

Q3 2021 Earnings Call

Company Participants

- Antonio Carlos Velez Braga, Investor Relations Superintendent
- Dimas Costa, Director-Cemig Commercialization
- Leonardo George de Magalhaes, Chief Financial and Investor Relations Officer
- Mauricio Dall'Agnese, Director-CemigPar
- Reynaldo Passanezi Filho, Chief Executive Officer
- Thadeu Carneiro da Silva, Director-Cemig Generation and Transmission

Other Participants

- Analyst

Presentation

Reynaldo Passanezi Filho {BIO 15054064 <GO>}

-- (Call Starts Abruptly) considering our strategic planning with a sound results, consistent results, which show the resilience of the company.

We have some initial highlights. Let's turn to the first slide of our presentation. The first one that we would like to comment is on EBITDA and net profit. Our EBITDA reached BRL6.3 billion in the first nine months of the year, up 53%, very robust growth. And net profit was of BRL2.8 billion, 75% higher to the same -- when compared to the same period of 2020. We later will see the adjusted figures and they always show very consistent results of a company that effectively is already in a new trajectory in terms of operating results and profitability as well as growth.

We will probably be able to announce the highest EBITDA and this company's history is still this year. If everything goes as planned, despite of having lost plants, we will be able to recover and have the higher EBITDA of this company ever. This is a huge explanation for this result. And they mainly come from our efforts for better operating efficiency and also better performances. So, for Cemig Distribution, we are within our regulatory OpEx and also within our regulatory EBITDA, which is an amazing achievement. And this is that the first time that we find ourselves within the regulatory level for EBITDA. We expected to close the year at that level.

Our OpEx is at BRL279 million below the regulatory level. This is a very important trajectory of adjustment in the company. It was above the regulatory level, not long ago and now our EBITDA also is above our regulatory level. And it was 85% of the regulatory level few years ago. So, this proves great efforts in terms of aiming for efficiency. And in case of the EBITDA, we'll also look at this -- at the explanation here, that is, thanks to a

OpEx that is lower than the regulatory. And also losses that are very close to the regulatory ones, and of course, we have been improving our loss indicators as well.

We also have the best rating of the companies in history. A Fitch and Standard and Poor's, we already have AA+ as our rating. So, this is the best rating for this company ever since 2008. We were able to improve in five ratings -- in five levels of ratings. This is a spectacular result as well. And we also have the best quality indicators of the company's history. Here, we mentioned DEC, but also we have FEC. Our DEC's of 9.46 hours, below the Aneel limit and that is the best DEC of the company's history.

Two other important highlights in this page. As we mentioned, we are transferring trading contracts to Cemig Holding. I believe that will allow us to have a more transparent balance sheet with separate trading activity, where the company is a leader in that area -- in the trading area. So, this way we'll be able to show also that we have consistent results in the trading business.

And GSF, also regarding some subsidiaries that did not have that posting and we had a result from the renegotiation of the GSF of BRL308 million. So, I wanted to highlight the consistency of the results and our records -- quality records with DEC and FEC at the best levels of all-time records in terms of operating efficiency and also ratings, risk ratings and also consolidated results, as you can see EBITDA and net profit.

And on the next page, also following our strategic plan, we're announcing the sale of our stakes in Renova, fully in line with our strategic planning. And we have been able to do what was the challenge since 2017. We have Renova and Cemig's divestment plan since 2017, you always have been following up or a trajectory. This is a company that is started and the process of bankruptcy protection we were able to approve that bankruptcy protection plan and also loans. So, that works could resume and we were able to place this company and a restructuring trajectory, as well as of sustainability.

Therefore, we were able to conclude our participation now, with announcing its sale to Angra Partners in the amount of BRL60 million and also the earn out subjected to future events. That just comes to confirm our commitment and which is to focus in Minas Gerais and to win. So, our strategic plan really aims to bring some Cemig back to its core business, transmission, distribution and generation in the State of Minas Gerais. This is our investment plan BRL22.5 billion for the next five years.

And focusing in Minas Gerais, in this state also involves not focusing and the strategic assets out of Minas Gerais just like Renova. This is an example, just like we divested from light. And Renova is very important for us. We really wanted to eliminate any risks regarding possible liabilities in Renova that could be under semi responsibilities. So, we end this chapter, and we now concentrate ourselves in our efforts investing in Minas Gerais, changing Minas Gerais people's lives with our own energy.

So, these were my initial remarks. And now, I turn the floor to Leonardo.

Leonardo George de Magalhaes {BIO 21639277 <GO>}

Great. Reynaldo, Thank you very much. Good afternoon, everyone. Thank you very much for being with us in this conference call.

On the next slide, we'll be talking about our investment program execution. It is very bold one, almost BRL3 billion. And you all know the difficulties that we are having with material acquisition, not only energy companies, but are also other manufacturing companies, auto and because of the high exchange rate and a mismatch and imbalance between supply and demand. So, in the first half of the year, we did have problems.

Purchasing material, we will see that it is improving. In the third quarter we were able to have an execution of our investment program that was much better we believe. The fourth quarter will be even better, but really we reached the BRL2.9 billion, but it is a challenge. And we believe that, we will not be able to reach at the 2.9. But we'll do everything we can to get close to this figure.

But in any way, 2022 is a very important year, especially for the distributing company, because it's the, last year before the tariff review, we also have a bold investment program for next year. And remember that, these investments that we make up to next year will be part of the remuneration base. So, will be very focused on investing and being able to do that those investments. In this fourth quarter of 2021 and in 2022, so that it can also be into the tariff review and add into that, we have investments in transmission and generation and especially in renewable and we expect that in the next quarter. We can bring you good news about these other investments that we are forecasting for generation.

And here we have a few highlights about our investment program. We have very relevant programs. There is one that's called the Mais Energia or More Energy. We will be installing 200 new substations, reaching 615 substations up to 2027. So, these are investment to increase 50% our substations in the state. We understand that this is a very cautious investment BRL5 billion, up to 2027 it will allow the industry to grow and also to be better connected.

We know that the State of Minas Gerais has the best conditions for distributed generation. And we understand that with these new substations will allow this growth. And the renewable energy is the clean energy that's important for the State of Minas Gerais and Cemig. Also believes that these GBP5 billion will be integrated in the remuneration phase, because they are very cautious investments.

And we have another program, the Minas Three Phase program. It has a single phase and is turning networks from single-phase to three-phase. And that's very important for the agribusiness, because you offer energy to small growers. Therefore, they can transform, they can switch their businesses from subsistence agriculture to something that can generate more value.

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So, we are going to help families to have a better life. We're going to help the states to grow and also these investments will be remunerated in our remuneration asset base. We believe this is a virtual cycle of the company. These investments help the state to develop itself. And at the same time, they are important to generate revenue for the company.

Now in terms of the market recognition, Cemig once again got the award transparency with --that is awarded for companies that provide transparency in their information about the company. And also we got the 2021 Abradee Awards. We ranked second in the category, Evolution in Performance. That shows the recognition in the sector of this improvement and performance. And this is being recognized within Abradee.

And next slide. Reynaldo already mentioned, we have our best ratings in history. Fitch just improved their ratings. Standard and Poor's have done that already. And Moody's, we are always talking to them about our ratings. We always expect to be improving Moody's ratings as well. But we have a better position in Fitch and S&P.

And we see that if we compare that to 2018, we did have an improvement in terms of the level of confidence of these rating agencies five notches at Fitch and Moody's five notch as well. And we expect that it even high. And then the global international level at Fitch, we are already at the same risk level, as the Brazil risk, the sovereign risk. So, we understand that this best rating of the company is the recognition of this rating agencies of all our financial management here in the company.

And we could also talk about our quality indicators. And they maintain an improvement trajectory our DEC's at 9.46 in the 12 months. It is at a comfortable position and our FEC is basically 30% below the regulatory target. And it shows that the investments that the company is doing better management, is providing a better quality of energy we provided to our consumers. Carlos is going to comment more on that. But once again, this is a virtual cycle. Not only the results are better, but also the service providing of the company for clients and consumers.

And the next slide fighting delinquency. We reached our collection index of 98.55% that is the percentage of collection vis-a-vis the revenue or the build clients. Like I said, 98.55%. There was a reduction in our FDA. And these results are, thanks to many actions that we are taking. We increased our collections, also we had a larger number of this connections. We invested more in this connections. But also created condition so that our customers, especially now in the pandemic could pay their bills with the companies.

So, we are allowing them to pay in an easier fashion using picks direct transfer or using credit cards, paying installments and these are important measures. So, that our customers can pay their bills. And something else that is new and we believe that it's very important in this quarter is that we have a commitment. Since last year we are saying that, we are committed to having our losses at the regulatory level. It was higher than the regulatory level in 2018. Like this is like we were at 12.49, vis-a-vis 11.22 of maximum limit of regulatory losses covered by the tariff. So, we were more than 1% above.

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And in September of 2021, the losses -- total losses are 3% higher than the regulatory one in that convergence movement. And we expect our losses are below the regulatory limit. We are optimistic. We are taking several measures in the company to bring down this loss. And we understand this trajectory we will follow on in this fourth quarter and also in 2022. So, we believe this is good news. Again, and that's another commitment that we have with market and our investors. And we believe that we are on the right track, and that's what we have been doing in the last three quarters.

And let's talk about the results of the third quarter now. And for that, I will turn the floor to Velez.

Antonio Carlos Velez Braga {BIO 16813855 <GO>}

Thank you very much, Leonardo. So, let's start now the financial results.

On the Slide 14, we have our main effects, which explain the results of the third quarter. As already mentioned, and I would like to highlight once again, we are starting the contract transfers of energy purchase and sale from Cemig GT to holding. And the idea here is to separate the trading business from Cemig GT and to place it in under the holding. This will allow us to have greater visibility of our trading business.

And already in this quarter, we had an EBITDA transfer of BRL125 million from Cemig GT to holding. And the consolidated results this is an all effect, and but we will see that impact of reducing Cemig GT EBITDA turning that into holding. For Cemig Distribution we had a growth and we still have a robust growth of distributed energy 4.3% and the captive market it was 1.2% and higher. We had other results here that I'll talk more about them, but for transport for clients at a strong growth 7.9%.

And as we will see in this quarter, growth was, thanks to the commercial area, but industrial was also growing well. And Cemig GT, as our CEO mentioned both OpEx as well, EBITDA for the company, they are at the levels that are higher than the regulatory ones.

Cemig GT, we had the renegotiation of hydrological risk of some of our assets BRL122 million. And also other investees in the amount of BRL308 million. And remember that the Eurobond buyback of \$500 million that we performed in the beginning of the third quarter. And we did mention that on our second quarter earnings call, it's posted. So, we bought back those bonds, but in addition to that, we also have a premium payment of BRL491 million, which we already mentioned in the prior call.

Now in the Slide 15, we have the results, a consolidated result here, for the last nine months up to September. Our EBITDA increased in 53.6%, when adjusted by non-recurring, in fact we have an EBITDA growth of over 19%. Even in the adjusted result, this is a robust growth, 19% reaching in the last nine months of BRL4,441 million.

Our IFRS EBITDA, as our CEO mentioned is of BRL6,345 million. And it is by itself the highest EBITDA of the company ever. And I believe that result will be repeated in

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December. And our net profit is up 75%. The accounting and with the adjustment, it is up 6.7%, reaching BRL1,860 million. It's important to mention here that in terms of dividends, it is on the accounting results that in the first nine months is at BRL2,790 million.

And the next slide talking about the consolidated results, only in the third quarter, our EBITDA reached BRL1,910 million, up 29%. And the recurring EBITDA was BRL1,469 million and it was up 6.4%. Net profit was down, accounting net profit was down 27%. But when we adjust that to non-recurring events, the reduction was 2.8% and the main event affecting net profit here is the Eurobond buyback and the premium, which was paid in this buyback.

Then now talking about to Cemig GT results. It reached an EBITDA of BRL799 million, up 35%. And remember, we have the effects of the renegotiation of hydrological risk. And we adjust that, it was down 37%. And remember we transferred the BRL125 million in the third quarter of trading margin to our holding companies. So, if we were to consider these BRL125 million here, our EBITDA would be very close to the EBITDA of the third quarter of 2020.

And remember that in 2021, it has -- we have seen a very challenging hydrological situation, which is affecting hydraulic generators in significant fashion. So, here we show that our strategy of hedge and energy trading is very well succeeded. For net profit, we went from a positive net profit in the third quarter of '20 of BRL37 million to a loss of BRL210 million for Cemig GT. And remember that the bond is issued under Cemig GT. So, here we have the impact, but when we make the adjustments, considering the margin migration and everything else, we had a reduction of 82%.

Now starting the analysis of the Cemig Distribution, on the Slide 18. We have the market, the volume of energy, and as I had mentioned that the distributed energy volume for Cemig Distribution area grew 4.3% in a way that transport was up 7.9. Our TUSD and supply or the sale of energy for and consumers was up 1.2%.

Now breaking down by consumption classes, we see that the higher growth is from the commercial area, with a growth of 7.7%. But our industrial class, which is the most relevant of all that represents basically, half of our distributed energy in the concession area, also has a strong growth of 4.9%. Residential is another relevant area for us, it's up 4%.

It's important to highlight the representativeness of distributed generation in our concession area. The energy injected for distributed generation in 2021 was 512. In the third quarter of 2021, it was 512 gigawatt hour, up 87%, when compared to the third quarter of 2020. That is very relevant. And that represents today 4.2% of the total energy market in the concession area. So, undoubtedly this is the best activity of our distributed generation any concession area in the country. So, this is a situation that we are analyzing, because the growth of distributed generation is very high in our concession area.

Now, on Page 19. We have EBITDA and net profit for Cemig Distribution and accounting terms, we were down 10% in our EBITDA, reaching BRL722 million. But when we adjust nonrecurring event and that is a reversal that we had in 2020 of a provision of an ADA in

Minas Gerais State. This was a negotiation that we had with the State of Minas Gerais in the past. So, when we make this adjustment, we see a recurring growth of 24%. Net profit also has similar dynamics and the accounting result is down 12%, BRL400 million and recurring growth of 28.5%, with a recurring net profit of BRL393 million.

Turning to Slide 20. Operating costs and expenses, we had a significant increase because of energy purchase. And we know that this is because of the hydrological situation and that does not affect the distributing company results we have. We do have the cash that is being tackled by the flag and we have a robust cash. So, we don't have a reason to concern PMSO, which really affects our result and that's under our management was up 1.2% way below the inflation. It is not significant and the levels that affected we see that we had several initiatives here to have voluntary redundancy programs every year.

So, we have employees that are close to retirement age and they have incentives to retire. And when they are replaced, they replaced to younger employees with lower salaries. We also have a reduction in the profit sharing program for this year, because of our negotiation. And what actually increased was third-party services, BRL52 million, but that was basically because of the increase of disconnections in the third quarter of 2020, because we had 348,000 disconnections in the third quarter of 2021 of vis-a-vis 150,000 disconnections in the same period of 2020. This is an additional expense, but that explains that great performance in delinquency reduction and also in our collection indicator.

On Slide 21, we have the comparison of our OpEx and EBITDA, with the regulatory in the nine months of 2021. The regulatory OpEx was of BRL2.411 million and the realized OpEx was BRL2,132 million, BRL279 million below the regulatory OpEx. So, this is the best level and the comparison of the OpEx comparison here in the company. We have a small chart showing you here that for instance in 2018, the realized OpEx was 5% higher than the regulatory. And now, the realized OpEx is basically 12% below the regulatory OpEx. So, this is the best level that we have reached. And then in the other years, also, we also had higher amount.

Now EBITDA, the regulatory EBITDA was of BRL1,792 million in the first nine months of the year. And ours was a little bit over BRL2 billion, that is BRL267 million higher than the regulatory EBITDA. So, this is an all-time record for the company as well. And basically that is thanks to our OpEx, a better OpEx. And also other revenues, which were higher than we have today, considering the tariff. And losses also that are at very low levels in the recent history of the company BRL67 million in the first nine months. And as we already mentioned, our losses are in the downward trend and compliance with the regulatory levels. And we expect to reach losses lower than the regulatory level for next year.

Our debt profile in the Slide number 22, we have ended the quarter with a robust cash of BRL3,855 million. We do not have relevant maturities in '21, '22, '23. These maturities can be paid with a cash generation of the company in 2024. We have the bond maturity and now little bit lower, it was \$1.5 billion and now it's \$1 billion. But it's a little bit lower even then our debt profile and our maturity table is very comfortable right now.

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In terms of cost of debt, because of the increase in the interest rate, and because our debts are linked to CDI. And also our debt, the dollar-denominated debt, the cost of interest it has a swap to CDI. So, there was an increase in interest rate is also affecting and increasing our cost of debt. But we don't see that as a major problem because this was the indexor chose at the time.

In terms of the indexors, the main indexors, dollar is still relevant, with 49% of our total debt, IPCA 37% and CDI 14% over debt. As far as leverage is concerned, we are at a very comfortable level. In the third quarter of 2021, we reached 1.11 total net debt over adjusted EBITDA, very comfortable level. And our leverage in terms of net debt over equity plus net debt is of 23%. That's a very comfortable indicator.

On the Slide 23, we have our consolidated cash flow. So, it's very interesting to see that we were at the end of '22 end with cash of BRL5.8 billion. At the end of the third quarter, we have cash of BRL3.8 million. But we have here the breakdown of the cash generation of BRL4.9 billion, CVA of BRL1.9 billion and settlement of financial instruments. It's important to mention here the payment of the bond with the premium has generated BRL4.3 billion.

Also we have here the sale of Light BRL1.3 billion and our CapEx. But it's interesting to see here that, if we are not by CVA BRL1.9 billion, even after buying back the bonds and everything that we have done, our cash would be at the same level as we were at the end of last year. So, this shows, this proves how sound and how good are our assets, our management, and also our how good is our capacity to generate cash for the company.

And now for the management's priorities, I will turn the floor back to Leonardo. And he's going to tell you what we have been doing.

Leonardo George de Magalhaes {BIO 21639277 <GO>}

Well, trying to be very transparent here. Since last year, everything that we are working on. And also in Cemig Day, that's when we have a greater opportunity to discuss our strategic planning, our goals for the mid and long-term, and our routine, our continuous improvement process.

We have initiatives that we understand that are important and relevant to take Cemig to another level. Many of them have been achieved, as you can see in this slide, we believe that achieving some of these results, improve our results, the rating EBITDA. And you understand that, thanks to these actions that we are having better results. Some of them are partially achieved, as you see here, and that's because they depend upon approvals of regulating agencies and so on. That's why they are here defined as partially achieved, but we understand that the most part of the process to fulfill these initiatives are already there.

And we have other initiatives that are in progress and we are working on that, investing in renewable generation sources. For instance, we expect that we have good news in the next quarter to bring to you non-technical losses. It could be also partially achieved here,

because we already very close to the regulatory level. And we understand that in the next quarter or maybe in the first quarter of 2022 we will be at that regulatory level, restructuring the benefit plans.

Here we started just this week to try to restructure these retirement benefit plans. We have sent a letter to our pension fund, requesting them to have analysis. So, that we can create a new benefits plan. So, that we can remove that aerial [ph] risk of the company and also to look for mediation measures in our labor court. So, that we can improve our healthcare insurance plan. So, this way we can work better and have better results. We understand all of these are complex measures, we are analyzing all alternatives and this week we already started working on all these topics.

We believe this was a very productive week. In terms of starting this a process of restructuring all these plans, digital transformation for that IBM is working with us. We have a partnership with them. We are changing our relationship with our customers. We are already reaping the fruits here and also the growth in retail electricity sales. We have great expertise here in the retail area and it's under our radar. And once again, just in this quarter, we already started having shedding more light to our trading business, because we know it improves value and being separated in the holding. It will be easier to show how much value this area is generating to the company, is bringing the company, and I think, it's going to allow us to go for its fair value.

So, these are the highlights about the third quarter. And now, we have some time to take your questions. We will be available for this next step.

Questions And Answers

Operator

(Question And Answer)

Thank you very much. (Operator Instructions)

Q - Analyst

Good afternoon. I have two questions. First, can you talk about the potential of tax credit and Renova transaction? How much -- how would be that process and how much would it involve? Considering the hydrological scenario that we have now, can you talk about your expectation for GSF for 2022 and impacts on tariffs? Thank you.

A - Reynaldo Passanezi Filho {BIO 15054064 <GO>}

Thank you very much for your questions. About the first one, about tax credits, we understand that as we mentioned, we still have some conditions to be met and it will take a few months. But after the conclusion of the process or at the conclusion of the process, we understand that we will have tax credit regarding investments in light and also, receivables that we are transferring against the 60 million that would be estimated R\$500 million that we could have in terms of tax credits. But right now, at the moment of the

transaction, that would affect favorably our financial statements when it is posted. Renova now has a zero amount in the balance sheet of the company.

So, when this transaction goes through the 16 million, also would represent an increase in our results. Thanks to this operation. So, this operation has an upside regarding the sale to the tax credits that we mentioned today. They would be close to 500 million. And now so regarding an earn out, an additional amount that will also depend on future events. We understand that this operation is to be taken into -- it needs to take into consideration all these topics. In terms of impacts and the energy price, Dimas might comment. He's our Commercialization Officer.

A - Dimas Costa {BIO 19927096 <GO>}

Well, I apologize. You just would like me to comment on that.

A - Reynaldo Passanezi Filho {BIO 15054064 <GO>}

Yes. What is the impact of energy prices in the short and the midterm, and our GSF expectation for 2022?

Well, we are starting a recovery of the reservoirs now and we already are seeing the prices for next week close to R\$70. So, there is a detachment from reality, because the reservoirs are just starting to recover, where we'll still go into the rainy season and I don't know if that's going to be very good, because we have La Niña. And La Niña allows a lot of rainfall in the northeast, but not much in the South, but October was a good month.

So, this is the model that is a mathematical model that we have. And the fact that it is raining and we have that heritage from the HPP's model. So, I think we have a generation of R\$2000 importing energy from Argentina and Uruguay maybe, for a 1,700. But when we have this type of system, there is a lack of control. Our spot price was very high, might be very minimum by December. But the trend for next year is to have that stabilized, because we will have a rainy season. We are not going to recover everything, but there is a determination from an -- not press that--to put too much pressure into a reservoir.

So, we are going to have TPP generation next year, maybe, not in these expensive use of 2,000, but maybe, 600 and 700. We'll have that. So, we do believe that our spot price will be civilized in around R\$200 -- from R\$180 to R\$200. What else can I tell you? GSF? I am sure that it will be low, because when you have TPP and you have to rebuild the reservoirs, it's going to be low even if it rains. We have the termination of having some reservoirs holding back water and when that happens, we have TPP, which is more expensive covering for HPPs. So GSF, we believe will come down.

So, we believe GSF will be close to 07 next year and Cemig already organized its balance sheet for hydrological risk for next year, even with a more conservative approach of 06 and GSF. So, we already provisioned for that. The distributing company has an over contracting and if we have that spot price closer to R\$200, that should balance it out this energy with the spot price and this over contracting will not affect cash, but we do have the tariff flag problem and that is not -- it is not enough for the distributing company.

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So, we will have a negotiation with now, or maybe a loan to cover possible financial debts of our distributing company. I don't know if there is any other questions. The Cemig's balance sheet is well-adjusted. The market maintenance we are still within that target of maintaining the 3,700 and we are maintaining our market. We are still leaders in the market and we have our share guaranteed, and we are already using that the energy of the past auctions that will start to come out now in 2022. And we have contracts that are due for energy purchase and these will come in to maintain, not only the energy that we purchased, but also with DGT from the generation area. We switch, we change that energy purchase we are buying the residue of energy in this rest of the year. But starting next year, we already will be working with our own generation whether -- own generation to improve our portfolio, or to supply our portfolio or to other clients that are demanding that. So, the maturity is of contract. So, we should be covering these contracts with a greater production, always maintaining the market.

Dimas, there is a question here from Felipe Andrade [ph], which we thank him. And can you comment a little bit about the contract signed with developers to improve energy, Cemig's available energy. Is there a risk of a delay or not delivering an asset? Is there any asset with that -- has it start up at risk, because the crisis in delivering solar panels out of the 1,200 megawatts that we purchase of course, some of them we start now in 2022 and 2023?

A - Dimas Costa {BIO 19927096 <GO>}

So, most of them will start in 2022 from the two -- first -- from first -- first auctions. There was a default. There was a generator that sort of 20 megawatts and they did not fulfil, they did not come out with it and we have 60 mega and they are requesting a postponement of six months, because of this lack of control over after the pandemic. There's a lack of control of supplies, because of container and ships, and room and the ports.

So, they are requesting for six months waiver for 60 mega and not the other ones have already delivered, where are delivering. We have an office just to follow up all these investments and those that will not come in 2022, should come in 2023. We are following that up and all the schedule is being followed with no delay except this one that I mentioned, the 20 megawatts that's not going to come in. We have already sued it and the 60 mega that is requesting for an extension, because the extension period to deliver it, because of the logistics problem -- the logistics problems. Everything else is well controlled and we have a scale of energy sale. So, we always sell the energy, we always leave 40% of energy as it comes in. So, as we have more -- we lease more and that's what we are going to defer this year, not that this is a surplus of energy, but this energy is maintaining the average is 37 megawatts that for our clients' portfolio.

A - Reynaldo Passanezi Filho {BIO 15054064 <GO>}

That's great, Dimas. Thank you very much. And talking about this topic, we have two questions related to wind energy and renewables energy. One of them from Marcelo. Thank you very much. Marcelo, for your question, do you believe that in the next 10 years, we are going to have a distinct generation market with clean energy sources that could be a major driver for growth and also represent a major cash generation for Cemig. And

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also, another question for Antonio, what is the company's forecast for investments in wind energy.

A - Dimas Costa {BIO 19927096 <GO>}

Well, I will briefly answer the question and then you can add to it. What does this a simple and complex answer this is what happens. Our generating form, if you check on the auctions, most of them are wind and solar. But these are intermittent energies, we still have some time to develop batteries and that is going to be over a decade. So, it's inevitable to have thermal power plants to hold the fort.

So today, the HPPs hold it. You can imagine 3,000 megawatts and then you have a very calm period in the Northeast and generation comes down 30%, 40%. So, they're 1,000 mega is removed immediately. So, what happens today, we have the hydraulic turbines and that's automatic as it comes down. You just open the flaps and then you generate more energy to cover a possible variation, a frequency of voltage.

Today, with the restrictions of solar energy and a hydraulic energy, and maintaining reservoirs. And in generating lesson that we are going to generate lesson in the next two years. And also, this model that the media has imposed not have an HPPs with reservoirs. So now, the HPPs are working with little water. So, it's inevitable that we have a TPP at the base, because the thermal power plant has to be working. So that's the idea of having a TPP at the base and then it can vary if it is at the base. And then wind and solar will come in to save water and fuel. Once you have batteries developed with hydrogen; for instance, you can maintain it, but still in this decade. We'll have to maintain these projections of GDP and growth. And so it's inevitable that we have TPP's running to be able to work with wind and solar plants; in the next decade, yes. We might have technology -- competitive technologies, so that we can store that energy and balance it out over the day.

Now, I'll turn the floor to Thadeu. And he is responsible for the investment program for Cemig for increasing the generation capacity.

A - Thadeu Carneiro da Silva

Good afternoon, everyone. Yes. We have our mid and long-term vision to increase our generation capacity, especially from renewable sources. Today, Cemig has a pipeline of over 6 gigawatts and out of those 2 gigawatts are for very mature projects to be developed up to 2025 and most of these 2 giga are from renewable sources. And we are also investing a lot in investment and innovation, and it will go through by green hydrogen, already from these sources that we are developing.

So, in the next five years, 10 years, we believe that are generating form will have a very significant increase in our generation sources and we also have grant concessions for almost 500 megawatts in solar energy. We also have our first wind farm or -- sorry, solar farm approved in Montes Claros. And still this year, we intend to approve 150 mega of solar energy as well to be installed in our Tr?s Marias plant, which will become a huge energy generation complex for Cemig.

About the development of wind farms, we are developing a lot of them. We have a pipeline that is over 2 gigawatts especially, in the northeast, and we are working with the market and studying all the situations, but because of the commodities prices going up and there was a significant increase in cost of equipment, and still then we are working on that and we are analyzing all projects possible.

A - Reynaldo Passanezi Filho {BIO 15054064 <GO>}

Thank you, Dimas. Thank you, Thadeu. I now would like to turn to questions to Mauricio. Our participation offshore, one of them from Luciano Di Paolo. He is asking, can you comment on the perspective of the divestment plan perspectives. How are the negotiations for a possible sale of Santo Antonio and Belo Monte? What are your plans for Alianza Energia and the other question is from Rodolfo Collazo [ph] and his question is how is Taesa auction going?

A - Mauricio Dall'Agnese

That's great. Good afternoon, everyone. Thank you, Luciano and thank you, Rodolfo for your questions. As we mentioned, Cemig's strategy since 2017 is a divestment plan. This is still valid plan. It is under execution. We already had two projects carried out this year. The first one from light and the other one from Renova -- Renova is two, we have to check the applicable receiving conditions, but this is an ongoing plan. We have other possible opportunities as the questions mentioned such as Santo Antonio, Belo Monte, Taesa itself. These are opportunities that are still being studied. Right now, we do not have any transaction or any binding agreement to share with you, but the company is still working to find business opportunities that are significant. Both strategically and economically, and each one will be considered in terms of optimizing the results for the company.

A - Reynaldo Passanezi Filho {BIO 15054064 <GO>}

Thank you, Mauricio. I think, Divaldo raised his hand. Can we turn the floor to him please?

Operator

Next question is from Divaldo D'Souza from Financial School [ph].

Q - Analyst

Dividends distribution will follow the same policy of the company -- it is going to be 50% of EBITDA generation?

A - Reynaldo Passanezi Filho {BIO 15054064 <GO>}

Yes. That's an easy answer, yes, Divaldo. We'll continue with the same policy. I have just an adjustment here, a correction -- this is 50% of the net profit of the EBITDA. Okay.

Q - Analyst

Yes. That's right.

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A - Reynaldo Passanezi Filho {BIO 15054064 <GO>}

Yes. We believe that 50% is a balanced dividends considering the investment program that the company has for the next few years. To maintain the right leverage, we believe that 50% considering our level of results, these are dividends that we believe that would allow significant yield for our shareholders. So, with this policy, we believe that we can maintain our leverage at a balanced level and also, provide the possibility to cover our investment programs for the next five years. And also, because we are talking about the net profit for shareholders, but we have the non-cash as well that would be more than 50% of profit distribution. Yes, that's right. And I'm sure that the company will be able to do the best investment possible with the remaining share of that. Thank you for your question.

I'm just checking if we have any further questions for the questions. Just one second. There is one question from Gabriel Augustino, which are Cemig's option to deal with increased distributed generation.

Gabriel, good afternoon. We have two ways to go. One on the distribution side and another one on the distributed generation. On the site of distribution, our objective is to approve the bill of law that regulates distributed generation establishing criteria, that effectively will allow a better distribution of the subsidies of distributed generation for everyone with lower impact in distribution.

So, we expect that this bill of law is approved as soon as possible. For distributed generation and itself, and as there is another question about the future generation, obviously, this is inevitable and we'll keep on growing. Therefore, we need to be there and we need to have a relevant footprint. So, we'll be keeping on investing and we -- again, we want to be relevant and managerialized. But that's the state, where we have the distributed generation. We have almost 18% of the market in Brazil. So on the one side, we have an expectation of a solution, the legislative area. And regarding this topic and also distributing the charges for all the system and the incentives for distributed generation. And on the other hand, as a business to grow in the business by Cemig SIM.

Operator

Can we open our microphone to hear, Fabula? Next question from Fabula (inaudible).

Q - Analyst

Good afternoon. My question was about the divestment program, if there was anything else. Well, if I am here, can you talk about these two operations of divestment? What was the total for them for Cemig? And the focus has changed, because before you were focusing on the leverage. But now, you want to maintain the divestment program regarding some assets. And why do you want to do that?

A - Reynaldo Passanezi Filho {BIO 15054064 <GO>}

Mauricio, do you have the figures by hand? I am not sure if we do, but it might be easier to send you by writing. But the rationale here is to reallocate capital and to concentrate

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investments in Minas Gerais. So, what we are doing is that we are focusing the company's investments and distribution, transmission and generation in the State of Minas Gerais. These funds will be directed to make face of the R\$22 billion, which is regarding our investment program for the next year's most of them for distribution R\$5.5 billion and Thadeu mentioned already about our plan.

So, it's distributed in our pipeline and we do have a backlog there. And within our strategic planning, we would like to conclude up to 25 with 5 giga in distribution area, we have here in the presentation is 12.5 billion and the two major programs that I would highlight here, Amazonia Energia program more energy with the 200 substations minus three [ph] phase, we are going to make a conversion of 25,000 km of lines in the single phase to three phase lines. But this is capital allocation into the company's core leader and what we know how to work with in the State of Minas Gerais.

Q - Analyst

If you allow me, another question about Renova. Are you concluding, what you needed in terms of divestment in Renova, this was what you planned for Renova?

A - Reynaldo Passanezi Filho {BIO 15054064 <GO>}

Yes. We will be concluding that with the sale process. We sell all our stocks in the company. Well, just stressing. This is an investment that actually, including receivables, this is totally provisioned in our balance sheet. It's a zero that's the value in our balance sheet and as we sold Renova sale is part of our plan since 2017. We are concluding it now when we understand that the benefits regarding the funds will go into the company. And now so the taxpayer has benefits, we also refer to the company and we believe that this should be concluded by the beginning of 2022 and it will depend how the approval schedule will happen.

Q - Analyst

Okay. Thank you.

Operator

Next question Maria Fernandez from (inaudible).

Q - Analyst

Good afternoon. I have two questions. The first one, Cemig is already thinking about strategies to refinance the bond of 2024? My second question about the negotiation that you were working on to help distributing companies. Can you give us more details, is the federal administration going to provide any subsidies there? Can you comment on it, please?

A - Reynaldo Passanezi Filho {BIO 15054064 <GO>}

Well, Maria Fernandez, thank you for your questions. About the bonds, remember, in our Cemig Day in June. We talked about our strategy and at the time, we had 1.5 billion of

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open balance and we believed it was important to pay part of the Eurobonds in the stages, and we would still have 400 million to 500 million to be able to redeem with no type of premium up in the future with no phase value, it made sense for us that we would be able to take that in with no greater risks and this period of time from now up to 2023 have a second movement to reduce that in huge wall.

So, we could use several instruments, more issuances aboard or exchange the bond that by -- stretched by an internal data. So, we understand our bond premium is still very high, it's around 12% in the secondary market. And that is thanks to the company's rating improvement. And Eurobond is expensive and it is more expensive considering the phase value that we had issues in the past. So, we are going to have to wait a little bit. But in summary, yes, we should have some movement regarding the bonds. Just like the first one, we waited when the dollar was down just 505 and now the dollar is 540 and we seize that opportunity in the market for this first movement.

And now, we are paying attention, so that we can take a second step and the right moment of R\$500 million more, I cannot tell you when this is going to happen, because it depends on market conditions, it depends on the FX rate, the hedge price and the premium of our securities in the secondary market, but we are taking attention to it and about new COVID account for instance, for distributing companies. The cost of energy purchase, very high, although it had a reduction of the spot price. The thermal power plants are generating energy to save the reservoirs. And this has a very high cost and distributing companies right now are responsible for paying that even with a red flag at a highest level the distributing companies have high bills to pay. And these discussions are happening with (inaudible) and other agencies that are responsible for the electric sector, as well as financial institutions. So, we are waiting to see if we are going to have any answer, any results by the end of the fourth quarter or beginning of 2022.

Q - Analyst

Thank you very much. If I can add, I would like to know if Cemig considers, if it were to refinance the bond to issue a green bond for instance. This has been having high demand and you might be able to reduce costs, because I know these are high.

A - Reynaldo Passanezi Filho {BIO 15054064 <GO>}

Thank you, Maria Fernandez. Thank you for your question and for the comments. Yes. We are paying attention to all markets, opportunities to issue a green bond makes a lot of sense the company. We are a sustainable company. This is our history, we are -- 100% of our sources are renewable. We understand that we have an important history here and we are also analyzing this possibility, then because we understand that is convergent with our strategy and with the company's history, and we are also considering that possibility.

Q - Analyst

Great. Thank you very much.

Operator

If you want to ask a question, feel free to do so. That's a new way of working with the call, because we believe it's more organized. But if you have any questions, let us know please. (Operator Instructions) Very well, if there are no further questions. We thank you very much once again, for your participation and have a great weekend. And if you're in Brazil, have a nice long holiday here, a long weekend.

Cemig's conference call has ended. We thank you very much for your participation and have a nice afternoon.

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