

Q2 2014 Earnings Call

Company Participants

- Antonio Carlos Velez Braga, Investor Relations
- Luiz Fernando Rolla, Chief Financial Officer and Investor Relations Officer
- Paulo Eduardo Pereira Guimaraes, Head of Corporate Finance

Presentation

Antonio Carlos Velez Braga {BIO 16813855 <GO>}

Good afternoon to all of you. My name is Antonio Carlos Velez Braga, Investor Relations Officer of Cemig. We will now start our transmission of the video webcast to bring the results of the second quarter of 2014 with the presence of Dr. Djalma Bastos de Moraes, our CEO; Dr. Luiz Fernando Rolla, Chief Officer for Finance and Investor Relations; Dr. Leonardo George de Magalhaes, Controller; Dr. Paulo Eduardo Pereira Guimaraes, Head of Corporate Finance and Dr. Marcus Vinicius de Castro Lobato, Head of Power Trading Planning.

This transmission maybe accompanied by or thorough the telephone numbers 551-121-880155 or 55112-188-0188, also through our slides <http://ri.cemig.com.br>.

Now we hand over the floor to our Chief Officer for Finance and Investor Relations. Dr. Luiz Fernando Rolla.

Luiz Fernando Rolla {BIO 1852035 <GO>}

Thank you. To begin with our attendance and participation in the conference bringing the results of our second quarter. It will follow the same format as usual. We will deal with the more rigid part of it with the presence of our CEO and then the other officers and myself, we will go through the figures reflecting the results of the second quarter.

We had a very substantial profit compared to last year that's a very substantial addition. What could you say to us about the figures.

Good afternoon to all of you. Unfortunately my time has been restricted by an upward movement we have right after this but I should inform you that we have strictly meeting -- been meeting our -- all our commitment levers our investors and by offering to our state and the other states reserve, our debt services which I believe have been very flexible. Our strategy has being participation in auctions, acquiring assets to add value and we've been very successful in our path.

Second quarter it was a very good quarter, with a net debt of 38% of net revenue gains, EBITDA plus 26%, net income was 20%. Factors that supported our good performance. Carriers in spot market, you know what's being happening with water situation here in Brazil, it has led to a very relatively high spot price -- sorry I was moved by the results, EBITDA reflects our efficiency. And of course, also boosting our net income directly which reflects in our dividends and which will allow share.

FINAL

Increase in our operational efficiencies already demonstrated via the various operating indicators, that was accounted by a reduction in our costs. The lower costs accept for factors that are outside our slow production, but of course, as we've said, we have implemented our policy for growth, we had sort a period of alternatives for growth. In the second semester, we have already completed some of these initiatives, recently, we acquired 49.9% of total of Retiro Baixo, that means 240 mega watts. More recently also we acquired stake of stockholding that used to be in the hands of Petrobras, in Gasmig and we bought Isagen. It's nothing that we would have against Petrobras participated in Gasmig. However, in phase of the decision by the President of Uberaba to reduce ammonia factory in the so called Minas Triangle, Uberaba we could not wait from supplying that venture with Natural Gas. That's exactly what we are about to give. We have this commitment to provide to power to this ammonia factory in Uberabe and we approached our partner Petrobras, they hold 40% of Gasmig and Petrobras decided that was now the priority for them investing in a park line between the gas all over to Uberabe. The closure then was to make an offer and we acquired the 40% of held by Petrobras and these negotiations are now nearing completion and that may be now back fully in our end. We can seek a new partner. We don't want to go solo in those which is expected for some two years from now.

Bloomberg Transcript

That's why we are looking for a partner among companies with right expertise. That's already relevant part of our GDP and the fact that we bought back the 40% from Petrobras is relevant. We also expanded our stage in front employment, acquiring 10% of what Antonio had. Also negotiations are almost completed and as you pretty well due to the 579, we are losing a little bit of our generation.

So our main effort is to expand and to get to the level prior to 2009 in terms of generation. We are looking for new ventures in the generation area. We been trying, if you do that and we been doing that of spreading our interest in that area and what this agreement with Renova makes sense within this context. Yes, we are expanding by 25% our stake in Renova. There is few wind farms and this allows us this change in investments adding value with, enable us to extraordinary dividend of BRL1.7 billion this year. That's what we been trying to do. As you show the figure of our company, working with a lot of synergy, offering very quality, high quality services to our consumers while at the same time on the plan to the interest of our merger, stockholder in State of Minas Gerais and all the shareholder in Brazil and abroad.

So it's not surprise that we have such a magnificent results. As a matter of fact, the whole year result, you know that we are taking a suite, everything that 579 Act was introduced. We were at no moment in acquisition against 579 which was that imply consumers benefit to all consumers in Brazil, all the population but there are some typical facts. For example,

we have this concession contract, the contract was at the location extended from another 20 years of ANEEL with a breakthrough in all the authority attended that was signed.

We want to take this, we want to make it feasible to have that extended 20-year period, those three hydro plants. We have another check of our side with the Higher Appeal Court but the decision was adjourned indefinitely (inaudible) that took the life of the candidates of Brazil. That tragic accident.

So beginning of the year was already solved and the project that we want to it for a long time to come. We are very optimistic about our company, about our country and we are sure that we'll make it to the best balance of all the expectations of all the stake holders. Thank you and have a good afternoon.

Thank you, it's important to have the strategic addition and due to the convey to all of the listeners through this conference. Now we will start going down into further details in our figures that have been disclosed recently, more precisely last week. And we debate some other topics with our finance director. Thank you for your attendance. As our Chief Executive Officer stress our strategy for recomposition of our generation capacity has being doing strongly and gradually you can see in slide number six.

We have already reached those numbers of 7,468, megawatts which should be the standard even further with the construction of another 1,360 megawatts and this will as our CEO said restructure our capacity to generate -- for generations. We are also acquired another 10% on Santo Antonio, Belo Monte we acquired 8%, and another 3% in negotiations with Vale.

And also another we are capitalizing, we are -- we now have strong 300 -- we're very substantial amount of average megawatts under construction would also account 567.7 of those megawatts and contracted another 363.2 average megawatts and this will add to our projections into the coming years. Our strategy was adoptive within this split of the impact of the acquisition measured, 579. This was all intended to ensure ability. We have very solid decision making and the figures are sustainability, value adding, innovation and this has been repeatedly recognized by the third around the world and especially here inside Brazil.

This commitment we have towards sustainability is crucial to us and they are consistent with into the next year. Among the areas, we are showing greatest ways of the old in natural gas growing very strongly in terms of sales, in the years as the media has been catching directly consumers mostly industrial in the beginning then with -- incorporating residential consumers and they are now had the highest potential for consumption of natural gas supplied by Gasmig.

Our supply volume is already very high through the adjacent pipeline and we move ahead even now that we decided to acquire stake of Petrobras and then decided to invest in the triangle of Minas Gerais to see that ammonium factory, the one Petrobras felt and that will be a major factor reducing our sales in the areas, that approach, very promising both

medium and we certainly will acquire and achieve good results supplied to another segment.

Now let's take you through the figures. So the result of the second quarter as our CEO said, net cash was positive, net income by itself already justified optimism with our 38% net revenues reflecting from one year to the other, from the second quarter last year to the second quarter of 2014. That shows higher volume of pay offs in the spot amount with the spot market prices very high levels which explains the gain in revenues.

Also the number of clients has grown substantial in order to achieve for example 26% capturing and even larger portion of the market. 169 house and new consumers connected. That we think is a deal that result in a growth of 3.5%, that was change in trends some industrials to residential consumers and involves the distribution of this energy to consumers. Those are consumers driven in that as the projects portfolio clients.

We have increased our share in the free markets reflecting that 26% growth in the Q2. Highlight here for the clients and investor with conventional clients we are already very strong. We are delivering in the market and this other non-conventional markets we have been growing at important 20% and that was highlight of the period.

Next slide shows operational expenses. We also had 27% increase in operational expenses but we can see what energy is important here from the distributors that had those increase in bought energy, the involuntary exposure and also the stock market for us had comparitely to 2014, the average spot price was very, very high and we had increase in expenses. Of course this was offset by transfer of funds from CDE, 1.470 billion from the fund, we have already received almost 1.195 billion by the end of the year we have received the remainders. All these amounts are very substantial in the -- very substantial increase in funding as compared to the same period 2013. Of course the CDE is targeted for the negotiation, one of the alternatives being proposed is the increase in the balance made by subsidies that was pretty much from the point of view so that would be recognized or not, how do we fund without that.

Okay. Good afternoon everyone. The figures related to the Involuntary exposures in Brazil are very much depend with this funding in almost reaching 1.5 billion in the 2014. We had to bear an additional 500 million or more compared to the previous quarter, as we continue this slide. It's important to say that this 6.5 billion reference, allocations were coming from June, now almost completed, we were nearing completion only requiring of almost filing. But we included in our balance sheet, 124 million that was involuntary exposure in May and June. First we're only the -- if not so that this would only occur in the third quarter, like that is we're lower because during winter time, we have a drop in figures anyway, but there is 6.5 billion loan to make up for this involuntary exposure of the territories within (inaudible) relates in cash for the distributors, in builders loans. Apart from this, all our other expenses are within that context of cost reduction with a commitment we have undertaken for our investors increasing our capacity.

We operate our system with reduced resources and we have the managing. We can see that expenses that show that significant growth in the semester was non-manageable

FINAL

expenses. We can see what emerging was growing, also costs in the routes of the network and it's worthwhile to consider the fact that most expenses, that has to do with the buying of (technical difficulty)

On the other hand, you got also higher revenues somehow offsetting the other. There are other sporting questions but overall our results in terms of expenses of personnel is better than last year. We have been strongly pursuing program for disconnecting employees and we can see a reduction, substantial reduction as compared to last year in terms of our personnel, payroll. That also includes also (inaudible) we consider given the situation where we had to play in the current trend. So those are the social concerns we have with distributors but within the context of today, how does this exposure stand at this moment. We had a very important factor, from May this year, most of our exposure were due to debt and this has been covered. There has been an exposure 1% of our total loans but still much better than in the first semester, renewable contracts for the deliveries from March. But as of March, these contracts went into effect.

After May this was somehow decreased and remaining factor that much lower than in the first quarter. We have growth of EBITDA, a very substantial to as against in the graph, we are adding to achieving very positive performance for the group as a whole as against 1.8 for the second quarter 2014 adjusted and this was projected for the 2014 guidance, we have already achieved 2.4% of the lower limits of 2014 guidance and this reflects also the stock holding even in the companies where we don't have control in interest. If it follow and that all these criterion, we are at the level that made very comfortable to achieve the figures as predicted for 2013.

That was a very positive response and for challenge that maybe our Board of Directors are there and we are very relaxed now to be able to say that we achieved the figures and agreed and to commit before our investors, investments that have been made are strong (technical difficulty) boosting it had 18% participation in the second quarter 2014 coming from equity interests, we are adding value to the -- into our investors and shareholders.

Consolidated net income with same conditions. It had adjusted to 943 million or 30% growth from the first, we include those 20% nominal values which was already very good. 2013 had already excellent results and in the first and second quarters of 2013 very good results, even though with additional gains that was capitalized in the second quarter last year. And the quality of the results you can see here are therefore very good, very solid and it derives from our decisions, our strategic view in order of investments that add value and this has been done in almost would allow efficiency.

Then our consolidated debt profile, we have an expert in that area, Paulo Eduardo, could you please describe the slide 12 please.

Paulo Eduardo Pereira Guimaraes {BIO 20547429 <GO>}

Yeah, good afternoon to all of you. To follow this stretch into debt profile, as per the payment in the short-term. We've realized from the strategy that we adopt this year by going forward, short-terms offers, due to the insolvencies of the governmental policies,

Bloomberg Transcript

we had the deduction [ph] of risks on the part of investors who would increase and that could lead to high interest in the long-term.

So we decided to go for short-term launch. We roll this into next year and we can do with lot of comfort given our history, we also play based our bond in the market and always the demand has exceeded the offers, the supply of bonds and this makes us very comfortable about this, this has increased because in terms of our net through the CDR and of course this is being on increase but both generation and distribution.

The earnings through 105, 107 interest rate CDI, that's very adequate through our debt, our debt are very comparable to us, 1.5 EBITDA, this was comfortable and also part of that sense that on policy of credit of the company that very contagious position in the sense of being able to finance fund our own growth. We have a substantial capacity of investments given our satisfactory indicator, finance significant part of our investments with that, we should roll out that by end of the year and some other operations out there. So in terms of April and June, our debt maturity date for our debt, that's, well we see that we will be doing throughout this year and had behavior of the market how we will decide about that longer or shorter term.

After the election, we will have a clear view to allow us to take more solid decision about how to deal with that debt. There is no concern or worry about volume. We had debt operations even under very much tougher circumstances. Demand will come in, the supply. Yeah, an important part of our strategy is growth, we have been made a very good investment, 2.8 billion investment by (inaudible).

We are seeking those assets that leads you an appropriate view given our investment policy, appropriate returns as it mandated by our Board, adding to our EBITDA and the investments are -- the parts of those are expand the growth we been getting recently with effort we've made to improve the performance of each assets we have acquired.

Lot of success following this investment policy that adopted that will allow the investments of no other companies that had invested anything near 2.8 billion in 2013 that point at our operation for draw, our proceeds of new opportunities, investments for growth, our discipline, investing with result and appropriate return so as to add value to our shareholders, we've been investing in all our segments, you can see in generation, we have made already a very sufficient investment. In terms of mid-term as well adjusting it to our near term contracts, some investments are still to be made and remunerated by ANEEL

Also we are figuring to renew and report this our investors -- and improving the quality of the services delivered to our consumers. And of course, from the point of view a group as a whole, we -- our the vast investments given our division of the (inaudible) or the power markets is having. And we have included in our strategy in the recent years in a very positive way.

Our financial situation allows us to absorb for not only the growth in generation, the growth of our industrial assets in industrial (technical difficulty) also same time getting for

the shareholders, very well balanced catering for the needs of our shareholders, the need for investments.

We approved as our CEO said BRL1.7 billion of concession investment that's really caters for expectations of our shareholders and with the cash flow that really demand BRL2.8 billion made by June and this with a very reasonable cash balance. There are few others in progress and there will be equally accomplished, that's display of our strength of power. I'm sure that we have been distributing (technical difficulty) to our shareholder. I can see 61% of our -- well 61% growth in the value of our shares, if you are trying to invest, definitely they can get money.

Yeah, I can say that we have some regrets as of 2012, here we can see the fantastic increase in value of Cemig share, 61% of preferred shares, 58% increase of ordinary shares is already included (technical difficulty) dividend, that was, that's already taken out into consideration.

Overall for Cemig that has been outstanding performance due to our strategic strategy for shareholders and our operations in the stock market. The performance of last year given an example, those results derived mostly from distribution business considering that in line with (technical difficulty) as a various of those factor levels and final spectacular is our delivery followed transparent cash flow, 22% increase in share value. The Fenosa gas business is a very favorable business, those increase is very substantial and all that.

2.8% increase, but the figured numbers of last year the increase in value was very, very robust, now it was an accommodation happening. And in the growth, we know that those investments face us, it brings return viewed from 16% as dividend declared in line with 2014, including ordinary and extraordinary dividend with 50% by joint and by 50% by December, so immediately decides to pay loan 100% in June.

And already declaring BRL1.7 billion brings our extraordinary dividends and 1.1 billion already paid by July or on July 8, 2014 and now it's 604 million in September 30, 2014. So that's a very another very strong in the period of dividend.

This is only possible by adopting this ratio we have adopted to achieve a strong portfolio, capture gains, capture synergy on the various areas we're dealing. Our uptake due of complementary issues with Fenosa Natural Gas. All of this put together accounts for the good results that we bring to our shareholders. We have been recognized by our performance within less -- our prices, that in actually relation already to transparency 2014, while is very much involved in that and we have been made an effort to increase the readability of our balance sheet that has been recognized by the market that makes us very happy (inaudible) the prices, we had adopted out of one bringing results in a way that pleases very much our investors. These were the slides we wanted to show to you. And now we are available to you for the Q&A. Could you please coordinate. (Ends Abruptly)

FINAL

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

Bloomberg Transcript