

## Q4 2018 Earnings Call

### Company Participants

- Cledorvino Belini, CEO, President & Member of Executive Board
- Dimas Costa, Chief Trading Officer & Member of Executive Board
- Maurício Fernandes Leonardo, Chief Institutional Relations, Communication Officer, Finance & IR and Member of Executive Board
- Paulo Eduardo Pereira Guimarães, Head of Corporate Finance
- Ronaldo Gomes de Abreu, Chief Distribution, Commercialization, Generation & Transmission Officer and Member of Exec Board
- Unidentified Speaker, Unknown

### Other Participants

- Andre Sampaio, Research Analyst
- Fernando Abdalla, Senior Analyst
- Gustavo Miele, Research Analyst
- Unidentified Participant, Analyst

### Presentation

#### Maurício Fernandes Leonardo

Good afternoon, everyone. Thank you, again for attending this webcast. It's a reason of pride to us to report the results to you from this quarter, because it was a major challenge we had last year, a scenario of political and economic scenes in history that was pretty difficult. There was risk against emerging countries throughout a good deal of the year. And despite all of that, Cemig now reports results that we understand as being very encouraging especially if you consider the situation where we ended up in '17 and '18.

We will then proceed to our presentation. At the closing, I'll be back to answer your questions and to give a (inaudible). We'll talk a little bit about our results, about what happened during 2018. But I think it's worthwhile to also talk a little bit about our subsidiaries and our divestment program.

I will request Mr. Daniel, Chief Officer for Management of Holdings that he could add to that.

#### Dimas Costa {BIO 19927096 <GO>}

Well thank you for attending our conference. The purpose is to stress that the program, the divestment program, keeps going strong. The instruction is to go ahead with the

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program having as its goal a lot (inaudible). It's a complex operation. It reflects the restructuring of the holding and the selling of assets, now undergoing the processes for signature. Another complex asset, negotiations are still undergoing in view of the conditions proposed. We intend to solve that very quickly. We'll start now talking about this divestment program and say that it's still going full-fledged, full steam ahead.

Now we have prepared our slides for the day reflecting the year 2018. We consider these as big achievements in 2018. Early in the year, we have completed our capital increase amounting to BRL 1.3 billion. Important also to stress that Cemig Distribution was also capitalized between '17 to '18 at a total amount of BRL 2.6 billion. BRL 1.1 billion of these being in 2018 alone. Tariff increase also for Cemig Distribution in May. We saw the results deriving from this -- results coming from that change in 2013, that was rather frustrating. Efforts were made from 2013 through '18. And this has been recognized by the market and we see that as a successful initiative, including this tariff increase that took effect late May last year. End June, beginning of July, we did a retap of our Eurobond at the amount of \$500 million, already recurring for the debt service entered late last year. Also, we sold telecom assets, that's another important step. These were assets that were acknowledged in our balance. And the initial value for the option would be around BRL 380 million. And the final price for sale was BRL 654 million, which I consider a huge success. In August, also we got the news from the authority that we should receive the nondepreciated generation assets amounting to BRL 1.1 million. This was used to pay debt that Cemig had at that time. Another important milestone was to have settled our put option of Light amounting to BRL 569 million (sic) (BRL 659 million). And with that, we settled finally that liability that had been dragging for a long time. So you can see that the year was really full of achievements.

Now, the next slide about credit quality and the rating agencies. I would like to request Mr. Paulo Eduardo to talk about this change.

### **Paulo Eduardo Pereira Guimarães**

Thank you, (Daniel). Good afternoon. While reinforcing all these achievements described by Daniel, we can see that the rating agencies really improved our grades and the lengthening of our debt profile and we have successfully reorganized our debt with more liquidity and are doing very prudently in managing these assets that allowed us to depart from the speculative grades in the national scene going to investment grades. That was a major improvement in our ratings, reflecting the success we had in reprofiling our debt and improving the company altogether.

Next page, Page 5. This is what we have as highlights for the Fourth Quarter '18. Not everything here was being forecast initially. One thing that we had already anticipated was the gain on sales of telecom assets pretty above the initial value. And that led to this gain of BRL 378 million for the company. Also, we restated our equity holdings in some acquired subsidiaries with net loss at BRL 119 million. Basically that's a restatement of assets relative to the encroaching of wind farms in society with Energimp that led to certain gains. Light also was repeated, leading to further gains. And restatement of Light, however, led to a negative restatement. So there was this net loss amounting to BRL 119 million also impacting our EBITDA.

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We have an impairment also with regard to our investment in Madeira. Madeira is the name of the company, Madeira SA, that's in Santo Antônio, also leading to a reduction in -- by BRL 127 million in our EBITDA. As previously widely discussed with the market and the market's aware of that, Cemig has recurrently stimulated early retirements in parallel with operational effectiveness, efficiency gains. We have this term by January, we had a massive adherence to the program on this early retirement program and we achieved BRL 65 million. When we accounted that for in December 2018, this ended up being booked under personnel expenses and impacted the results of the Fourth Quarter by BRL 65 million. Also, we had to make readjustments regarding our debt in dollars in Cemig Transmissão. We had gains related to a hedge instrument amounting to BRL 570 million. And also from exchange rate variation amounting to nearly BRL 200 million. So all these items, as we will see further down this presentation, this affected our analysis and so that we can compare properly all the results we wanted to give these explanations to you.

On Page 6, we have some further information about the electricity market, consolidated growth, especially in Cemig D, GT and other assets as well that are tied to the holding and are also consolidated based on reduction of 0.6% in volume sold. This reflects a reduction in Cemig GT trading. As we can see in this box below on the right, we had this free customer sales also to intermediaries. There was this drop in 17.12%. So that the 3.8% increase in free customers did not make up for that. So there was a net drop of 4.33% in Cemig GT market. As for Cemig Distribution, we could see in comparing fourth semester '18 to '17, we saw a strong increase in energy consumption, 4.2% that is. And the volume of energy sold to our client increased by 3.2%. But our sales to free clients really increased substantially, almost reaching 7%. This consumption, as we can see, came basically from our industrial clients and also commercial clients in our consumption area. Also residential consumption grew by around 4%. In these 3 types of clients, we saw these increases, residential, industrial and commercial.

On Slide 7, we have further information about Cemig Distribution losses. These losses, historically, they have not been a problem historically and these are pretty lower thresholds as compared to other areas that we've seen in the country. And after all that tariff increase in 2015 and all the unemployment situation in Brazil things changed substantially. We had a better coverage with the tariff increase last year. But there's still a gap between total losses and losses that are really acknowledged in the tariffs. Our efforts to reduce those losses have been effective and have brought results. So that we have a 12.48% change on traded energy. And the tariff coverage was 11.77%. So the loss -- the gap losses have been reduced substantially. 97% of these losses come from nontechnical losses.

That's why we break it down to show the calculation made by the regulatory body based on low voltage market. And it also shows a substantial reduction in that period, 9.86%, as against the regulatory coverage of 7.31%. We feel will increase -- improve our fight against these losses through inspections and -- which is the best way to fight this type of condition.

On Slide 8, I would like now to hand it over to our financial planner. So that he can comment on the losses during that period.

## Maurício Fernandes Leonardo

Our focus on manageable losses, those others are covered in the bills. But the PMSO, that's the box on the left, central left, we see that difference of BRL 70 million in our personnel costs. As just said, this is mostly due to the early retirement program amounting to BRL 65 million accounted for in the Fourth Quarter last year when we had BRL 40 million in Cemig GT and others in holdings. What happened was that the union, most of them, refused to understand that and to adhere to the program, we had then a reduction of what had been planned for the year. But then it went up to the normal levels. But anyway, it amounts to a difference of some BRL 36 million. Materials and services also performed normally. But with a reduction of BRL 34 million of some plants that we stopped operating Jaguará and São Simão. And the left, our scope São Simão, was still running up till May. But that difference had to be considered.

Now, post-retirement. On the Fourth Quarter of '17, we had that impact of BRL 480 million and another impact in Cemig GT relative to this -- amounting to BRL 609 million altogether relative to insurance. Well another difference in the loss of post Light and post SAAG is these are the figures as shown with other provisions that are less essential. Then the other items, cost of energy, either at GT with a nano portfolio for buying and selling, it's other the normality in the business.

Thank you. Now moving to the next slide about EBITDA. In accounting terms, we have this increase in EBITDA from '17 to '18 of more than 8%, from BRL 3.5 million to almost BRL 3.8 million. In the Fourth Quarter, we had EBITDA affected by this reversal in post-retirement relative to insurance, life insurance that is. In the fourth semester -- Fourth Quarter '18, we had EBITDA of BRL 989 million. But when you look at adjustment table and based on the items that we referred to in the beginning, when we made the adjustment of Fourth Quarter '17, then EBITDA goes from BRL 1.553 billion. In addition to having this reversal in post-retirement, we have the sale of Taesa, where we sold our stake there. And there was this gain accounted for as a reversal of operating expense. It's important to eliminate that so that we can really draw a comparison between the 2 results. Then we had an EBITDA on the Fourth Quarter '17 of some BRL 700 million. And as for the Fourth Quarter '18, our adjusted EBITDA would be BRL 922 million, more recurring figure then. With this, we'd have a growth of 26.82%.

The same analysis now applies on next slide to net profit. In the year, it went from BRL 1 billion to BRL 1.7 billion. So a very substantial 65-plus % increase. Yes. We can see that in the Fourth Quarter from BRL 600 million to BRL 1 billion. Making the adjustment for taxes, this was applied or -- the 34% interest adjustment was applied, half the difference. And then we made the adjustment as a function of the hedge. So that we have an increase of more than BRL 315 million from Fourth Quarter '17 to Fourth Quarter '18, achieving more than BRL 400 million in the Fourth Quarter '18 at a more recurrent level, as I said.

Slide 11, we have the debt profile of Cemig D, consolidated. Now I will ask, again, Paulo to help us with his comments on highlights here.

## Paulo Eduardo Pereira Guimarães

As for debt profile, I would like to stress that in this year 2018, we proceeded with the reprofiling of our debt very successfully without using our Eurobonds. We attracted \$500 million in Cemig Distributions. In view of the increased price of bulk energy, we have 2 issues amounting to BRL 900 million over the year. But the highlight here is actually the reprofiling of the debt, which allowed us to extend our average, almost doubling our term from 2 to four years.

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On the graph below on the left, we can see the situation that we used to have at September 2017, with lots of debts maturing, amounting to almost BRL 7 billion. And we managed to transfer those maturity dates until the next following years. So reducing our average debt. Given also the compensation we got in 2018, we paid in advance part of our debt, the part that had a very high borrowing costs. Other events like exchange variation BRL 519 million only due to this increase in interest but also the accounting of debts of wind farms that we now incorporated in 2018, that is. So there was this increase -- result increase debt with our profile on core payments, that's much more comfortable now for the company and still talking about discomfort in the debt policy. You can see the financial covenants in the following pages, highlighting Eurobonds. We can see that the indicators are below the limits salvaged by these covenants. That gives us the comfort of saying that our debt management has been prudent. And what we must do in the upcoming years is to further improve the debt profile, also substituting more expensive debts we were forced to enter into recently in recent years and then we'll go on improving the profile of our debts.

Before we go on to questions-and-answers, I'd like to ask Mauricio to give some comments about our results.

### **Maurício Fernandes Leonardo**

As you could see during the presentation, which I've heard and as highlighted, the comparison between '17 and '18, in both periods, excluding extraordinary effects, we can see that, structurally speaking, the company has improved across-the-board in all requirements, especially PMSO. If we exclude the early retirement plan that was already acknowledged in 2018, for the first time, Cemig has got to the full coverage of regulatory effects in the broader hospital spectrum, all the plan's social assistance, health assistance. And looking ahead, we can see that already in 2019, the coverage will be full, complete throughout the periods. And Belini has already determined that we will go on next to also achieve the coverage of the regulatory EBITDA. Paulo has just mentioned the debt profile. If we consider that in 2017, we had a CVA account of BRL 317 million and now, we had turned the year at BRL 1.1 billion. The difference now is that with the tariff increase of May last year, we have this reclaim of cash flow. This is a sort of fund that could have helped us already to reduce our leverage. But this will keep coming back and this will be

(inaudible)

And another important point mentioned by Daniel is investments. Light, as we said, in December we had (very close fluids). We had the (put) issue and that's national. That's not a (foreign only). We had to put -- to pay that put and the work commitments. And we honor these commitments, as we have always said it to the market. Then we prevented

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the segregation of the company. But all the other adjustments, statutory and others are all ready to move ahead. And we've developed focus, as Daniel highlighted. Another, you heard the (title sales) in the market has been publicized. We have been working on that under Daniel. And now, under Belini, for a long time already. This is approaching a conclusion that will be highly interesting for the company. Also Belini has mentioned the BRL 2.6 billion of funding that we raised. That shows how much we believe in the company and how much we have improved our performance indicators as recognized by the market. We must fight (before) those payments where it's an emphasis and we will be even more so from now on. There's another program launched by the company. Belini has also put a lot of emphasis on that, is the (operator) committee. I mentioned that the company, it's a committee founded by career executives of the company in -- company people who will aim at improving our operational efficiency and client service. Another program we call (inaudible) that awards the employees for innovative ideas, this service -- client service or operation ideas. Also in our organization architecture, we are reviewing our scope for strategic planning. We are moving ahead. And we are, of course, celebrating achievements that are manifested at the moment. Our board and the whole of our employee and staff in line with what we're discussing with you, which should move even further ahead and to go back to reporting ever more solid results. We have already reported BRL 1.7 billion this year, more than 70% from last year.

Our EBITDA also grew from 3.4 something to 3.7 something. Still not enough. It's good. But not enough. All of this has been achieved under very adverse circumstances. And we are very much enthusiastic about having, in this year 2019, even more -- even higher performance levels.

Now for the Q&A session.

## Questions And Answers

### A - Unidentified Speaker

(Operator Instructions)

Our first question comes from Andre Sampaio, Santander.

### Q - Andre Sampaio {BIO 19422379 <GO>}

I'd like to make a question about quality indicators in distribution, the analysis of these operations and new contracts. Well there was this judgment made about some (meeting) I'd like to hear about and all that from you and next steps.

### A - Unidentified Speaker

Andre. Good afternoon. I will invite (Mr. Anderson) to comment on that subject.

Andre. Good afternoon. In addition to that inspection proceeding and that's routine and with ANEEL, the regulatory agency that -- all the companies, all the utilities in Brazil are subject to that. We are discussing numbers, figures. There's some normal discussion. We

have been meeting the indicators and even improving our performance. There's nothing tricky about it. It's just -- we are just meeting our -- yes, meeting the required indicators without any contractual impact whatsoever.

Our next question, Gustavo from Itau.

**Q - Gustavo Miele** {BIO 21077665 <GO>}

Reduction of non-technical losses, 86%. This is far from regulatory thresholds. But the number has been, indeed, very positive. But I'd like to hear more from you about it. Could we expect that new level should be recurrent in the next quarters? Can we see even further reduction into the next -- the near future to really match the regulatory thresholds?

**A - Unidentified Speaker**

I'll ask Ronaldo to answer that question.

**A - Ronaldo Gomes de Abreu** {BIO 20244891 <GO>}

Gustavo, what we have done, not only in the Fourth Quarter in '18 but ever since half year last year and also covering part of the Third Quarter as well is the approval from the Board for an additional budget to improve and increase our inspection on the losses, on the grid and among consumers. We even doubled the number of inspections we have been conducting. We ascribe to this new level of operation to reduce these noncommercial losses. Technical losses have been also improving due to investments made on the grids. We have been in time and we're keeping up with our plan. And it is an important and significant factor for reducing losses. This year, we'll keep growing it back. Our budget has been approved already. And we aim at getting at the end of the year without anybody would be subject to having their energy cut off without having that. I mean, in the past, they would get away with it too easily. And now, we are on top of that.

**A - Unidentified Speaker**

Yes?

**Q - Fernando Abdalla** {BIO 15381888 <GO>}

I have 2 questions. First, an idea on the timing of Light's follow-on. Now that we have the reported results for 2018, what's the plan for resuming that? And what about (GT's) proposal? Have you been talking to anybody else?

**A - Unidentified Speaker**

Fernando, thank you for the question. I'll answer you quick. Perhaps I mentioned that in passing only. But Maurício has just said and I said it before, too, that the company is fully aware from a point of view of documentation and -- such as we want to get this window at most up to -- healthier this year. I didn't mention a follow-on. But it's a natural trend to have a follow-on. We haven't defined the final format of that. We never stop talking to the market, with our advisers, even after closing our negotiations with (GT). We have noticed a lot of interest in that asset that reflected in share prices positively. And we'll go for very

concrete steps as we have a new (CA) that will lead that process. The emphasis on (variety) with expectations for something already in this first half of this year, take advantage of windows of opportunity detected -- we have detected. And also the interest that the market has shown. It was understood that any credit that we would have should not be conveyed to the consumers. It should be kept by the company, if this is manageable. This should be passed on to the consumers.

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### **Q - Fernando Abdalla** {BIO 15381888 <GO>}

You had something similar that was started in 2008. We would like to hear more about that from you. Could you keep anything with the company? Or after 10 years, you would have to pass it on to the consumers? Please tell me more about it.

### **A - Unidentified Speaker**

Yes. Good afternoon, again. The company is still assessing the criteria adopted by Equatorial to see if it applies to us as well. But our trend is -- along the trend lines is to understand that after 10 years these amounts could be appropriated by the company, that is -- are pretty relevant, amounting to almost BRL 2 billion. And maybe generation and distribution, something a little different because taxes would not -- taxes paid will not be conveyed to consumers but would be kept by the company, amounting to some BRL 3 billion altogether. There is an issue there, how the Supreme Court will decide in that regard. There's a lot of uncertainty in that. There's also the issue of approval by the tax authority -- federal tax authority. The amounts are pretty relevant. But at this point, there are still a lot of uncertainty around it to allow us to report that in our financial statements. Perhaps we'll be updating -- we can go updating the market as we (program it) , we will be bringing these issues.

Our next question, HSBC.

### **Q - Unidentified Participant**

About Renova, could you give me more details about the exchanges and the values. And further detail also on that operation perhaps?

### **A - Unidentified Speaker**

Thank you for your question. I just want to go over that very quickly again. But the format of that transaction has been announced. This was one of the most difficult operations during that period. We dealt with Renova issue from the corporate perspective. First, we had to eliminate -- overcome our disagreements with one of our partners. Since there was no liquidity now in the stock market, we had to go for valuation exercises. We've conducted them more than once. And that we should go for payment of the shares by using credit that we have against Renova represented by debentures. Renova will issue debentures, the debt withholding. And we will inscribe that -- those debentures on our credit. And these will be offered as a means to buy shares. We have the right to sell that together with our partner. The same condition has been offered to him. And we also are programming (a notebook) and any person interested in that would be able to adhere to the same conditions. The closing of this corporate front will be happening together with the other 2 fronts, which are restructuring of our debts of holding Renova and the sale of



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the (Sertão III). These are simultaneous moves. As for the switching of Renova, the holding debt was a reprofiling program to last -- for six years with a remuneration that's compatible with the risk and the situation and the terms. So the credible banks are reducing borrowing cost and the intercompany persons as well. So there was this reprofiling compatible with the cash availability of Renova. They can use all the asset already with the company, selling assets. And the selling of (Alto Sertão III), we are already going through this third and perhaps final stage. As we sign that off, we'll announce it to the market. But we hope to be completed by midyear this year. All of these, of course, depends on the regulatory approval from Mineirão, CCEE, et cetera. But after a long time, we're now confident that we are arriving at a final solution as we understand it for Renova with the possibility of really resuming our work (inaudible) on renewables and developing more projects and expanding the participation and the share of renewables in our matrix.

### Q - Unidentified Participant

Question about personnel expenses. Last year, I think it was you said -- yes, how to substitute people who are leaving the company seems to be the question.

### A - Cledorvino Belini {BIO 2046661 <GO>}

(inaudible) This is Belini speaking. Today, we have some 5,800 employees approximately. We understand that the workforce for the company should stay at some 6,000 employees. But as already said by Maurício and Ronaldo, we are revising the processes. We did this (PLD) this year. We have another outstanding one that was closed in January. More than 500 employees further (removed). If we deduct them from those 5,800, now we have 5,300. But we have to define the areas, their needs for employees. And this will be done in a very prudent way. And also, if this is not -- if it's not done in 2020, I can say that very few people will join the company in 2019, even considering the areas that have -- that we have planned more substantially of personnel and others with excess personnel. But after all this adjustment, we will then proceed to hire new people.

### Operator

(Operator Instructions) We'll now close our Q&A session. I'll now hand it over to Maurício Fernandes Júnior for his final considerations. Please.

### A - Maurício Fernandes Leonardo

This is just to thank you again for your participation.

To remind you that our IR (element) is available at (such a) service and available for questions and suggestions and comments. Suggestions on how even better we can handle our communication with you in the most transparent way possible. Thank you, again. We'll be meeting again in our annual meeting or the next disclosure of results. Thank you.

### A - Unidentified Speaker

Now the webcast results -- CEMIG results from the Fourth Quarter 2018 is now closed.

I thank you for your participation. And have a nice afternoon.

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