

## Q2 2015 Earnings Call

### Company Participants

- Antonio Carlos Velez Braga, General Manager, IR
- Fabiano Maia Pereira, CFO and IR
- Luiz Fernando Rolla, Chief Institutional Relations and Communication Officer
- Unidentified Speaker, Analyst

### Other Participants

- Lylianna Yang, Analyst
- Unidentified Participant, Analyst
- Vinicius Tsubone, Analyst

### Presentation

#### Antonio Carlos Velez Braga {BIO 16813855 <GO>}

Good afternoon, to all of you. My name is Antonio Carlos Velez Braga, Cemig's Investor Relations Officer. We'll now start the video webcast with Cemig's results from the Second Quarter 2015. We have the presences of Dr. Mauro Borges, Chief Executive Officer; Fabiano Maia Pereira. And also Dr. Luiz Fernando Rolla, Institutional Relations and Communications Officer. You can follow this over the phones, 55 11 [ph] 2188-0155 or 2188-0188. And also in our website [ri.cemig.com.br](http://ri.cemig.com.br).

To start off our presentation, we hand over the floor to Dr. Luiz Fernando Rolla, our Institutional Relations and our Communications Officer.

#### Luiz Fernando Rolla {BIO 1852035 <GO>}

Good afternoon. It's always a major pleasure to us to disclose our results this time of the Second Quarter 2015. Today, we unfortunately can't count on the presence of Dr. Mauro Lemos. He has a bad throat and he is not in position to speak well. And I and Dr. Fabiano Maia will take over and try to make up for his absence, answer any questions from the strategic point of view.

As always, our presentation covers first the highlights of the quarter and then we go more strategically into our results of that quarter. We've had a disclosure from the Energy Ministry of Brazil talking about the decision [ph]; it's taken a provisional measure about two very relevant topics. But at this point, we haven't got enough information, enough clarity about that to disclose and to tell you about it. So we'll, according to our internal advice, we'll set up another date for further information to you about these latest developments from our Ministry of Energy.

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Result presentation starts with our usual disclaimer. We'll point at some of the most relevant pieces of information that can govern our decisions. We focus on some key indicators. So that you can understand our results. As you know, the context in Brazil, what we have been through in these first six months of Brazil and more specifically in the Second Quarter, is radically different from what happened in the first and Second Quarters last year. Several variables, saw relevant changes. I could mention PLD, the spot price that was substantially reduced due to the regulatory change proposed by the government. Also, interest rates grew very sharply from last year. We had some impact on our results as we are about to see.

Anyway, we had an adjustment in the First Quarter and in the Second Quarter for our tariffs in our distributor and that helped us achieve this 14%-plus increase, Second Quarter. That was almost BRL5,400,000 [ph] the consolidated for Cemig GT. And this was a result of the developments. EBITDA dropped substantially, almost 22% as compared to Second Quarter last year for reasons we're going to show you in the next slide.

Also, net income saw a sharp drop for the same reasons, our context in Brazil. But this has been absorbed by the Company very well and this can be linked to the situation in Brazil. Yes. We have been talking about that before this meeting, I and Luiz Fernando, in the first week -- in the first month of this year, we already could foresee that we should brace for tougher times than last year. We made adjustments in-house. So that we could traverse this more delicate moment of our economy. And as we're about to see, we have managed to deliver that result [ph], especially given the cost reduction measures we took, those -- that are controllable by the Company and you see the positive results.

We had some highlights, as you all probably know, our injunction questioning the postponement of our concession of the Jaguara Hydro Plant. So the Appeal Court has arrived at a decision. We are just waiting for the publication of the full judgment. So that we can define our line of [ph] direction in response. That's just like we did with Sao Simao. This should be unfolding into the upcoming months. And as I said, we just await publication of the full judgment.

We had the signature of agreement about this transaction that is very ambitious, strategic view behind it. So far as the technology we are absorbing with this transaction, is being acquired. So we are signing this agreement with SunEdison and this should add substantial value to Cemig, SunEdison being a global player and bringing solar energy, topnotch technology. And this is probably in the future is to become one of the top sources of energy. This transaction was rather complex, wasn't it? And it's brought very positive results to us. Yes. Indeed. As we have signed this agreement, in our understanding, through Renova, this allows us to achieve new levels of competitiveness, opening new pathways for access to top technology, spearhead technology at lower costs. For sure, because if we have this partner, then we would have access to the US market, very well developed in that regard. This allows us to have a lower cost in the funding of our future projects without bringing any other risks to Renova, in terms of exchange rate, for example, you could see the volatility of the rates in the recent weeks. And this protects us from the contamination so far, as these are funds which will be raised in international market. So this transaction is of high quality, bringing a lot of positive results to Renova and also to Cemig, as one of the its major stockholders.

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Also, the benefit of the sale of Renova participation right [ph] is a function of the GSF and increasing GSF and also of the transfer of the prices of our energy bought in the entire sector. We have been granted an injunction and we would have to hear from our CEO to see what could be done about this issue, this issue affecting all the companies in our group.

Our debt profile has been adjusted by ratings companies. This was not only restricted to our companies. But that was a result of the overall situation of our industry regarding GSF and also increasing costs of bought energy, this was a generalized movement. But we are pleased to see that we are still at a condition that allows us access to markets, especially local markets with investors of higher quality. This is extremely important to us. As you know, our strategy is to seek financing and funding in the financial market, in the local market to preserve us from any exchange rate related risks.

As this first part has been closed and we could give you an overview of events in the first and Second Quarters. Let's move on to the results of the Second Quarter more specifically. So we will share this task; Velez, Fabiano and myself to show you the effects of these conditions -- this context that we've just described.

Let's we start by the consolidated net revenue indicators that was a very positive performance, almost 15% increase, even more so given the fact that sales were reduced. Even against all odds and with the drop in the supply of energy, we had this substantial increase. This drop in demand was expected due to conditions of the economy. And the tariff adjustment of the beginning of the year that was accompanied by a reduction in the consumption of families. This was the restructuring -- and also this restructuring of Gasmig last year. Then we had the purchase of Petrobras participation in Gasmig, our own ownership, which is almost 100% and we shared in the Gasmig results even more.

Another relevant point in this context was the GSF. We are dealing with this provisional measure from government. This was an average 0.81% [ph] -- that was 81%, different from what it shows there. And yes, even having this at 81% average, we had very a good result in Cemig GT, as a result of the two plants, even as they face legal issues in court.

Still -- for a long-term, in Cemig -- well, we cannot sign long-term contracts with that regard. So presently we should do the liquidation at the spot price, which at this moment ended up being positive for the Company. Our court litigations are still on, still in progress. Then if we end by keeping the plant, then we will go for the long-term agreement. That's our priority, rather than the short-term liquidations. Yes, our view is a very long price -- very long term.

Now, as for the volumes sold, a good deal of that reduction was in our distributor. You can see that in these two diagrams, one showing second semester's -- second quadrant's rather, 2014 and 2015. Yes. We saw, at the time [ph], there is robust growth of some segments and then the overall drop in the first half was 1.8%. But as we had this tariff impact, then this is reinforced. We can see that the residential consumers, families, have reduced and made their consumption more efficient. When they compared quarters in 2014 and 2015, we can see how it dropped. A factor that we have been following up

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there closely is that while we have increase in prices -- in tariffs, this has not been accompanied by default from the consumers. And having viewed the huge tariff adjustments, we should expect commercial losses or even higher default levels. Fortunately this didn't happen.

Fabiano mentioned in the beginning, in the first part of his presentation about our cost reduction measures, trying to adjust to this transitional moment, which as a function of the First Quarter, which had not yet been adjusted. They would -- this only in the Second Quarter. Then we have to adjust our cash flow accordingly. So that it would preserve some of the things that are very valuable to us as we are going to see next year.

We had anticipated a more difficult scenario in 2015. We started controlling some expenses. And in this slide we can show you that the major increase in expenses was in non-controllable costs, especially electricity and gas, coming from Gasmig, of course. We had some provisions for losses on investments, basically Parati and pension plan rule [ph]. Parati, as a function, now it's only the decrease in energy volume. But also it was of the higher interest rates. This alters the balance of our agreement with investments. This is being conducted with upmost care by us. So that in the end we can have a zero balance as for remuneration of the investors.

As we said in the beginning, our Renova operation included some that [ph] replacing Light. This allows Light to be in better position to pay dividend and this can be improved, as a function of this provisional measure that's being issued by the government and this will bring effects, we hope, counter-effects in the Santo Antonio Plant.

The cash generation, as measured by (inaudible) or EBITDA, despite a decrease in this -- in the period, this is still in line with what we had been expecting, especially in view of the advice we gave to the market during our Annual Meeting that happened in May this year. We are reaching at half year a good deal of our guidance and we will meet our target. You can see contribution of generation was very effective in view of the performance of our Cemig GT, which is indeed a major contributor to the results in this semester. We got to 70% of our guidance, because of our strategy for trading in the first half of the year and as expected, we would be above 50% and we would have reached more than 50% of the numbers expected for the entire year, that was expected and this is according to our guidance. This is explained by the concentration of the Cemig GT sales in the first half of the year.

Consolidated net income, we had a drop in the Second Quarter. But we still have 1.4% increase in that indicator, more than BRL2 billion of consolidated net income, with a very effective contribution to that result. Everything that we have said so far led to this result. So this is a very robust result, considering a very unfavorable 2014 -- even considering the poor 2014 performance, we are above that already.

We had a strategy to look very carefully at the Company debt, as we will see. Next we can see that the expenses increased, given the indexes, the CDI and IPCA of the country were especially complicated at the moment. But it tends to fall back to the previous normal levels in the next -- in the near future. We can see the two most significant

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companies. We can see that in the year 2015, we have already taken a major step. If we remember our debt for the year, was at a much higher level than we show here. And with a longer tenure. So the debt profile allows us, despite disproportionate [ph] cash flow generation and economic context of Brazil, we still then managed to have some very suitable financial indicators. You can see the nominal costs, as this CDI and IPCA increased. But in real terms, it's rather stable, which is positive to the Company. In terms of the maturity, we are in a comfortable position, because we can see BRL2 billion [ph] maturing this year. But in July we already would roll BRL1 billion [ph] more for the Cemig GT Company. So that we can design our strategy for the second half of this year, already having viewed the next year, not just this year. If you consider one more indicator, which is insurance coverage, we have five times factored. So the net debt over EBITDA is at a very comfortable position financially.

And Cemig GT is even better, which allows us to reduce our debt. We have paid part of the debt already. We have rolled BRL1 billion from their debt already. And we now must look more carefully at this indicator; that indexor should work in the second half and early next year. Yes. We should link that to our revenues -- associating that with the relationship -- the ratio, revenue and debt.

Now for Cemig Distributor, we have had a good view in 2015, it's just some BRL500 million to be rolled on until the end of this year. We've achieved success in this rolling of the debt, although indicators are somehow pressured, like net debt on EBITDA. But the real cost is rather low, relatively low and we can reduce our debt and we have already begun to do that. We've taken measures, such as our reduction on dividends payment for Cemig Holding. So that we could generate surplus. So that we wouldn't have to increase indebtedness further. So remember that we -- for 2016, our debt is still relatively high. But in the second semester of 2015, we'll have the time enough to work on this 2016 debt with necessary adjustments in the removal of a concession contract for distribution Cemig, we are being well positioned to roll on the debt.

What about the financial indicators, regulatory ones? We have made studies and calculations. We are at ease with regard to the new regulatory codes proposed by the regulatory agency. This is the program that we are going to accomplish by the end of the year. It's a very robust program and a good deal of this program concentrated on our distributor. We have taken some measures to preserve their accomplishments of this investment program, which is extremely important to us, because it allows us to adjust our performance indicators as required by the regulatory body for renewal of concession contracts. While there's an additional 120,000 new consumers in this first half, by the end of the year it will have reached to 150,000 new consumers. That's a substantial effort made by the Company and this is part of this deep adjustment that we have been making in the management of the distributor. Let me comment, only to say that we will keep on making these necessary adjustments, precisely to deliver all these improvements in efficiency and regulatory compliance.

This is a favorite for our Financial Officer. The major item here is that despite the favorable context and scenario, we've managed to keep enough cash to comply with [ph] our obligations and it's allowed us to also make significant investments -- excellent -- while

at the same time reducing the debt and even so, keeping this very comfortable cash availability. These were the main facts and figures that we would like to convey to you.

Now we will open for the Q&A. And in case we have overseen any aspect that may be of interest to you.

## Questions And Answers

### Operator

(Operator Instructions) Goldman Sachs.

### Q - Unidentified Participant

First, about the plans, immediate plans. Despite the core decision, I would like to know the strategy of the Company about this new rule that we read in the newspapers. Some Congressmen in Minas Gerais -- State of Minas Gerais are trying to propose new measures. This opens up President. She would like to know what Cemig is doing. Well, have you actually managed to present an expressive, a substantial reduction in costs? Is there any reversal in provision or is there any unexpected event that is in play or have they really achieved a definitive -- better discipline of costs?

### A - Unidentified Speaker

We will start answering in sequence. About the proposals being submitted to the Congress, as I mentioned, you know our position with that regard. Our decision is to try and protect the best interests of the Company and it's a function of some movement, the most effective, the one you mentioned about energy intensive consumers of the Northeast and the reaction and Minas Gerais' own counterpart's reactions, if they are expected to have the same benefits as given by our two, the Northeast and others [ph]. Our position is clear; we're trying to defend the Company's interest, trying to safeguard our interest in our -- concession contracts in our three plants. The plants that we're transferring as of July to the Federal government our view about that. We are seeking the best opportunities in the sense of assessing whether it is worthwhile going for it, in view of the longer-term contracts proposed by the Ministry.

For the second question, yes, we had our Annual Meeting -- last Annual Meeting last May. Our Corporate Management Officer, he made a comment about the major increase in productivity from our workforce. And this is the major fact in achieving the results you have just seen. We have been working in the sense of increasing productivity among our staff and workforce. We have seen some places where this was initiated already and we will go for new initiatives in the second half and we'll enter 2016 with a complete project for the Company, seeking higher levels of productivity of the Company with ensuring a reduction in operational costs. Have we answered your question?

### Operator

(Operator Instructions) Vinicius Tsubone, UBS.

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## Q - Vinicius Tsubone {BIO 20139966 <GO>}

I would like to know a few more details. What Cemig did about the GSF deficit. And the level of the risk, is it zero risk or what?

## A - Unidentified Speaker

The injunction that protects us against the GSF risks, yes, it really implies zero risk, not 5%, as it's been said for the general market. We requested and required and obtained zero % risk.

## Operator

Lylianna Yang, UBS.

## Q - Lylianna Yang

My first question in regards (inaudible) at the Light. We are negotiating a possible extension of that, a new possible partner with Light or perhaps reimbursement in that regard? And the second question is, what will be your response about Jaguar and Sao Simao, as the judgment is published? In the past, you've considered and had some resource and appealed to the Supreme Court. Will that just be an appeal really or will you'll be questioning the constitutionality of the measure?

## A - Unidentified Speaker

Before I answer your question, I would like to say that if our international investor had any difficulty in making a question, you can send us an email and right after this video conference, we'll share with our participants those email and our answers. If by the end of this webcast he is not able to make the question, well Light put [ph].

You know already our strategic vision and view about this issues, this structure that we have set up, it gives those who are having a private vehicle or private means, we have done that once with Light, we are finishing in the second generation, we will go next for the third generation. We have no intention, whatsoever, to stop or to terminate this structure. This is part of our long-term view to have Light as part of our private management. And we'll seek other investors if the partner is no longer interested in keeping their position as partner, we will seek new partners in order to keep the links with Light. We're talking about prospective investors, as well with current investors to check for their appetite. So to say. And we have no intention again to break off with the cycle we have started some time ago.

The second question, Lylianna, I put it to Raul Lycurgo, our Legal Department Officer. He said, I cannot tell you, because this is part of our strategy that should be implemented. We must wait for the publication of the final judgment. So that we can decide the best route to follow having in view the best interest of our Company. At this point, we cannot answer your question, therefore. But rest assured that we will always be defending the best interests of the Company, the same way as we have been doing so far. We'll go for a negotiated solution and if that doesn't work, we'll resort to all the legal means at our disposal.

## Operator

(Operator Instructions)

### A - Unidentified Speaker

There being no more questions, we can then close this presentation. Before that, though, I'd like our Investor Relations Officer to show us our next agenda for September. I know that it will take more than half an hour if you listen all of it. But naturally could point at the highlights. So that our investors could bear for that.

### A - Antonio Carlos Velez Braga {BIO 16813855 <GO>}

Well yes, we have started last Friday with a luncheon in Sao Paulo with Santander. In September, next week, we will go on our road show with Pension Funds to prepare for the second half of the year, actions, plans, in line with what Dr. Rolla said, to reduce our CDI exposure of our debt. Also, a conference with the Deutsche Bank in New York, a very important meeting as the North American market comes back from vacation. That's also a big agenda. Morgan Stanley in London follows, a possible road show for the Continental Europe programs. And by late September, a conference in New York also with Santander; utilities, infrastructure and other Latin American and European companies of the sector. Very relevant meetings and we will be available 24/7, yes, to respond to your questions and clarify your doubts. And what about local market? Up next, we have been -- we have done that all our original officers [ph]. Our agenda in that regard has been completed already.

Dr. Fabiano, any final comments to our investors?

### A - Fabiano Maia Pereira {BIO 19066644 <GO>}

For me it's great, it's been great. We have provided all the most relevant information during the presentation. Excellent. So I'd like to thank you for your attention. I know that time is precious. And I hope we have provided all the adequate information you require for a sound decision making. And I hope that you'll find it's very interesting level for purchase, this investment that we believe will bring very good results to our investors. We are available to further queries from you via phone and email. This presentation and all relative information related to the Second Quarter will be posted on the website. And final words of confidence.

Our company has demonstrated its capacity to react within tough conditions and favorable conditions and our attitude is always to strongly defend our interest, interest of our investors, shareholders, employees. And consumers. I thank you for your attention again. And in future, we'll sum up a new broadcast for comments on the recent provisioning [ph]. Thank you.

## Operator

So our webcast is now concluded. We thank you all for your participation and have a nice afternoon.

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