

## Q1 2019 Earnings Call

### Company Participants

- Ant nio Carlos V lez Braga, General Manager of IR
- Maur cio Fernandes Leonardo, Chief Institutional Relations, Communication Officer, Finance & IR and Member of Executive Board
- Paulo Eduardo Pereira Guimar es, Head of Corporate Finance
- Unidentified Speaker, Unknown

### Other Participants

- Unidentified Participant, Analyst

### Presentation

#### Ant nio Carlos V lez Braga

Good afternoon, everyone. My name is Ant nio V lez, Investor Relations Officer of Cemig. We'll now start our teleconference and webcast of Cemig's Financial Results First Quarter 2019, with the presences of our Chief Officer for Finance and IR, Maur cio Fernandes J nior; Mr. Leonardo George Magalhaes, Controller; Head of Corporate Finance, Paulo Eduardo Guimar es; and Senior Quality and Control Manager, Pereira Junior. This transmission can be also followed through the phone, +55-1-121-880-155. And also on our website, [ri.cemig.com.br](http://ri.cemig.com.br).

For our initial considerations, we will hand over the floor to our Chief Officer for Finance and IR, Maur cio Fernandes.

#### Maur cio Fernandes Leonardo

Yes. Good afternoon. Again, it's a pleasure to be here with you after just a few days after we have shown our last year results. And we are in contact with you again in a short period. And that's a pleasure to us.

So our results now again confirm the trend described by the company in terms of improvement of our operational performance reflected on our profits.

We think that it's important to stress this time that we have EBITDA and revenues and profits above all that was predicted by all analysts. And we can talk now about our recurrent very solid results. And I think that's a reflection of our good management under Mr. Belini, the CEO. And this shows a very fast and strong recovery trend.

I'll now hand it over to my colleague. I'll get back to you by the closing and to address your questions, if any.

## Unidentified Speaker

Now let's move on to Slide #3. And that brings our highlights and the results. We have a summary now here of the main points. On that strong result, our strategy for our allocation was very successful as we have been describing. It was based on allocating more of our own energy in the First Quarter and more -- or the first semester or half year and more of the bought energy in the second half.

We felt the benefits of a GSF that was very high, almost 1.5. And we know that the spot price during the period was also very high, which meant a very good revenue for us at Cemig GT. We can say that we are also very well-protected against any fluctuations downwards in the -- expected in that regard for the second semester. And we also have strong growth in consumption of power in the concession area of Cemig distribution for all types of clients given the high levels of temperatures recorded in the concession area.

Operational expenses are also -- have been kept under control, though affected by a -- our costs from our early retirement plan. As you know, we've been striving to keep these expenses under control within a limit set by the regulatory body. We had an initial movement in that regard in our latest figure continuing from our last semester last year and another one that we will explain in more details how this affected our figures.

With all of that, we have an EBITDA amounting to BRL 1.5 billion, more than 45% growth from the First Quarter last year. Also, substantial amounts of our debt was amortized in the First Quarter this year, amounting to BRL 769 million. And profits were also favored by results of BRL 150 million from the present marking of our results.

Now the next slide with the main figures. Net revenue growing strongly, almost 20%, as I said from that allocation strategy and also the amount of energy sold within our concession area and the new tariff that came in force in May last year.

With that, EBITDA went up 45%, reaching BRL 1.4 billion odd and a net profit growing more than 71%, amounting to virtually BRL 800 million. From these items, we highlight in our successful strategy in allocation in power sales, also fighting losses, power losses.

Now for the next slide, I'll ask my colleague from the financial sector to talk about the energy market of Cemig.

Yes. Good afternoon. Cemig's market, we have always shown it in a consolidated way. And then we break it down to Cemig D and GT, D and GT. We had 6.21% growth in all of the markets, all markets going up, exception made of the industrial. It went from 12,954 gigawatts hour, amounting to 13,758.

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As far as Cemig D, down on the left, we see growing figures in all its categories, mostly justified by, well, the residential area, explained by the more than typical high temperatures we had in this period, that wasn't surprised with. Also, an increase in consuming units, more than 60,000 than before. And our calendar can always vary a few days up or down. In the First Quarter, this time, had 93 days built as against a smaller number in the year before. These are the main reasons why this -- we have this increase in residential consumption.

Also, the main factors for commercial applying are the same seasonal effect and rural because of the different season of rain. In the extractive and ferroalloys industries, a while ago, there was a stalemate in activities associated to the mining industry. For Cemig D, nonetheless. So we didn't see much of the influence because our clients are not served at that level of voltage.

As for GT, we have 2 main comments. First, for free markets, we saw a migration of clients from the captive market, towards the free market. We still see that movement among our clients. And as for the Regulated Market, we saw a reduction of, as you can see here, 5.07%. That's the smallest market of Cemig GT anyway. But we did have this reduction there because of a seasonal effect on the distributors. They allocated more resources for later months and also because of bilateral contracts during the period. These are the comments that pertain to the energy market and the -- can see that we have this 4.7% increase.

And the next slide, we have a breakdown of operational expenses showing the evolution from last year's First Quarter. We've seen an increase by 13.14% from BRL 4.19 billion up to BRL 4.75 billion, highlighting managerial items. PMSO, it appears growing in the BRL 32 -- BRL 33 million. But it's not a traditional figure because this has been impacted by our voluntary retirement program. We had people leaving the company or -- and therefore, money going out during that period. And we had, on the other hand, 155 employees accepting the plan in the second round and now being accounted for.

As for services and materials and also other highlights. Our commercial services increased due to the reinforcement and our efforts to fight default. We have more people going to the street and fighting default and also energy losses. In addition, more than BRL 30 million for enforcement of maintenance teams in the new hirings, to be able to face up to a severe climate condition that we had to face in the First Quarter within our concession area.

After PMSO, we also have profit-sharing as a consequence of the excellent results in 2018. And also, post-retirement was a little -- a slight increase because we updated the figures. We added 1% on top of inflation for these contributions. Also, we have been suffering under the interest rates. That somehow impacts those post-retirement values.

We had, on the other hand, improvement in terms of labor suits and a labor settlement and so on. We are dealing with those items in a much more efficient way in order to reduce our losses from bigger labor suits.

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A final comment. Although it's not manageable. But it's substantial, BRL 58 million in the basic grid, this is due to 2 factors, the reduction in TUSD and Cemig D. We reduced what we had to pay in TUSD and especially with the reduced compensations. And -- but this is a consolidated number, this BRL 58 million. And we then -- we had reduction represented by the handing over of SÃ£o SimÃ£o. And we had this reduction of BRL 32 million in present grid costs that were associated to SÃ£o SimÃ£o. That's why the other items in red, purchased energy, purchased gas, infrastructure, well, the gas sector is -- reflects the conditions of the market with more sales and so on.

These are the main comments I will have to give. And Paulo Eduardo will talk about our debt profile and finance.

## **Paulo Eduardo Pereira Guimarães**

Good afternoon. What else I have to say about our debt? Adding to what Belini announced in the beginning is the big volume of amortization in the First Quarter, BRL 769 million, in line with our commitment to reduce our leverage.

As you go for amortizing these over debt that were maturing in this period, it's noticeable that there is a slight increase because the cheaper debts are being removed from our portfolio. But it's important to stress that what we've been doing ever since December 2017, we have been re-profiling our debt. And we are now in a much better position vis-Ã-vis debt, with a much longer turn to settle them.

In the case of Cemig GT, in Slide 8, I would like to stress the debt breakdown -- well, most would view our debt in dollars. But we have a hedge and structure that we deem adequate. We've been perfecting our salaries within a range that we deem really viable. And we will keep on monitoring exchange rate movements to keep on caring for our hedge. But we have got a greater concentration predicted for 2024 because we will pay Eurobonds. We have a call without any incremental penalties. And then that enables us to treat those Eurobonds or debt in a very adequate manner. And we'll do liability management in a way to -- in order to reduce our future liabilities.

Cemig D, we have a shorter term as you see. But our commitment are pretty much manageable. We've seen a very good opportunity to go in the future years, in the upcoming years to go extending the debt but at the same time, committing and settling them. Then we'll resolve -- reporting amounts of the funds to cover those -- that.

That's about our reduced leverage. That's what I would have to say about Cemig D, GT. And now I hand it over to MaurÃcio.

## **MaurÃcio Fernandes Leonardo**

Ladies and gentlemen, as our executive have just demonstrated to you, Cemig keeps evolving in its revenues and reducing costs in proportion. We repeat that we arrived at the end of 2018 almost very nearly so reaching the regulatory apex. Our balance sheet was

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too open at that time. But our trajectory, the figure, indicates that -- this coverage by the end of the year.

So very close to reaching next year, the regulatory EBITDA. That's -- those are first clients in the future of the company are -- our CEO, Belini, has set the priority on our clients in evaluating our employees, our staff, reinforcing teamwork and the restructuring of the company, the organization. And EBITDA grew 45% not by chance. We had been discussing that with you. And a characteristic that has been present this year in line with what we've been talking to you about, the debt starts showing a more sharp declining trend. In the first semester in 2019, we had BRL 769 million of debt paid up.

As my colleagues have just said to you, the debt, it's BRL 12.7 billion. It's now come below BRL 13 billion. And if you notice. And we have been expecting that. 2017, it was a very adverse year with high hydrological risk in the environmental and economic environment. It's still very hard to deal with. But recovery has ever since been evolving. And now we've come to the point of reducing our debt very substantially. That also shows in our leverage, 4.56% in our debt equity ratio. And now it's (0.395) at the turn of the semester, 3.49% in 2018 and now much below that.

So as we achieve more and more efficiency in debt level. And coupled with a divestment program, we expect Cemig to keep showing this wonderful performance as we have seen. So Cemig has come with its results above the market average, above expectations, exceeding expectations. And this is what I had to say. And I'm available to you now for any questions.

## Questions And Answers

### A - Ant nio Carlos V lez Braga

We're now going into our Q&A session. Just a moment. Yes, ladies and gentlemen, we'll now start our Q&A session. (Operator Instructions) For the call, we have from Safra Bank.

### Q - Unidentified Participant

I would like to have an update of the company's program. And we have very little novelty about -- news about Santo Ant nio. We would like to know how it stands. And what -- we'd like to know what the company wants to do with Gasmig. There was an intention to sell your controlling stake. And if there has been approval in the short term. Also, the selling of assets, what is strategy for Light? I know that, in the past, there was an idea that the company will go for a follow-on. I would like to hear some of your comments on that.

### A - Maur cio Fernandes Leonardo

(Marcelo), this is Maur cio. Thank you for your question. Now let's talk about Santo Ant nio. As we have been talking about, we bring news as we have them. If there are no news, we keep straightforward and with transparency. We got a proposal from a Chinese group. The proposal does not meet either Cemig's or to other shareholders' expectations. At this point, the negotiations have come to a halt.

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About Gasmig concession, we have 3 concessions. And in 2023, there was an extension of another 30 years with the commitment of Gasmig investing more than BRL 2 billion in a private project in the west of Minas Gerais. And the collateral of that would be -- amounts that would be reflected on the tariff. But the private investor gave it up. So it's not going forward. So there's -- it makes no sense for Cemig spend any money. It's something that will not happen. So -- and it hasn't.

So the concession will be rebalanced economically. And now tackling these 30 additional years -- or three years, it makes no sense to sell a company that will have its concession expired in three years. There were people hired for making an assessment. And now we're getting a reasonable amount, which is about BRL 150 million. And this would be reflected in the tariff. This would be below those, I would mention, BRL 2 billion or so investments. This is part of our divestments program. And you have 2 options. Either we confirm those 30 years and then we sell our 40% stake. And the other variable is if the government in dealings with the local assembly in restructuring the debt, there should be an approval, perhaps, for 100% payoff.

As you know, here in Minas Gerais, items such as water, gas and electricity, you must have either a proper referendum or a change in the state constitution. So this operation depends on that. But selling for a refund does not depend on that. And we are making large strides towards that.

## A - Unidentified Speaker

Yes. Just about Gasmig, again. So in that negotiation, the collateral would be just make an investment of some BRL 150 million over the concession on periods and incorporated in the tariff. And what would be a business model for Gasmig after all that's really being negotiated? And we allocate -- we have to pay the granting. It's not like a BRL 2 billion investment only. It's for the granting process. That reflects on the tariffs.

And right now, as this first review of tariffs, this is just to rectify those 30 years, they have been around for longer than 30 years. It would start counting as from 23. It's a sellable company. It has a low financial leverage and with solid results. We understand that this would be just a business deal for the Minas Gerais population. And the services associated to gas to the population would be spread up. And on our side, there would be this focusing on the core business, for subsidiaries, not Cemig altogether. And for that to be able to privatize, that would have to have a defined quorum of approval in our local state assembly, the same requirement for both. Thank you.

About Light. Light, as you have seen. And we have been discussing late last year, we almost got to the conclusion of the process that Cemig had to on our put with the banks. And we have submitted with BRL 160 million by late November, involving (Federaci<sup>3</sup>n), Santander, Banco do Brasil. But their selling negotiations hadn't come to a conclusion. Cemig has in bids the block trade so as not to take on control over that and because then, well, the company would become a state-owned company. But there was no change in the articles of incorporation of Light. But it's ready to proceed with the transaction. Their Board is well received by the market. Very good names.

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Belini is part of the (consulate). (Gilbert Stein) is the Chairman. So Cemig is not chairing that Board. We're ready to show that our intention is pro-market. Sorry for my throat. But within this context of changes, Ana Marta has been approved as the CEO of the company. That name was also very well-received by the market and the new steps -- the next steps are, well, they are still considering with the action plan. It sounds as a follow-on or any other model. You have to have a history -- you must be able to tell a history -- a story to the market. You have to play by the book. You have to consider what it is on leveraging and so on.

Within this context, (Marcelo). And not ignoring what we've seen in the market, we have seen other people, other companies coming into the capital market. We have a new presence, a new situation in the financial markets. And this is surrounding the stresses of this beginning of these exits of Cemig, we have sending out signs of the conclusion of that negotiation. So thank you.

### **A - Ant nio Carlos V lez Braga**

Our next question is coming from (Mr. Vinicius).

### **Q - Unidentified Participant**

I'm not sure about the ideal level of leverage. What would that be?

### **A - Unidentified Speaker**

(Vinicius), I invite you to come here to Cemig and have lunch, a luncheon. We can talk about that. We don't want to ruin the surprise. But certainly, below 3, we are working towards that. With large strides, Belini's working on that and that is our strategic movement focused on our current business and what's next. It's not just the operational gains. We are thinking about the future more strongly. So it's below 3 by the end of the year. And any further detail, we'll provide you in our annual meeting, May 29.

### **A - Ant nio Carlos V lez Braga**

(Operator Instructions) We're now closing our Q&A session. And we will hand it over, the floor to Mr. Fernandes J nior for his final considerations. Dr. Maur cio, please.

### **A - Maur cio Fernandes Leonardo**

Yes, ladies and gentlemen, many thanks for this new opportunity for taking out time to listen to Cemig, to listen to what we've been doing. That's a source of deep satisfaction for us. And please save the date. V lez has been preparing a very careful reception to you. During our annual meeting, we will be talking about our guidances for the upcoming 12 months. And so I make this invitation. I thank you. And I wish you a good afternoon.

### **A - Ant nio Carlos V lez Braga**

The webcast with the results of the First Quarter 2019 of Cemig is now closed. I thank you for attending. And have a good afternoon.

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(Statements in English on this transcript were spoken by an interpreter present on the live call.)

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