Q1 2011 Earnings Call

Company Participants

- Luiz Fernando Rolla, CFO
- Unidentified Speaker, Analyst

Other Participants

- Carolina Carneiro, Analyst
- Claudius Cortorea, Analyst
- Filipe Lopes Acioli, Analyst
- Marcelo Britto, Analyst
- Mariana Coelho, Analyst
- Vinicius Canheu, Analyst

Presentation

Operator

Good afternoon, everyone we now begin the CEMIG webcast of the First Quarter 2011 Results of CEMIG with the presence of Dr. Luiz Fernando Rolla, Financial CFO of this company. The webcast can be followed on the phone 5511-4688-6341 and also on the internet though our website http://ri.cemig.com.br. We inform you that there's available on our site the PDF presentation for those who have trouble having access to the dynamic presentation. We now give the floor to our Director of Finance and Investor Relations to begin the presentation.

Luiz Fernando Rolla {BIO 1852035 <GO>}

A very good afternoon everyone. It is with great pleasure that we begin our conference to present the results of the First Quarter 2011. I must right at the start to apologize for the absence of Dr. Djalma Bastos de Morais. Unfortunately due to agenda problems he couldn't come to this conference but he left a message with me for you from all the Directors and offered you and all interested [ph] investors.

And I would like to begin our presentation. As we all know it is one that we try to clarify to the investor community. All of the aspects related to what took place in the First Quarter. But it's never too much to remind you of our set of strategies that we have adopted in the last years which have resulted every quarter in additional benefits to our investors and shareholders.

We have a very successful strategy being publicized for some time already and it's in a strategic plan that we repeatedly talked to you about. We have four main pillars that actually support this strategic plan and this master plan has as its main objective the addition of value to our shareholders in the long run.

However, we have shown every quarter the delivery of results that really prove the correctness of our strategy. You know that in spite of not having objectively concerned become a leader in this electric industry but the process of consolidating we are through due to the action that CEMIG has been having taken us to this position of an outstanding position.

And therefore you have followed us such are the several acquisitions that we have made always based upon a concept that we understand is going to add the biggest value possible to our shareholders which exactly that of the integration of our activities within the electric power business which is our main focus and within this focus the growth in the three segments of this business whether through acquisitions or new projects.

Then this is the main principle of our strategic plan which we have followed in the recent -- in the last years in the very efficient very effective aggressive manner so that we can give our shareholders the balance in the generation of cash and results. This model has brought us -- has brought to our shareholders a very good benefit. It is a very high efficiency in terms of this strategy and you can see this growth of our figures. Every year we're changing our level.

In 2010 with the acquisitions we had made that we were already on the level of cash generation much higher than the previous years and today we are on this First Quarter already proving that we are on a higher level even. Another pillar that we have been using is exactly that we have reinforced every quarter is the quality of credit that we enjoy reflecting its financial solidity, the access to new resources, to new opportunities of financing and funding our expansion is a fundamental issue to this Company.

We are seeking to give CEMIG sustainable financial health in the long term so that we can proceed with our strategic plan. This credit quality as you know is already proven by the several risk ranking agencies. The results that we present on the First Quarter are results that are in line with the forecast of analysts. We did not go astray too much from what was forecast except for some aspects we're going to talk with you about.

Especially in the cash generation through the EBITDA which as you can see has reached a growth of 11% reaching a level of BRL1.292 million which already represents comparatively to last year another level -- higher level and that is going to give us much better results than last year. The last 12 months we accumulated in the cash generation as measured by the EBITDA we are really going way beyond the figures of 2010. Therefore this number represents to us exactly this value added that we have mentioned which is brought about by the implementation of our strategic plan.

The growth of our net revenues is very large also 18% growth. And there are several reasons why this growth has reached such a level. But especially because we have been consolidating a bigger parcel of our acquisitions especially Light a company you remember that already in the Second Quarter 2010 we added one more parcel of 3%

and one part of the 3%. And this addition of 3% interest as compared to the First Quarter last year when we had only 13% practically doubled our interest in Light. Therefore in the consolidation we had this growth of revenue which is on a par with the other regions which you're going to see a while later.

Now our profit has gone up too at a very interesting rate of today we are at a level of BRL500 million. Last year we had a profit of BRL500 million but here there is the influence of IFRS. You know very well that we have implemented at the beginning of the year this new accounting standard. And because of that we had to re-calculate the profits relative to 2010 reaching this level of BRL520 million given the characteristics of IFRS especially because of the regulations of assets -- the regulation in the assets and liability. So it was quite a positive growth that year.

Our growth as you know we have a focus we understand that the strategy that CEMIG is about to grow under some circumstances might be a cause of some concern for our investors. But what we have repeatedly stated that every process of acquisition in which we have gone into has tried to reach its main principles that is to comply with those main pillars of our strategic plan is something that we have adopted almost a decisive factor to our decisions.

The acquisitions have to add value. The investment discipline the willingness to add value vis-a-vie that which has been proposed on the master plan on the strategic plan is what actually moves us in the search for opportunities and naturally maintaining all of that quality of credit that CEMIG has shown to you.

Likewise when we do go and embark on new projects and participate in bidding processes we invest in discipline has been very radical and the attractiveness conditions which have not been very good have a fundamental weight upon the decision-making process both in CEMIG and our growth vehicles the ones that we have acquired.

This historical record of our acquisitions has shown the efficiency of this strategy and the discipline which have implemented as well. The excellent result that Taesa presented you may have heard about one hour ago the publication of Taesa results.

The results were BRL73 million in the First Quarter which was already 5.2% more than in the First Quarter 2010. And this growth is extremely important as you know in transmission business is very stable and any increment in results is the result of a great effort on the part of the Company.

It is operational gains that we have been made to -- we've been able to get in this Company and which has been every quarter proven in terms of its efficiency -- our efficiency in capturing synergies with those assets.

Today transmission as a whole already accounts for 16% of our EBITDA consolidated EBITDA. As you know our strategy is to reach at least 20% in the long term but we are moving very quickly along the way to reach this percentage -- target percentage that we have committed ourselves to reach.

This growth process has given CEMIG leadership in the electric industry. It's a leadership which is a consequence of the growth strategy and naturally we are going to use as we said our growth vehicles that are as important to our growth.

And this value additional through financial partners is a permanent commitment that we have. You know that we have some indicators of our bylaws that cannot be bent including -- couldn't be broken and this guarantees our growth in the long term.

And the structures that we have developed have helped us preserve the structure of CEMIG as -- the financial structure of CEMIG as you are going to see in the slides -- in upcoming slides.

We have recently created a new vehicle of growth which is SPE Parati to acquire the interests of Equatorial in the LUCE fund in the Light capital. On the 12th of May we acquired through Redentor, a part of Equatorial. This had already been announced in the past.

And now we are carrying out in a more specific manner and concluding the capitalization of SPE Parati for a special purpose company. Parati for the control of Redentor Energia which was naturally Equatorial already going through the process of division and resulting into this addition of more -- a greater percentage CEMIG's interest in an indirect way of 1.76%.

Important to say that because in our percentage in the First Quarter was 26.06% which is consolidated there. But beginning May 12, 2011, I would have 1.76% more thus reaching a total interest in Light Capital of 27.82%.

The interest in Light -- the structure of command in Light starts having this shape that you see there. There is a joint participation with SPE Parati, this special company Parati with Redentor FIP special fund a pension fund.

It's going to have 75% of the capital, CEMIG only 25% of Parati special purpose company SPC and (inaudible) which 54% of the PCP pactual fund and now we are going to have an offer a public offer for part that is in the hands of market shareholders. This parcel of 54% -- 45.92% we should complement the acquisition of 100% of Redentor.

It is essential for us to acquire the 100%. We're going to go for this because we want to consolidate these other companies in to the SPE Parati so that the structure is a little more simple.

And within a short while we're going to close the acquisition of participation in the LUCE Fund together with Braslight and the other parcel correspondent to the LUCE pension fund and SPE Parati is going to have a corresponding 26% interest.

In the control block is CEMIG with 36% and SPE Parati with 26% therefore 50-50. The control group is still private and therefore Light continues as a private company. This is the great concern that we have always had of preserving the private nature of Light so that it can become a vehicle of growth for CEMIG in the future. This is the strategy that we're going to adopt.

Subsequently another aspect which is also interesting in the First Quarter was the trade in electricity. As you know of how strategic this function is for CEMIG. We have reached already for this market share of 25% on the free market. And this share allows us to be a little more aggressive when it comes to competing for consumers.

You know that as a result of the excess of offers in the market that prices are still pressed down and there is a tendency to reduce those prices as a function of the excess offer on this market.

But the strategy of CEMIG has been enough in order to preserve our market share. The excellence of our relationship with our customers has allowed this exactly to have that -- to preserve that important participation in the Brazilian market of 25%.

The trading therefore the selling of energy from alternate sources continues to be attractive. Our sales from incentive bearing sources went up almost 100% thus showing the opportunity -- the excellent opportunity that we have here to increase a little more our market share using incentive bearing sources of energy.

Not only from the sources that we are already operating but sources that we have been acquiring from other operators. Distribution as I said is our third focus in the electric business. It has -- we have a concern a very great preoccupation because in distribution we practice exactly the concepts of sustainability.

The focus on the financial economic results we always try to bring in -- to bring our distribution distributing company with the results that can actually meet the minimal requirements of our shareholders but also to meet the longings of community which that distribution serves.

So we are very concerned about the indicators of performance. We had an improvement -- a substantial improvement in 2011 in this First Quarter due to an investment program that was extremely aggressive made both by CEMIG D and Light.

This year we already have a forecast of around BRL1.3 billion in CEMIG distribution and in Light SESA we have a forecast of BRL784 million. So it is a volume over BRL2 billion geared exclusively towards the improvement of the operational performance of these companies and the meeting of the demands of such a population.

The continuity of the universalization program, the programs to serve major events like the World Soccer --- the soccer World Cup and the Olympic Games both Belo Horizonte and Rio de Janeiro especially Rio is going to be the seat of the Olympic Games and then the World Cup and the zero tolerance of any failure or power outage.

And we're going to try through our programs to have a very effective service so that these mega events happen without any -- or in a very efficient manner without any concern on the part of their promoters.

Now we also have the continuity in Rio de Janeiro of the community recovery programs the UPPs. You know the success of those strategies adopted by the government of Rio de Janeiro and Light has together with the state government given also better conditions for communities that were recovered by the government of the state.

Another concern that we have vis-a-vis the third tariff Brazil cycle that all these services will be subjected to both the Light and CEMIG beginning 2013. And some concession holders are going to be submitted to a little higher to this but we have together with Atuacao the regulating agency we have had an arrangement so that we can have conditions that are very attractive to our shareholders as well as conditions that allow us to proceed with our policy to serve our communities. This is an extremely important factor in what has to do with the distribution business of CEMIG Group.

And what has to do with financial management this as I said a maximum a top priority that we'll have those management -- financial management of all the companies in the group follow this single principle which is the guarantee -- to guarantee access to the investment market so that it can have the necessary resources to finance and fund the expansion of each one of its segments and businesses that these companies carry out.

We have a very solid result of cash flow that is extremely predictable and with very little risk involved. And this is one factor that we consider to be essential that investors should take into account when they decide about investing in CEMIG.

The strong cash generation with a very clear policy of dividend payment and guaranteeing -- or as guaranteed by policy that is written in our bylaws and in our acquisition program that has the search for synergies that will guarantee the growth of this cash flow also in a predictable way and also with very risk so that we can continue distributing the dividends, paying dividends and financing our expansion in the long run.

The quality of our balance sheet allows us wide access to the credit market. We have debt profiles that are extremely under control, very low and high coverage ratios of interest. Everything approved by the analyses of credit agencies will have a Double AA risk classification.

And we are going to be going -- proceeding on these standards. Naturally it suffers the influence of the local market of course because practically 100% of our debt was acquired in the local market. There is a little short term debt but we do what is possible to do in the local market. We understand that it is very -- it becomes our businesses our very adequate business each of our business follows a strategy to maximize the benefits of this debt and therefore maximizing results for our investors.

And when we get close to the limits as established by the bylaws we set up partnerships with our invested partners. They fund the pension funds which gives us more cash so that we can continue investing and guaranteeing our future growth.

As I said on the excellence of our financial management can be seen in these slides in the aspects that we have placed there. Both in the payment schedule that you see that in spite of a concentration in 2012 because of the debentures that we have issued to finance the acquisition of Taesa.

But it is effectively no concern to us because we have enough cash generation to liquidate these BRL3.5 billion. Of course we're not going to liquidate that we're going to pay it out. We're going to refinance that for the long run by using the opportunities -- taking advantage of the opportunities that the local market will offer us. The real average cost of our debt is 7.1%. It grew a little bit because CEMIG has grown and it represents almost 60% of our total debt.

And of course we trust that the federal government's policy is -- goes along the lines of reducing interest rates and after this year with inflation growth -- or the growth of inflation this trajectory of reduction of the interest rates is going to be taken up again and with that we're going to invert this growing tendency of costs here.

We have had the fortune to capture or procure resources that are very competitive on the market but the interest policy of the government you have to understand that we sort of wait for further developments so that we can capture the benefits we understand are coming up with the reduction of the CEMIG rates.

Total debt of CEMIG has reached 13% which is not a significant debt level. As you can see CEMIG GT has BRL7.5 billion, Distribution BRL3.1 billion. All of them -- all of the indicators of the debt as you can see with very acceptable values. For example the EBITDA over interest which is coverage of the interest is four times. And the consolidated one four times are distributed. These figures are very comfortable as I said to the point that rating agencies have given us a Double AA rank.

Another indicator is the net debt over EBITDA always close to twice, two times, in the consolidated here, we're close to 2.7. This EBITDA is not the one that is going to occur in throughout the year 2011. It is the cumulative EBITDA by 12 months so it does not reflect the benefits of the acquisitions and increase of interest that we have in Taesa and TBE and also Light. Therefore the trend here is for us to have these figures in a very -- in better conditions throughout the year.

The total debt reaches 47%, approximately, which also places us in a very comfortable position, in what has to do with the credit quality. Naturally, this is one dimension of our management. The other one is that of the environmental and the social I mentioned. We have had a very effective action in these two dimensions, which guarantees us, certainly, a perception of sustainability on the part of the market. And this has been repeatedly recognized.

We have been on the Dow Jones for the 11th time around, always as an outstanding company in this sector, in which we compete with the first-world companies. We have always been, since its creation, in the Bovespa corporate sustainability index. We have been also in other forums, such as OECOM [ph], which has given us a rating above average, which shows us that CEMIG has implemented policies that will lead, not only, towards our sustainability in the financial economic terms. But also from the environmental and social terms. And this is the principle as implemented by our master plan, our strategic plan, which naturally allows us to meet the requirements of our -- the demands of our shareholders.

Now leaving aside the long term here, let us focus on the results of the First Quarter. I would like to show you some aspects that are more distinctive and more detailed of our results. The first one of which is the sales volume.

Consolidated sales volume, on which we had a growth, a very effective growth, of 16%, reaching a record amount of sales to consumers, total sales of almost 18,000 gigawatts, which is very, very good performance in every class, residential, industrial, commercial, especially driven by the trading, wholesale trading, has brought very positive results in the growth of our sales.

There is also manufacturers, all of them positive. The growth of Minas Gerais economy and effective growth of the alliance concession in Rio de Janeiro has shown an expansion there of consumption in every class, social class, which gives us some tranquility vis-a-vis our future both in CEMIG D and Light.

Now CEMIG GT had also very strong growth, 8% with a special distinction here to sales on the spot market, with the liquidation through PLV. This volume is an important one, it's quite robust in the First Quarter, as a function of the excellence of the rainy season, our reserves are already at a very comfortable level, practically with 100% capacity, which allows us to sustain sales growth in the second, which is quite strong, thus adding almost 20% growth to this spot market.

Now it's important to highlight, in the -- in a very vigorous way, that the -- our participation on the free market, our interest -- our share on the free market, we -- where we have had a great success in negotiation with customers, as I said, by sustaining a market share around 25%.

Today, these sales will reach a percentage that is over 45%. And naturally, showing the excellence of our trading strategy and also a point that we consider to be vital, which is the trust that the customer has in CEMIG and what has to do with the long-term contracts.

We have contracts with consumers that have trusted us with our -- providing that energy for them for 20 years already. So the CEMIG D has reached also 5%, which is a growth that we consider even surprising because we expected this year, the growth not to be that strong because of the fact that last year, we had already grown by a very strong rate. But you can see that in every class and every segment, the growth was quite vigorous.

We only have a short -- a reduction here in the sales to the spot market. The spot market. This is positive because this volume represents the surplus energy that the distributor had in its contracts. Therefore, we've been able to reduce substantially this exposure that the distributor had last year. And therefore, those were transferred through those several different segments of consumers, which presented a very strong growth as well. So this factor is very positive to our distributor company. It presents a result that is substantially better than the one we had last year.

Now, the participation of the classes there, focus especially on the residential and in residential and commercial, which represents together almost 60% of our total sales. But adding that to the commercial, we are going to reach 80%. That is of the total of energy sold, which is a mix that is quite comfortable and quite close to the industry average.

Now, with this sales growth. And remembering that we also consolidated a greater margin -- a greater interest in Light, we had a revenues growth of around 18%. This growth is very robust and was the result of all of the items of revenue, as you can see, this is the final consumers' went up by BRL448 million, in this quarter, as compared to the First Quarter last year, allowing us then to have a record revenues in this First Quarter.

All of this, all the results of our growth strategy, which has, as I said, has brought about evident results in the short term, even though the strategy's geared towards the long run. Operational expenses also had an increase, naturally. Whether this comes from consolidation of greater interests in the controlled companies. It is a growth that you can see, which is actually driven by the purchased energy. By far, it is the greatest increment of expenses that we have had.

We have had a better efficiency, both in terms of personnel and the distribution of the profits. We had gains in the distribution of materials, plants. Unfortunately, the purchased energy, given the growth of the price of the energy, purchased by the sector, both Light and the CEMIG, we had this very expressive growth of expenses. But this shows that we are trying to find what is controllable, a reduction of costs, which is going to allow us to improve these results in the next quarters.

You'll remember, in our guidance, we had said that for 2011 and '12, we will be reducing substantially our operational expenses. Of our consolidated CEMIG. And we have -- we a really delivering this. We have a reduction of personnel, which is noted as reduction of expenses, relative to this item.

Naturally we have a concern with the quality and also with the concern for quality, especially some areas that we are privileged, in terms of resource allocation especially, preventive maintenance, which we understand to be the first factor in the decision of CEMIG or by CEMIG to naturally increase the quality of the services that it gives to its consumers.

This prioritization given by the top managers has given good results, especially the improvement of the expenses in these quarters.

Now this slide shows us the parts that each company -- the part that each company plays in the expenses. This is a table that we like to show, showing the excellent of the part that our affiliated companies, they -- what they play in the growth of CEMIG.

Today their participation already represents 30% of total cash generation of CEMIG. It is substantial growth of Light, of KBE and Taesa there in the recent years, showing, again, the correctness of the decisions that were made in such a way as to guarantee the growth that we are witnessing now in our EBITDA.

These figures prove that our decisions had a very high correctness rate. Within our strategy, we are already getting close to our effective participation of 40% and cash generation coming from generation and 20% coming from transmission. We are already at the 16% for transmission, which already guarantees the predictability of this cash flow and then naturally -- and ensures growth through the utilization of those resources generated internally.

You can see that in spite of the investments that we have made, we still have a very robust cash position, BRL2.7 billion. We had some variations this year. But cash generation is still strong in the First Quarter. We've been able to generate almost BRL500 million cash coming from the changes. It's slightly less than last year. But still very strong.

This is something we would always like to show, because it shows the robustness of our cash flow, which gives us the tranquility, not only to the shareholders. But also our creditors, showing that we have the necessary resources to fulfill of our commitments.

The investment program is already -- is in a not as speedy space. We should increase the pace of investments in the upcoming quarters. We have forecast, for 2011, an investment of BRL2.3 billion, which represents somewhere -- something a little over the 40% of the cash generation, as measured by the EBITDA. That is why we required our shareholders' permission to go beyond this indicator. It is one of the bylaw indicators, number one, that we have gone a little over because we need to invest a little more. So as to guarantee the growth of cash generation and the growth of the profits. So it is a positive factor for the shareholders.

Today, CEMIG is a very robust Group with assets growing beyond BRL34 billion. On market value, almost BRL22 billion, which seems to be the highest market value that we have reached, which shows the confidence and trust of investors in our growth strategy. Of course, already, from the point of view of management, we considered this market value to be a little bit modest and could be much superior to the value that is shown here. We've been working so that the investors already recognized that knowledge in the price of share, the excellence throughout the company's assets.

And this excellence, naturally, will go into try and reflect that through the results and through the implementation of our acquisitions and our investments. I just have a little problem here in my own notebook here. But -- on the laptop. But on the next page, you can see the stock performance. We had a substantial gain this year, already reflecting the excellence, as I said, of our results.

The performance is higher than that of Bovespa, the result of a dividend policy last year, we paid out to our shareholders somewhere around 95% of our total profits. The slides that we wanted to bring to you. And on the -- on this third part. And I am at your service now for any thoughts you may have, both myself and Antonio Velez, who is our Investor Relations Superintendent. We are at your service to answer any questions you may have. Thank you very much.

Questions And Answers

Operator

Now questions and answers. (Operator Instructions) Excuse me, we have our first question coming from Carolina Carneiro from Santander.

Q - Carolina Carneiro

Good afternoon, everyone. Two questions about costs. First one relative with the -- you had a performance that was quite positive. Not only the consolidated, especially in the distributor. Unlike you had commented on the slide, relative to this performance that you highlighted this cost reduction, especially the personnel. And I'd like for you to give us a little more guidance from now on, if we can expect additional cost reductions on the maintenance service level. I don't know what your planning is for synergies? But if you've been able to reach that, I'd like to know if there is any other expectation to reduce further the -- those expenses and to see if there is non-recurrent expense that may have helped you -- may have helped you?

And the second part vis-a-vis a costs. We know that with the non-accounting of CVA, because of IFRS, you're going to have a little volatility in the accounting of energy sales and transmission costs. I'd like to know if you have to tell us what would have been the impact of a non-accounting for CVA for these costs, if it helped you or if your results got worse. If you have any estimates of what it was like in terms of gains or non-gains? Because of the CVA not being counted in?

A - Unidentified Speaker

Thank you, Carolina, for your questions. Exactly in an area in which we have given great priority to, which is the operational performance of the company, we have tried, with very -- with a lot of firmness, the reduction of our operational costs, both in the area of distribution and in the area of generation and transmission. And in generation and transmission, we have reached a level that is very competitive and probably we are very close to the industry benchmark, the gains that we have here, in the area of generation and transmission, in spite of having -- still having some synergies to capture. They're not going to be that great. I'm going to mention Taesa, for example, which has already reached a percentage over 90% of the EBITDA, which therefore leaves very narrow margin for growth.

But we have implemented, at the level of distribution, some measures to reduce costs. Personnel reduction is one of them. We are just harvesting, in the distributor company, the first -- the results, the fruits of -- in the consolidated CEMIG, we have a reduction of practically 2,000 employees. They were the result of our program to stimulate voluntary resignation. And therefore, we are already presenting these first results. We already had reduced last year. This year it is more visible, let's say.

We have other measures to implement, also process revision and a better control of those processes. So as to ensure the quality of services that we give our customers. But also cost reduction. And we have -- still have some results to present in the upcoming quarters. Of course, unfortunately, we cannot anticipate those results. But they're going to become very clearly visible in the next quarters. The expectation, naturally, for these results is very big on the part of the management team and then we have our event here in the beginning of June, when we actually prophesize the update of our guidance. You will be able to notice those -- the gains that will be reflected in the next quarters.

As for CVA, of course, with the IFRS and now we have to consider, practically, the cash effect instead of the accounting effect, which was the practice up until last year. But CVA was accounted for in a separate account and that every increase of tariffs in our case, which was in April. And Light -- and in November, we were -- we would acknowledge this additional expense. So we have a revenue and a corresponding expense, which is -- did not affect the results. But with IFRS, now there is a lag between the expenses you are incurring and the revenues that continues coming in the quarters, with the regulating process, in the tariff increase.

So last year, we had a great impact on -- by this change of criteria. And this year, we should have, again, a new impact, once the revenue is going to come beginning in April. But the expenses are already acknowledged this January. So there is lag or this delay and this delay, naturally, is going to be reflected upon the results. Naturally, we're going to have to, according to the case of impact, it's still great to publicize it in a little more specific way. If we understand this variation, it is affecting the results significantly.

But for the time being, especially in this First Quarter, we understand that it was not as relevant. We have not had non-recurring aspects in this First Quarter. Practically, the expenses that we are incurring. So in this case, we have no exceptional results. And they're -- and, naturally, you can expect that it's going to be something quite similar in the upcoming quarters.

Q - Carolina Carneiro

Thank you.

Operator

Excuse me, the question -- the next question is from (inaudible) Claudius Cortorea [ph].

Q - Claudius Cortorea

Good afternoon, everyone. I have two questions. One about the participation in the July auction. If you intend to participate, if you have any thermal projects, in which you've signed up, or a wind farm project, are you -- do you want to go into partnership with that -

- another company? And the construction costs, how do you account for -- you accounted for BRL49 million and the distributor invested BRL117 million. I'd like to understand this delta there, this difference? Thank you.

A - Unidentified Speaker

As for the auction, the July auction, we still have no expectation. We have some partners who are participating and who, in the case of the success, we may participate. The second question, I didn't understand, Marcello [ph]. Could you please repeat it?

Q - Claudius Cortorea

It has to do with how you account for the construction expenses. They're now, because of CMS, now in the distributor, not only the investment that the distributor has made in the period. And I saw that in your costs, the cost of construction costs, it was BRL49 million. And I saw in your presentation that the distributor invested BRL117 million. I'd like to know -- understand this difference, why it wasn't exactly the same amount.

A - Unidentified Speaker

Let me try and locate this figure here. The distributor invested BRL117 million and we reported BRL49 million as construction costs. Naturally, we have to take into account the capitalization of those investments that are major. Those were investments that we recorded in the First Quarter. But it may be part of it has not been capitalized. It is a process that is -- that has, again, this delay and this lag. I will have to investigate a little more in order to really see whether the number, they fit. There is the split there. But, of course, the investment, if they're capitalized, the idea is to reflect actually the construction costs.

Q - Claudius Cortorea

Thank you very much.

Operator

Excuse me, I have a question coming from Mariana Coelho from Itau BBA.

Q - Mariana Coelho {BIO 16262980 <GO>}

Good afternoon, everyone. Two questions. First one has to do with Taesa. I remember that in the conference call of the Fourth Quarter, you talked about your -- in your intention to re -- for the company to go public and the timing close to mid-year period. I would like an update about this timing, when you would expect this to happen.

And the second question is similar. But it has to do with the liquidation of the purchase of Light interest. This participation in Light of 32.58%, beginning when? Can we really begin to place this number in the consolidation in our projections there? When do you expect the liquidation of the public offer with Redentor and LUCE closing? Thank you.

A - Unidentified Speaker

As for Taesa, there is a commitment I would have with our partners in the Coliseu pension fund. It is a commitment that we have with the known [ph] market and therefore BM&FBOVESPA.

We are committed to place a minimum percentage of 25% of Taesa shares up until July -- June. It is a time, which we understand to be very short. But we are in the process of discussing what possible investment banks that may help us through this transaction.

The -- there is a commitment, we are coming -- we are floating -- a 25% floating of Taesa, we're coming back to the market. We are in this process and we are going to wait for the best opportunity that the market offers in order to come out with the transaction.

What has to do with Light, we have already concluded the first part of the transaction, as I showed you. We acquired interest of Redentor Energia, 54% that was part of the BCP [ph] Pactual. And the remaining 45%, which are in the hands of minority investors, minority shareholders, which should make a public offering, they will come in about 90 days. We have 30 days to publish the edict and there is especially going to be an interaction with the securities commission to publish this edict.

But this is mainly a bureaucratic issue, this decision, naturally, to spend it. And it is a matter of going through the bureaucratic steps. So that we can go above the public offer. I believe that about 90, 120 days is the adequate timing for us to present -- to put forth this public offering, this PO.

Q - Mariana Coelho {BIO 16262980 <GO>}

Okay. So we can expect, then, that this increase of consolidation marked to the end of the Second Quarter, maybe in the beginning of the Third Quarter?

A - Unidentified Speaker

Certainly. Yes.

Q - Mariana Coelho {BIO 16262980 <GO>}

Okay. Thank you very much.

A - Unidentified Speaker

I'm under the impression that the best bet is the Third Quarter, this year. By September, October of this year. October is the Fourth Quarter. But by September. October. End of the third, beginning of the Fourth Quarter.

Q - Mariana Coelho {BIO 16262980 <GO>}

Okay. Thank you.

Operator

Excuse me, we have a question coming from Marcelo Britto of Citigroup.

Q - Marcelo Britto {BIO 15393330 <GO>}

Good afternoon, everyone. Fernando, I had a question about a slide, the investment program, this BRL338 million planned for acquire within the investment program and referring to Light and in turn, Lucci. Does that include an eventual acquisition of the -- from the Braslight. And that would be my question, my first there.

The second question has to do with the distribution investments,BRL1.3 billion, as planned for 2011, can you qualify these, what does that represent, this expansion of the CapEx for 2011? Can you talk about the quality of what you have in this BRL1.3 billion? Thank you.

A - Unidentified Speaker

Thank you, Marcelo for your question. This BRL388 million volume represents 100% of our interest, the Parati special purpose company. We consider, now considering naturally, that Braslight together with the LUCE fund are going to sell 100% of their interest, in the LUCE fund. And we're going to be able to acquire this totally. This is a forecast for 100% of -- in this year and LUCE fund. So in this aspect this is when we have to invest in the remainder of this transaction.

Now, as to the solution, the BRL1.3 billion, this is the total volume of resources we're going to allocate in our distributor objective is to guarantee quality of service, much better than the one we have had so far.

In recent years we have added a series of consumers, especially low income consumers under the ages of the Light for All program and we have to make some improvements as to maintain the quality of the services. In our network those are reinforcements, most of them. Those are replacements of cables, protective cables so as to reduce our difficulties. Though we have some investments in automation as well, especially reconnectors in the area of distribution so that we can make the outage periods much shorter especially during storms.

One has to do with the distributors, those are the investments, those are the routine investments in their distributor company which naturally within the regulatory process we have to meet our goal, already established by Aneel when it comes to the 2008 provision.

Q - Marcelo Britto {BIO 15393330 <GO>}

Thank you.

Operator

Excuse me, we have another question, it comes from Lopes Acioli [ph] from the Central Bank [ph].

Q - Filipe Lopes Acioli {BIO 16944600 <GO>}

Question number one, I would like to know, first question, about distribution. We have seen the performance, 7% in the commercial, residential sector. I would like to know if there is a non-recurring factor there can explain this higher than normal growth. And if you can predict this level of growth from now on? And the second question has to do with Mariana's question, in that Tiesa case, did you think of a possible junction of TBE, transmission assets, is it reasonable to consider TBE and Tiesa, can you -- have an idea about this?

A - Unidentified Speaker

Lucas, I will begin by answering the most difficult one which is Tiesa and TBE, a possible merger. We don't have any study along these lines. We are trying to expand both companies. For a time being we will have different partners in both companies. It is a merger -- a merger would imply a discussion of our corporate governance that is quite deep and profound which takes a long time.

Naturally when you look at the nature of the two companies, you very clearly see that there is a very strong synergy, if the management were done jointly. We understand that this would be the best structure for these assets. But as I said, we have two different partners, one in each company which demands a lot of negotiation about the corporate governance of the resulting company. We do not have, as I said, any study that goes along these lines.

Now. And what has to do with the commercial, the growth of commercial, this is the result of the growth of the economy both in Rio de Janeiro and the State of Minas Gerais. Here in the State of Minas Gerais we have had reports that are very encouraging coming from the shopping malls, sectors that were doubling of the structures of some shopping malls and the creation of other shopping areas. All of that reflected into the movements that we have observed in terms of the economic activity in the State of Minas Gerais.

A good indicator of that is the movement there, in the Confins International Airport which is already operating above its nominal capacity which therefore shows that the Minas Gerais economy has had very good performance and this is reflected upon the commercial world, we have shown.

Likewise in Rio de Janeiro you can perceive that the consumption grew in Rio de Janeiro, was the best performance in the last years. Rio de Janeiro went through a period of stagnation and now with the movements by the government of the states. So as to include part of the community through the -- into the public services, already show a -- this already shows a very strong performance which contributed towards this growth of the commercial sectors. Well all of that is very positive, it is very strong potential for both companies, in the long term.

Q - Filipe Lopes Acioli {BIO 16944600 <GO>}

Okay. Thank you.

Operator

We have a question from Vinicius Canheu from Credit Suisse.

Q - Vinicius Canheu {BIO 6300903 <GO>}

Hello. Good afternoon. Thank you for your presentation. Two questions about acquisition. In your presentation I had the impression this acquisition is a little out of focus at this time. Can you confirm this? If things have not been happening. And could you give an idea about the sales, with them. And the generation volumes between the period of contracts in the last quarters, for example, have you noticed?

You see in the mail announcing the sales of pure capacity generation. So very little available capacity for the next three years. I'd like to know for you, if this year and next year is this factory closed or are you still having considerable capacity. So delivery -- there is a negotiation on the market so it's stagnant for that well?

A - Unidentified Speaker

Thank you, Vinicius for your questions. Now, the issue of energy sales is very delicate one because there is -- in the short term, there is an excess offer of capacity. This excess capacity as I said, during the presentation sorted of exerted some pressure upon the prices so we had some companies, you mentioned one of them, with large part of uncontracted capacity and this made the market very competitive and the signature of contracts, on new contracts for the long term was affected by this slightly lower price.

This is a phenomenon that is really taking place. That has taken place since last year. You may remember in our guidance we were anticipating that in the short term this cost of power would be around BRL105, BRL108 per megawatt hour. This is what we have really seen. We understand that.

This tendency is going to be sustained for the next two, three years. After that it may improve a little bit but in the next three years it's going to remain on the same -- on this level. It's also under the influence of the price of auctions that took place especially Telespiris and Delamonchi [ph]. Everybody is believing that the price, the marginal price it was reduced, we understand it didn't. Those are specific cases. Which were the result of investments, deficiencies in which the investors believed they could capture these projects. But the tendency is still to have a marginal cost around BRL120, BRL130 per megawatt hour, in the long run.

But in the short term we have this pressure there, from this surplus capacity and we are going to have troubles seeing this price reacting very strongly in the upcoming quarters. This price also, we have a pressure to bring it down. By the excellent rainy season that we had, the reservoirs are practically 100% full and this also brought the POB price down, it's around BRL16 and the tendency is to remain on a very low value for the next months.

And so there was a pro -- factors there that is benefitting the consumer -- to the consumer's benefit that is -- and the prices are in the process of going down. Of course when you analyze the contracts that we have, the contracts that we have were signed in 2004 and therefore those contracts that should be due in the next two or three years, naturally we are going to suffer those impact if the scenario persists. But it is not what we believe. We believe exactly what we really publicized in our guidance, probably by 2013 we should have an improvement in the prices.

As for trading on the sales, it should have a very major weight on that. On the result of our CEMIG GT. The purchase of capacity we already made that, as I mentioned. The energy from renewable resources has been very fertile, very fertile grounds for negotiation. Our sales company has been acting very strongly in this area and it's a market niche that should be, I'd say, an inducer of growth of revenues in the selling -- in the sales company. Those are opportunities that we identify in the market in the upcoming months.

Q - Vinicius Canheu {BIO 6300903 <GO>}

How about acquisitions, company acquisitions?

A - Unidentified Speaker

Vinicius, unfortunately I couldn't understand your question.

Q - Vinicius Canheu {BIO 6300903 <GO>}

I will repeat. One of the questions had to do with the process of company acquisitions. This has always been a very present theme in your presentations. I would like to know what is the market like today, I had the impression that you were talking a little less about this, whether the market is less agitated or whether you chose not to talk a whole lot about acquisition or expression when it comes to purchasing and acquiring other companies.

A - Unidentified Speaker

I understand the question now. Now, our policy is still -- continues the same as the -- we're still seeking our growth opportunities. As I said in my presentation this is another present policy because we have this commitment to deliver results to our strategic plan. However, as you yourself have said, the market has become a little more competitive. As of old, we were practically have one or two competitors but now we have some other competitors which therefore made the opportunities to materialize a little more difficult to materialize, that is could we always have the objective of growing and seeking those opportunities that we understand are value adding opportunities for our shareholders.

We have not publicized that a whole lot because naturally we have not been made to conclude or to close any deal but as soon as these negotiations are closed are we going to publicize that as we have always done. There are many opportunities lying out there in the future and seeing we've been -- it's a view of consolidation of this industry we -- CEMIG understands that it has to participate in this process and therefore it is very likely that in the future we may have something to announce.

Q - Vinicius Canheu {BIO 6300903 <GO>}

Okay. Thank you very much.

Operator

Excuse me. We have now closed our question-and-answer session. I would like to give the floor now to Dr. Luiz Fernando Rolla for his final remarks.

A - Luiz Fernando Rolla {BIO 1852035 <GO>}

I would like to thank you all for your attendance in this video conference. I would like to remind you that Marcelo in Bradesco, I owe him some information and Investor Relations is going to get in touch with him and to announce that -- tell everybody about Marcelo's from Bradesco. But once again, I would like to reiterate our commitment of transparency and corporate governance with the market.

CEMIG has always tried to transform its financial demonstrations and instrumental communication with the market we have repeatedly stated we have increased the volume of our explanatory notes in order to try to clarify as much as we can the most relevant issues relative to our company so that analysts, investors and shareholders may know more about it.

Likewise, I would like to also thank the analysts support, they who are partners, or members of APIMAC [ph] they have elected the area of investor relations of CEMIG as the best performance of 2010 and we are very thankful our investor relation area has had an above average performance, now under a new direction with Antonio Velez, that resulted from a great dedication of (inaudible).

The closed cycle is going to help us in an area which is extremely difficult which is that of the management of risk, risk management areas, is now occupying this position but we're talking about a group, about a group of people which have -- who have dedicated themselves very intensely to informing analysts and investors and I thank you for the support you have given us.

And we're going to understand the support as one message that we shall continue on the same path with even more effort to try and clarify the most relevant issues to our analysts. So I thank you all and I wish you all a very good afternoon.