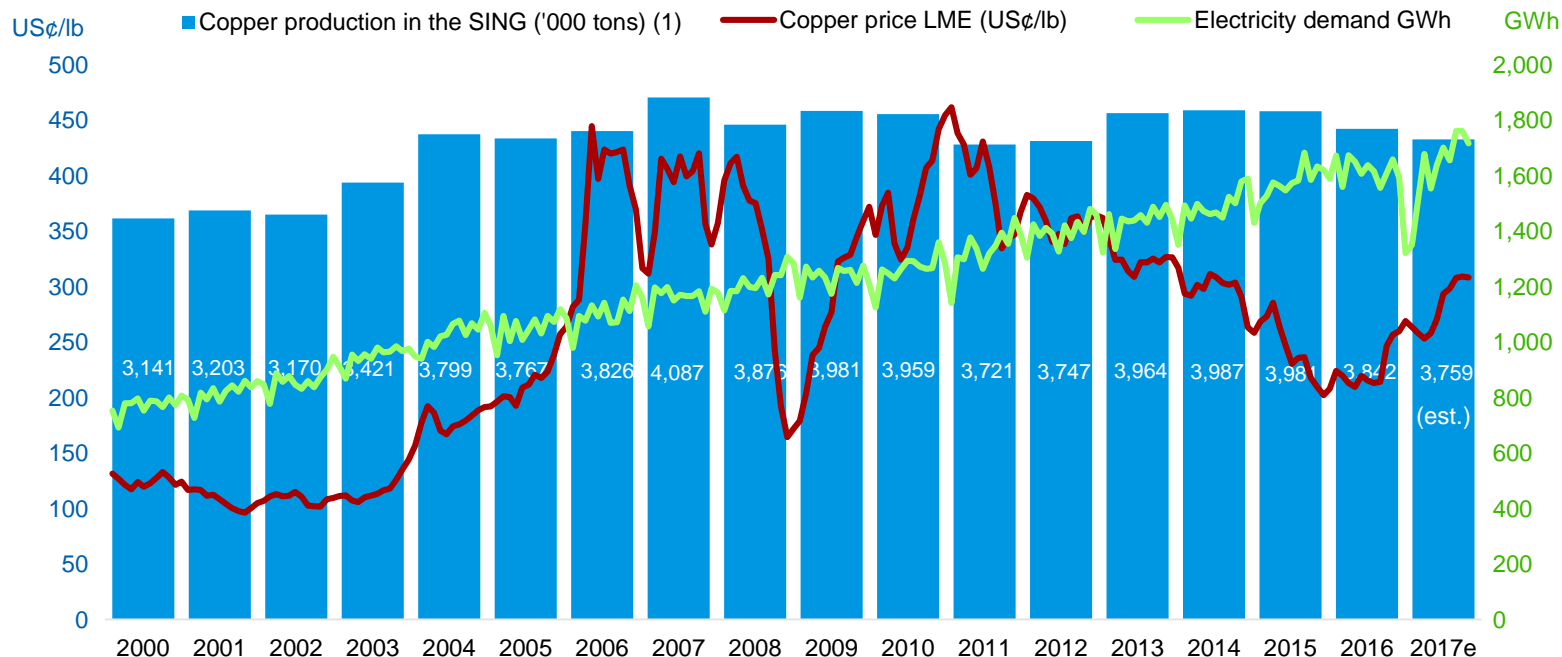


## Ongoing developments

- Scheduled completion date:
  - IEM: 3Q18
  - Port: 1Q18
- US\$1.0 billion investment (US\$860 million paid as of 12/31/17)
- Financed on-balance sheet within EECL

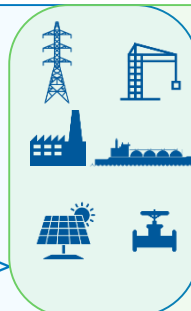


# COPPER INDUSTRY



## Chile's world-class copper industry is facing challenges:

- Scarce water resources => increasing sea water pumping and desalinization needs => higher power costs;
- New port infrastructure required;
- Need to keep cash cost under control;
- More demanding environmental and social requirements => need to reduce carbon footprint.

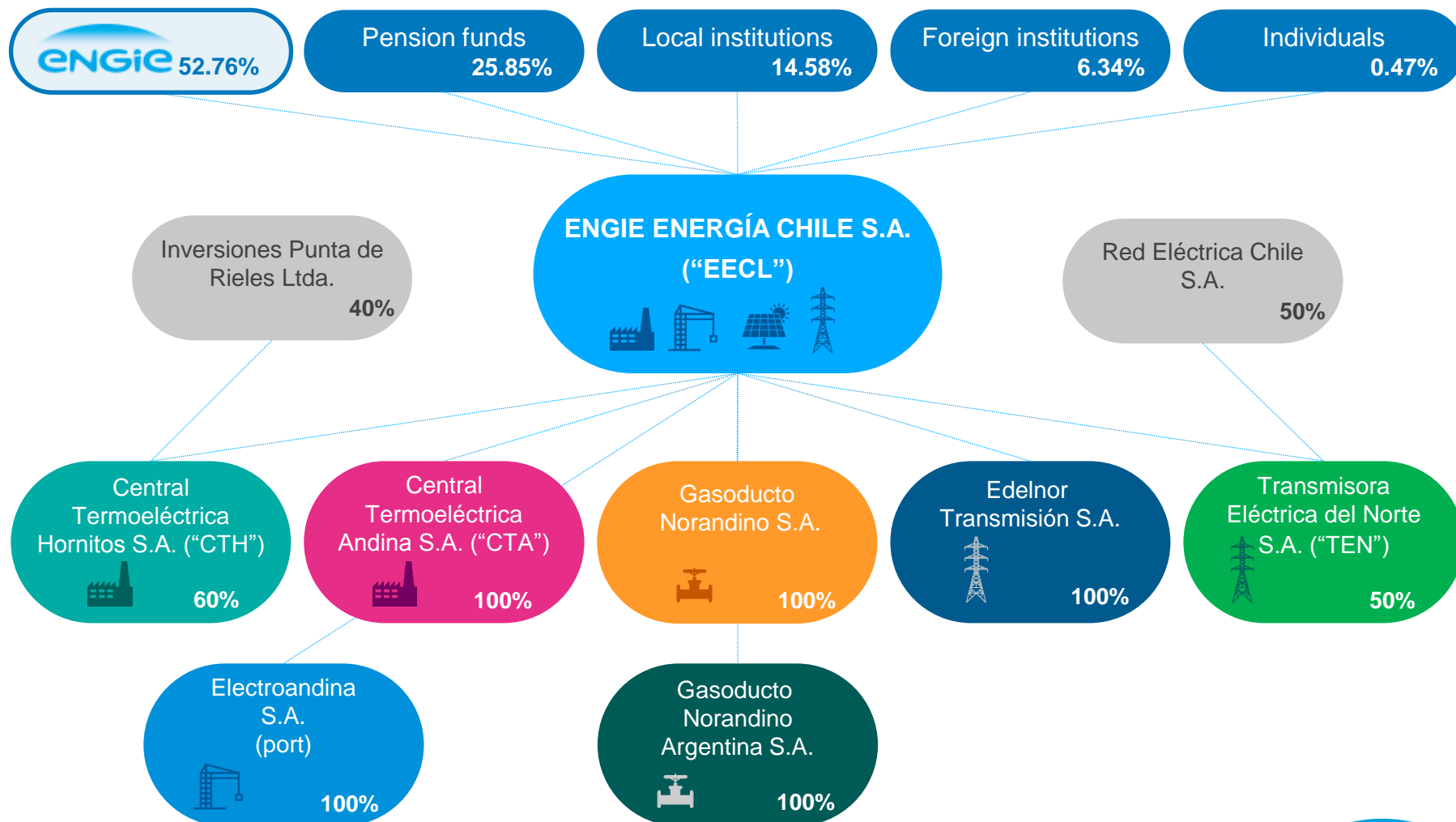


## Engie is prepared to help our clients:

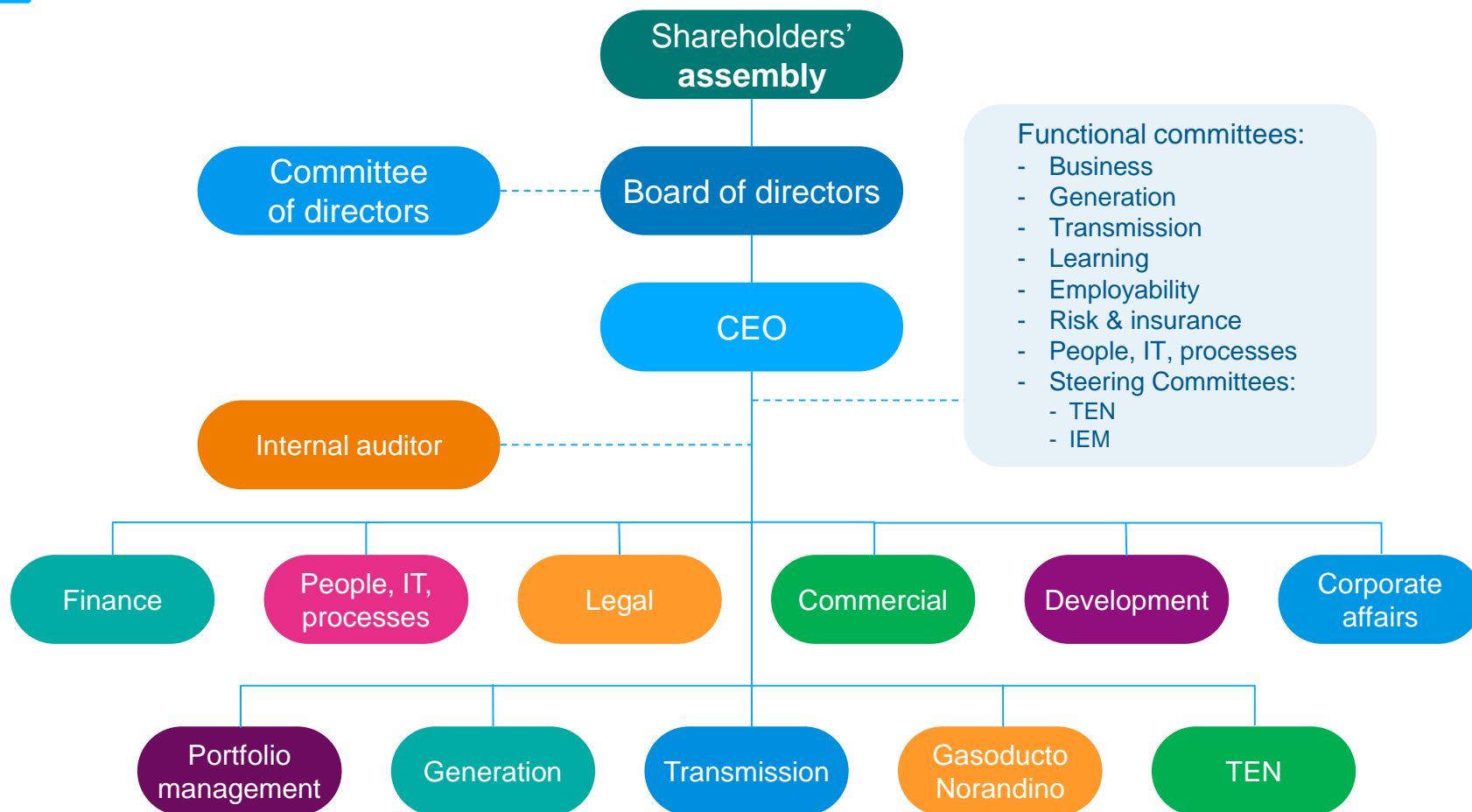
- Power production & transmission; financial strength; group expertise in the water business;
- Available port infrastructure;
- Ready to provide energy efficiency services;
- Diversifying power sources to reduce carbon footprint.

(1) Copper Produced by SING producers calculated as Chile's total copper production less El Teniente, Andina, Salvador, Los Pelambres, Anglo American Sur, Candelaria and Caserones. Source: COCHILCO

# OWNERSHIP STRUCTURE



## EECL ORGANIZATIONAL STRUCTURE



- The Board of directors includes three independent members out of a total of 7 directors
- The Committee of directors is formed by the three independent members and oversees all transactions among related parties

# FOR MORE INFORMATION ABOUT ENGIE ENERGIA CHILE

Ticker: ECL



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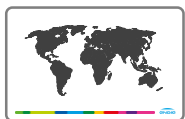


[inversionistas@cl.engie.com](mailto:inversionistas@cl.engie.com)

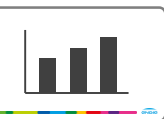


<http://www.engie-energia.cl>

## MORE INFORMATION ON 4Q 2017 RESULTS IN <http://www.engie.com/en/investors/results/results-2017/>



Presentation



Addenda



Press  
Release



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conference  
audiocast



Financial  
report



Analyst  
pack

# Disclaimer

## Forward-Looking statements

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